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DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

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COMMUNIQUE

The 43rd meeting of the Development Committee took place in Washington D.C. on April 28, 1992, under the chairmanship of Mr. Alejandro Foxley, Minister of Finance of Chile. 1/

TRADE

The Committee's first annual review of the interlinkages between the policies of the industrial and developing countries focussed on trade. Ministers agreed that the speedy completion of a successful Uruguay Round would be of enormous value to the world as a whole. Failure would mean delaying progress in areas provisionally negotiated during the Round; risking an increase in protectionist measures; and leaving the world trading system less flexible and less able to respond to changing conditions. They therefore urged all participants to recognize the international importance of the Round, and to work urgently for an outcome which will result in a substantial reduction of trade barriers.

They welcomed the significant efforts made by many developing countries to undertake trade reform and open up their markets, and the important trade moves many have been prepared to make as part of the Uruguay Round. To complement these measures, they encouraged industrial countries to accelerate the pace of their liberalization efforts. The Round's successful conclusion requires that all participants now make clear liberalization commitments. They encouraged all developing countries to take full

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1/ Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Alhaji A. Alhaji, Minister of Finance of Nigeria and Chairman of the Group of 24, Mr. Arthur Dunkel, Director-General of the GATT, Mr. Maurice Strong, Secretary-General of UNCED, and Mr. Peter Mountfield, Executive Secretary, participated in the meeting. Observers from a number of other international and regional organizations and from Switzerland also attended.

advantage of the new market opportunities which the Round will bring. They stressed the importance to developing countries of open markets in industrial countries. Industrial countries in turn should maximize these new opportunities to enter their markets.

The Bank and the Fund should undertake and publish regular assessments of the impact of changes in world trade patterns on developing countries. They should support the efforts of developing countries with appropriate technical assistance, policy advice and financial assistance, where necessary, to help them enter new markets. Continued trade liberalization may also require financial support from other multilateral agencies and bilateral donors. The Bank and the Fund will continue to collaborate with the GATT in promoting open trade policies.

While recognizing the need to control potential damage to the environment, Ministers agreed that such legitimate concerns should not be used by any country to justify new or existing barriers to trade. These should not be used to impose environmental policies on the exporting country save where there is international agreement that this is necessary.

Ministers noted the preliminary assessment of the probable impact of the Uruguay Round on certain groups of developing countries, notably those which are net food importers, or those whose existing preferential access would be eroded, and urged the Bank and the Fund to consider the case for transitional financial help to these countries.

Ministers also noted the emergence in many parts of the world of regional trading arrangements, a tendency which may increase if the Uruguay Round fails. Such arrangements should be outwardly-oriented, should emphasize trade creation rather than trade diversion, and should not slow down the process of greater multilateral liberalization.

The Committee asked the Bank and Fund to provide a progress report on trade issues for their September meeting and, once the Round is complete, a report on the implications of its outcome for the two institutions.

ENVIRONMENT

The Committee reviewed the interaction between environment and development policies and the preparations for the United Nations Conference on Environment and Development which meets in Rio de Janeiro in June 1992.

Ministers agreed with the conclusion of the World Bank's forthcoming 1992 World Development Report, that continued, and even accelerated, economic growth and human development can be consistent with improving environmental conditions, but this will require significant policy, program, and institutional changes in dealing with national and global environmental problems.

At the national level, developing countries will require a threefold strategy. First, the mutually-reinforcing roles of sustainable development and environment must be vigorously exploited through sound macro-economic policies which will promote growth and reduce poverty. The fight against poverty helps to preserve the environment. Second, such policies must be supplemented by an incentive structure which will discourage overuse of natural resources; developing countries will need external support for technology transfer and for capacity-building in the environmental area. The top sectoral priorities for direct national action are clean water and sanitation, air quality, soil, water and agricultural productivity, and natural habitats. Thirdly, people and institutions (in public and private sectors alike) should be motivated to adopt less damaging behavior by bringing environmental considerations into their decisions--wherever possible by the use of market-based instruments which have the advantage of allowing reduction of environmental damages in the most cost-effective way.

Ministers recognized that many developing countries will continue to need increased outside help to tackle these national environmental problems. They agreed that official support should be provided through existing development institutions, which have strengthened their capacity to deal with environmental activities. Existing lenders and donors can help through increased aid, some of it on concessional terms. World Bank-led Consultative Groups and UNDP-led Round Tables can help to coordinate such aid and to integrate country strategies with environmental action plans. Ministers agreed that consideration should be given to a special "Earth Increment" to the tenth replenishment of the International Development Association (IDA-10).

At the global level, Ministers accepted that certain problems transcend national boundaries and require internationally-negotiated solutions. They recognized that in the absence of conclusive scientific proof, a precautionary strategy to address the risk of climate change required a broad international consensus, as did the need to preserve biodiversity. They noted the early progress made in the operations of the Global Environment Facility, which they considered should play a leading role as the multilateral funding mechanism to provide new and additional financial resources through a mix of grant and concessional funding of incremental costs for achieving agreed global environmental benefits. The GEF should encourage universal membership. Its governance should ensure effective representation and participation by all countries. They asked the GEF participants to reach early decisions on the future coverage, governance and financing of the Facility.

Ministers also welcomed the Bank's account of its own environmental activities, contained in two successive reports, and the related activities of the Fund. They noted the considerable progress made by the World Bank Group in adjusting its existing programs to accommodate environmental concerns; and the emphasis being given to such concerns in the design of the Bank's lending programs, in technical assistance, in the policy dialogue with developing countries and in its research work. They supported the

Bank's efforts to assist borrowers and donors to design and implement environmentally-acceptable programs, including timely production of environmental impact assessments and environment action plans. They asked for a progress report for the September meeting on the outcome of the Rio Conference and the follow-up action planned.

TRANSFER OF RESOURCES

The President of the World Bank gave his regular overview of the prospects for resource flows to the developing countries. Ministers expressed their concern that the volume of official development assistance has not increased, since last year, and agreed to discuss all resource flows and transfers in more depth during their September meeting, as requested previously, in order to examine the scarcity of financial resources for development and to make concrete proposals.

ECONOMIES IN TRANSITION

The Committee noted the historic changes which have taken place since their last meeting and they warmly welcomed the states of the former Soviet Union into the two institutions. They received renewed assurances from the President of the World Bank that IBRD lending to the new members (and in Eastern and Central Europe) could be supplied without jeopardy to the borrowing requirements of the Bank's other developing country shareholders. They supported the Fund's current and proposed operations in this area, and noted that the rapid acceptance of the new quota increase would allow increased Fund activities there. They recognized the need for close coordination between the Bank and the Fund and with other international organizations. They recognized the importance of integrating these countries quickly into the world trading system, and the GATT, and the need for them to liberalize their own external trade regimes. They called on donor countries to provide additional funds for this area without diverting resources from other recipients.

IDA-10 and ESAF

The Committee was briefed on the current state of negotiations for IDA-10. Ministers recognized the many new calls on IDA from the increasing needs of the poorest countries which have traditionally benefited from concessional IDA lending, from newly-eligible countries and new and potential members of the Bank Group, and from the increased importance of environmental concerns. They stressed once again the need to enhance the focus on poverty reduction in IDA operations. While recognizing the budgetary constraints of many donors, Ministers recognized the need for IDA Deputies to reach agreement by the end of 1992 on a Tenth Replenishment of IDA, preferably at a level substantially above that of IDA-9. They noted that the Bank would submit a further progress report at the time of its September meeting. They welcomed the recent expansion in the list of ESAF-eligible countries, and the Fund's operations in support of adjustment efforts. The momentum of these efforts to sustain growth and raise living standards must be maintained, with financial support from the international community, including for low-income countries under the Fund's enhanced structural adjustment facility.

POVERTY

The Committee received a progress report on the implementation of the Bank's poverty strategy and the related work of the Fund. Ministers regretted that because of the worsening economic situation the Bank believed there would be over 50 million more poor people at the end of the century than in 1985, despite their earlier hope of a substantial reduction. Ministers reaffirmed their view that poverty reduction must remain, in the context of sustainable growth, the Bank Group's main priority. Every effort should be made to apply this priority at the country level in the design of individual lending operations and the production of poverty assessments, and to allocate the necessary staff resources with appropriate skills. They noted that the Fund pays full regard to the impact of members' Fund-supported adjustment programs on the poor, and helps member countries to integrate social safety nets into their reform programs.

DROUGHT IN SOUTHERN AND EASTERN AFRICA

Ministers noted with grave concern the impact of the severe drought in southern and eastern Africa, and urged donors and the Bank and the Fund to provide maximum support for efforts coordinated by the United Nations to alleviate the effects of the drought.

FOREIGN INVESTMENT

Following the proposal by France at the April 1991 meeting, the Committee received a progress report on the study being made by the World Bank Group of the legal framework governing foreign direct investment. Ministers welcomed the work in hand as a basis for discussion of guidelines to help all countries create a hospitable environment for foreign direct investment. They agreed to return to this subject in the September meeting to discuss the proposed guidelines.

DEBT

The Committee reviewed recent developments in international debt management. Ministers noted the continued progress being made under the international debt strategy in reinvigorating the reform efforts in debtor countries. They recognized however that for many heavily-indebted countries, the debt overhang continued to pose a serious problem.

They welcomed the recent agreements reached with commercial banks, most recently by Argentina, covering nine countries accounting for more than 60 per cent of the commercial bank debt of the major debtor nations. Ministers encouraged all parties concerned to complete commercial bank agreements on a timely basis. They welcomed the decision to extend the IDA Debt Reduction Facility for a further two years.

Ministers noted that re-entry to the capital markets accelerated during 1991 for heavily-indebted countries which have been successfully adjusting their economies. They noted that countries which had avoided debt rescheduling generally maintained their access to markets but the Committee agreed that their efforts deserved continuing support.

They welcomed the consensus reached by the Paris Club on a new treatment, including 50 per cent debt relief, for the poorest and most heavily-indebted countries, which are pursuing appropriate adjustment policies. Members noted that the Paris Club has agreed to consider the stock of debt, under certain conditions, after a period of three to four years. They recognized that debt-reduction, while necessary in certain cases, meant that certain creditors would be unable to advance new loans to the countries concerned.

Ministers considered the impact of current accounting, taxation and supervisory practices upon the willingness of commercial banks to conclude debt reduction agreements, and noted that these had not been a significant barrier. They agreed to consider further whether such procedures seriously inhibited new lending.

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The Committee agreed to meet again in Washington D.C. on September 21, 1992, when, as already decided, it will discuss papers on the transfer of resources to developing countries, and on the legal framework for the treatment of foreign investment.