



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

1. The Development Committee held its 44th meeting in Washington DC, on September 21, 1992, under the chairmanship of Mr. Alejandro Foxley, Minister of Finance of Chile. <sup>1/</sup> After reviewing the world economic scene, this meeting concentrated on ways of increasing resources for development. The Committee welcomed the new members who have joined the Bank and the Fund since their last meeting.
2. DEVELOPMENT OBJECTIVES. Ministers recalled their agreement at their meeting in Bangkok on the development objectives of the nineties: the reduction of poverty and the achievement of sustainable growth, actions to protect the environment being essential to both objectives. They reviewed the resources necessary to reach these objectives, and the actions which would be necessary to increase their volume and effectiveness.
3. DOMESTIC RESOURCES. They noted that most developing countries <sup>2/</sup> fund the major part of their investment from domestic savings, both public and private. They concluded therefore that the top priority is for developing countries wherever possible to increase the volume of these savings and the effectiveness of their use. This will require the adoption and maintenance of appropriate macroeconomic policies; reduction in wasteful and unproductive programs; and efficient financial and banking systems.

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<sup>1/</sup> Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Ahmadu Abubakar, Minister of Finance of Nigeria and Chairman of the Group of 24, 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.

<sup>2/</sup> In the rest of this Communique the phrase "developing countries" includes economies in transition.

4. TRADE. Ministers agreed that a much more open world trading system would be beneficial to all countries but is of the utmost importance to the developing countries. In the context of resource flows, developing countries need to increase earnings from trade, in order to finance imports, service debt and to promote sustainable domestic economic growth. Increased export opportunities will also make developing countries more attractive to investors. They therefore emphasized once again the need for rapid agreement on the outstanding issues in the Uruguay Round, noting that this would lead to a broader, more liberal and more stable trading system, and extend market access for many developing countries. They agreed that regional trade arrangements should emphasize trade-creation rather than trade-diversion, consistent with multilateral principles, and should ensure trade opportunities for developing countries.

5. FOREIGN INVESTMENT. For most developing countries, earnings from trade must be supplemented by external resources. For a growing number of them, a large part of these resources is now provided by private foreign investors in the form of direct foreign investment. Ministers noted the recent increase in portfolio investment, while recognizing that its higher liquidity made its impact different from FDI. Ministers considered the measures necessary to attract more private flows, and concluded that the measures which promote domestic investment are likely also to attract foreign investors and the return of flight capital. They concluded that the maintenance of macroeconomic stability and the creation of a climate favorable to enterprise are essential, both to attract more investment and to increase the number of countries receiving foreign flows.

6. INVESTMENT GUIDELINES. Additional measures may be needed to attract foreign investment. The creation and maintenance of a suitable legal framework can be an important part of this process. Ministers therefore reviewed with interest the Investment Guidelines which will shortly be published, together with an explanatory commentary, and calls them to the attention of member countries. These Guidelines have been prepared at the request of the Development Committee to promote fair and equitable international standards for the general treatment of all foreign direct investment in the absence of applicable treaties, and should be of particular value to developing countries. Ministers expect the Guidelines to serve as an important step in the progressive development of international practice in this area and hope that they will facilitate further developments through bilateral treaties and similar instruments. They also noted the related work being undertaken in other fora to develop principles for the conduct of foreign investors.

7. COMMERCIAL BANK AND MARKET LENDING. Ministers welcomed the increasing access of certain developing countries to the international financial markets, especially by those which are implementing sustainable economic reforms, and have entered into debt and debt-service agreements with the commercial banks. They considered that some increase in the volume of trade finance and project lending provided by the banks may occur, but noted that commercial bank lending to developing countries was unlikely to return to previous levels. They noted the active role taken by the Inter-American

Development Bank and other regional banks in promoting effective investment reforms which are essential for nurturing a stable financial environment. They believed that the international financial institutions should continue to encourage the efficient mobilization of financial resources by promoting effective investment reforms, privatization and financial sector reforms. Ministers noted the improved economic performance achieved by the developing countries following the implementation of debt and debt-service reduction and therefore encouraged the timely conclusion of negotiations between other countries and their commercial banks.

8. INCREASING NONCONCESSIONAL FLOWS. Ministers agreed to review at their next meeting the prospects for increasing the flows of private resources, and improving the access of developing countries to global markets for loan and equity capital. Members agreed on the need to gather accurate and timely information on the stocks and flows of private capital to developing countries and to assess the implications of these developments. They asked the Bank and the Fund to prepare a joint paper for this purpose which would also include the role of the international financial institutions in promoting and catalyzing such flows and the extent of any remaining obstacles placed by developing and industrial countries to resource flows.

9. DEBT. Ministers recognized that the efforts of many developing countries need to be supported by rescheduling and, in some cases, by debt and debt service reduction measures, both public and private. Ministers welcomed the progress in the international debt strategy, including arrangements this year with Argentina, Bolivia, and Brazil among others. Such arrangements have now been reached with 12 countries and account for more than 90 per cent of the commercial bank debt of the major debtor nations. They urged the Paris Club to recognize the special situation of some highly indebted lower-middle income countries on a case-by-case basis. Ministers also welcomed the enhanced debt relief extended to the poorest countries by the Paris Club, noting that the Paris Club has agreed to consider the stock of debt, under certain conditions, after a period of three to four years. They invited the Paris Club to maintain its continuing review of the debt strategy. They acknowledged the continued need of support for heavily indebted countries which by adopting strong adjustment policies have avoided rescheduling.

10. BILATERAL AID. Poorer developing countries will continue to require substantial concessional assistance for many years. A number of additional countries have recently become potential recipients of aid, while new requirements, especially in the environmental field, have added to the needs. The Committee noted that the World Bank and the IMF believe that an increased volume of external resources, to complement the efforts of the developing countries, will be crucial to meeting those needs. Ministers therefore invited bilateral donors to increase their assistance, particularly for countries that are sustaining sound policies, as circumstances permit, especially those whose aid programs are still below 0.7% of GNP, and welcomed the contribution of those whose aid is substantially above that level. They stressed the need for donors and recipients to emphasize the

quality and effectiveness of aid, and for an increased proportion to be directed toward improving the living conditions of the poor, and to the poorest countries and those with a strong commitment to poverty reduction.

11. MULTILATERAL FLOWS. Ministers recognized the need for multilateral action to complement that of bilateral donors. They noted the ongoing negotiations over the Tenth Replenishment of IDA. They urged the IDA Deputies to make significant progress at their meeting in November 1992 so as to secure agreement by the end of the year on a substantial IDA-10 replenishment. Ministers also agreed that continuing consideration should be given to an Earth Increment for environmental purposes. They welcomed the extension to November 1993 of the period for commitments under the Fund's enhanced structural adjustment facility (ESAF) and the Executive Board's intention to review the effectiveness of ESAF programs and examine the options and operational modalities of a possible successor facility. They urged that this work be completed in good time before November 1993. They welcomed the Bank's assurance that the current capital base of the IBRD is sufficient to sustain and enhance the volume of lending to existing borrowing members, while providing substantial support for the economic reform and adjustment efforts of the countries of the former Soviet Union. Ministers agreed to review the effectiveness of the Bank's lending at a future meeting.

12. ENVIRONMENT. Ministers welcomed the wide-ranging consensus reached at the United Nations Conference on Environment and Development. They recognized the ongoing financing needs associated with Agenda 21. They also noted that UNCED called for additional funding to be channeled through existing institutions, including the Global Environment Facility, which will be restructured on lines to be agreed by the participants. Ministers urged the World Bank to play a full part in carrying forward the results of UNCED in collaboration with other agencies in the UN system and to the regional banks, and to report progress to the Committee at its meeting in September 1993.

13. DROUGHT, FAMINE AND WAR. The Committee noted with great concern the problems of drought in Southern and Eastern Africa, the severe famine in Somalia, widespread flooding in the Indian subcontinent and the problems of several war-affected countries. They welcomed the coordinated international action now under way to alleviate suffering in many of these areas, and called for the active cooperation of all governments and agencies concerned, both to overcome the immediate problems and to lay the foundations for future recovery and development.

14. DEPARTURE OF CHAIRMAN. The Committee placed on record its special appreciation of the distinguished record of Mr. Alejandro Foxley during his two years as its Chairman.

15. SPRING MEETING. The Committee agreed to meet again in Washington DC on May 1, 1993.