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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

1. The 50th meeting of the Development Committee was held in Washington, D.C. on April 27, 1995, under the chairmanship of Mr. Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco. 1/ The Committee expressed its deep regret at the departure of Mr. Lewis T. Preston and recorded its great appreciation of his distinguished leadership as President of the World Bank. It offered its congratulations to his successor, Mr. James D. Wolfensohn.

### Resource Flows to Developing and Transition Countries

2. The Committee welcomed the continued high level of total resource flows, and the increase since 1990 in various forms of private finance, especially foreign direct investment which does not add to debt-servicing burdens. At a time of rapid globalization and liberalization of financial markets, it noted the recent high volatility of financial flows, as exemplified by currency movements. But portfolio flows have declined, and Ministers recognized that markets are likely to be more selective in their provision of such capital. This emphasizes the need for recipient countries to follow sound macro-economic policies to gain or maintain access to private markets, and to mobilize significant domestic savings. They should avoid excessive reliance on short-term flows to finance longer-term development needs. The strong policy base and solid long-term prospects of many developing and transition countries suggest that they should be able to attract continued foreign direct investment.

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1/ Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Gautam S. Kaji, Acting President of the World Bank, Mr. N'Goran Niamien (Côte d'Ivoire), Chairman of the Group of 24 and Mr. Peter Mountfield, Executive Secretary took part in the meeting. Observers from a number of international and regional organizations, and Mr. Abdlatif Y. Al-Hamad, Chairman, and Mr. W.A. Wapenhans, Secretary of the Task Force on Multilateral Development Banks also attended.

3. The Committee expressed its concern about the prospect of a fall in total official development assistance. Given the pressing needs of the poorest countries, it urged continued strong support for the International Development Association (IDA) and for the Special Program of Assistance for Africa (SPA). It welcomed the recent agreement in the Paris Club to implement "Naples Terms" for the poorest and most-heavily-indebted countries, and called for them to be applied flexibly. The Committee noted that some of these countries have a heavy burden of debt owed to multilateral institutions. It invited the Executive Boards of the World Bank and the IMF to continue their review of this subject, so that Ministers can return to it at the next meeting.

Trade

4. The Committee welcomed the establishment on January 1 of the World Trade Organization (WTO) and urged close collaboration between the WTO and the Bretton Woods institutions. It called on the Bank and Fund to assist those countries which are not yet members of the WTO to join the organization and to become more fully integrated into the multilateral trading system. It noted the Bank's new estimates of the likely impact of the Uruguay Round upon the trade of developing countries. It welcomed evidence of the positive effect the Round will have on most developing countries, especially on those who are taking this opportunity to reform their own policies. It noted the Bank's view that the adverse impact upon food-importing countries and those which will lose preferential access to industrial markets is likely to be small. It asked the Bank and Fund to monitor the impact on individual countries and to be prepared to help as necessary. It agreed that further liberalization of the agricultural and service sectors would provide important additional gains.

Infrastructure

5. The Committee noted that developing countries currently invest over $200 billion a year in infrastructure, more than 90% of it in the public sector. Adequate, efficient and carefully designed infrastructure with full regard to the environment is crucial to sustainable development. More investment and improved performance in infrastructure will require a series of reforms in the structure and delivery of services. Governments have a continuing responsibility, whether as providers or regulators of infrastructure. In particular, efficiency requires prices which reflect all long-run economic costs, more business-like management, increased involvement of the private sector, and better-targeted subsidies. Such reforms should be designed to increase incentives to devote sufficient resources to maintenance, in order to make best use of existing assets and reduce the need for expensive replacements.

6. Improvement will also involve more use of private finance in various forms. The options chosen will vary for each country and service depending on conditions such as level of domestic savings and the depth of financial markets. Private participation can be encouraged through build-own-operate and build-own-operate-transfer concessions, leases, operating contracts, partial guarantees from the public sector, and privatization. The aim must be to pass the commercial risks to the private sector and to reduce the call on public funding and public guarantees.

7. The Committee agreed that the poor stand to gain directly and quickly from better infrastructure, which can also help to improve environmental conditions. Donor countries can help the poorest countries by providing financial and technical support, and investment guarantees for the development of infrastructure within a policy framework that encourages efficient operation, maintenance, and responsiveness to users. The multilateral institutions (including IDA) have a major responsibility for providing advice and financial support. They can also play a catalytic role in mobilizing funds from a wider range of private sector sources, using all the means available, including World Bank guarantees, IFC and MIGA.

Social Summit

8. The Committee generally welcomed the outcome of the recent Social Summit in Copenhagen, and agreed to discuss the implications for the developing and transition countries, and for donors and the Bank and Fund, at its next meeting in Washington DC on October 9, 1995.

Executive Secretary

9. The Committee expressed its deep appreciation to Peter Mountfield, the retiring Executive Secretary, for his dedicated service to the Committee over the past four years.