



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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PRESS COMMUNIQUE

1. The Development Committee held its twenty-eighth meeting in Washington, D.C. on April 10-11, 1986, under the chairmanship of His Excellency Ghulam Ishaq Khan. Mr. A. W. Clausen, President of the World Bank, Mr. J. de Larosiere, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Observers from a number of international and regional organizations and Switzerland also attended.
2. The Committee heard a report from the IMF Managing Director on the Interim Committee discussions on the world economic outlook and on the debt situation and strategy and endorsed the Interim Committee's conclusions.
3. The Committee reviewed the progress that had been made in addressing the problems of the most heavily indebted middle-income countries in the period since its Seoul meeting and the announcement of U.S. Treasury Secretary Baker's initiative. In this context, the Committee reviewed the background paper on this subject prepared at its request by the World Bank, and endorsed the general approach set out for achieving sustained growth in the heavily indebted countries. The Committee heard with great interest reports of progress made in recent months by a number of countries in designing such programs and urged all major parties--indebted countries, industrial countries, commercial banks, and international financial and development institutions--to redouble their efforts so that medium-term growth-oriented adjustment programs can be designed and implemented as soon as possible.
4. The Committee recognized that the problems of these countries were deep-seated and would not be resolved quickly as the outstanding debt burden on government finance and balance of payment hampers growth prospects and a return to creditworthiness. The Committee emphasized the need for a roll-back in protectionism. It agreed that a lasting solution for the debt problem requires not only sustained adjustment

and growth in developing countries, but also industrial country policies which will promote a further decline in real interest rates, expansion in international trade, improvements in commodity prices, greater stability in exchange markets, and increased external capital flows. In this context the Committee urged industrial countries to redouble their efforts in removing these obstacles to a lasting solution to the debt problem.

5. The Committee stressed that even with substantial policy reforms in developing countries and satisfactory rates of non-inflationary growth in industrial countries, restoration of growth in developing countries requires large amounts of net flows of capital, including repatriation of flight capital. Success will depend essentially upon the creation of an environment which would help promote timely action by the commercial banks and by all sources of finance providing adequate amounts of resources.

6. In this context, the Committee emphasized the importance of export credit agencies (ECAs) as a major source of financing and endorsed the Interim Committee's conclusions on this topic. Members welcomed the World Bank's intention to work more closely with all parties concerned to encourage timely and adequate support by ECAs in countries undertaking adjustment for growth programs to help ensure their success.

7. The Committee also urged creditor governments to ensure that regulations and guidelines imposed by their bank supervisors do not impede financing arrangements that can provide increased commercial bank flows, consistent with prudential considerations, to countries implementing significant medium-term programs of adjustment and growth. The Committee agreed that new flows of international bank credit in such circumstances can help to improve the quality of outstanding credits.

8. The Committee also recognized the role of the private sector in development and the need for greater flows of foreign investment to developing countries. In this context, members noted that the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) has now been signed by 19 governments, including four industrialized countries. The Committee encouraged other interested governments to sign and ratify the Convention so that it may enter into force as soon as possible.

9. The Committee reemphasized the consensus reached in Seoul on the need for the enhanced participation of the World Bank and the IMF in the design, financing and monitoring of growth-oriented adjustment programs. The Committee agreed that this would help inspire greater confidence that the heavily indebted countries are taking appropriate steps to restore growth and creditworthiness. The Committee stressed that in furthering their collaboration, the Bank and the Fund should maintain their respective areas of competence and avoid cross-conditionality.

10. Consistent with the Bank's global commitment to development, growth and poverty alleviation, the Committee reaffirmed its strong support for a substantial expansion of the Bank's lending program. It noted that since the Committee's meeting in Seoul, Bank Management had increased projections of lending in FY1986-1988 to a range of \$40-50 billion, and was now contemplating a lending level of up to \$21.5 billion in FY1990. The Committee expressed its strong support for the steps taken by the Bank to assist the heavily indebted countries to develop credible growth-oriented programs. The increase in Bank net disbursements to these countries was welcomed as was the prospect that in 1986 adjustment-related lending to them will increase substantially. The Committee urged the Bank to take further steps to strengthen its ability to play a leading role in support of programs aimed at adjustment and growth as well as of investment projects throughout the world.

11. Ministers reiterated the understanding reached in Seoul that the Bank should be provided with the capacity to increase its quality lending and that the Bank should not be constrained by lack of capital or borrowing authority in meeting future demand. The Committee welcomed the additional efforts of the Bank in promoting growth-oriented adjustment and the associated increase in financial commitments it has undertaken in support of such programs. The Committee emphasized the essential role of the World Bank, together with the IMF and commercial banks, in supporting comprehensive adjustment programs. It noted that provided other participants continue to fulfill their obligations in the adjustment programs, Bank lending for FY1987 may possibly exceed the level of lending that could be sustained with the capital at present available to it. The Committee welcomed the forthcoming discussion in the Bank Board of several matters bearing on the calculation of future capital requirements, including the valuation of IBRD capital. Ministers agreed that the Bank's Executive Board should seek an early resolution of these issues so that an agreement on a General Capital Increase can be arrived at promptly. In this context, and in light of these encouraging developments, the Committee stressed the importance of continuing to monitor closely progress in meeting the Bank's capital requirements and the need to ensure adequate capital. The Ministers requested that the World Bank prepare a progress report for discussion at the next meeting on the Bank's lending program and on the continued adequacy of its capital.

12. Members reviewed the World Bank's most recent report, prepared at the Committee's request, on the continuing severe difficulties of Sub-Saharan Africa and agreed that concerted action is urgently needed to address the region's problems. The Committee reiterated its strong support for the Joint Program of Action endorsed at its September 1984 meeting. The Committee also requested that a study on the market prospects of raw materials be prepared for a future meeting of the Committee.

13. The Committee noted with satisfaction the growing commitment of African governments to policy reform, as illustrated by examples in the Bank's report of adjustment measures now being implemented. Some promising results are already evident. The Committee stressed that success of medium-term growth-oriented adjustment programs require increased external capital flows, particularly in view of continued weakness in commodity prices and heavy debt service obligations. Members noted the Bank's estimate of \$2.5 billion in additional concessional flows that are needed annually, over the next five years, to help meet low-income Sub-Saharan Africa's financial needs. Members called upon industrial countries to exert their best efforts to close this gap by providing additional official development assistance, through both bilateral and multilateral channels, to countries in the region undertaking significant reform programs. Furthermore, most Ministers agreed that donor countries should not be net recipients of official capital flows from African countries undertaking adjustment programs.

14. Ministers also agreed on the need to enhance further the effectiveness of aid flows to Sub-Saharan Africa and noted the World Bank's suggestions for strengthening donor aid coordination. The Committee reaffirmed that the central responsibility for aid coordination lies with each recipient government. In this context, the Committee urged the Bank to take the leadership role in improving aid coordination, working closely with interested governments as well as with the UNDP, the OECD/DAC, the European Community and other concerned parties. The Committee asked the Bank to report back at the next meeting on progress achieved in all aspects of coordination, including progress in the establishment of improved monitoring mechanisms.

15. The Committee heard a progress report on current negotiations for the replenishment of IDA. Ministers emphasized the special importance of IDA to the success of development programs in poor countries throughout the world. Virtually all Ministers expressed the strong hope that an IDA-8 replenishment of \$12 billion will be achieved. This would maintain in real terms the concessionary resources now available through IDA-7 and the Special Facility for Sub-Saharan Africa and enable IDA to continue its role in poverty alleviation and economic development and also to provide necessary support, in conjunction with the IMF, to IDA-eligible countries undertaking growth-oriented adjustment programs. Ministers urged donors to exert maximum efforts in the coming months to reach a consensus on outstanding issues related to the next replenishment, including fair burden-sharing and an equitable allocation of resources, and expressed the wish that negotiations be concluded before the next meeting of the Committee in September.

16. The Committee welcomed the recent decision taken by the IMF Executive Board that established the Structural Adjustment Facility (SAF) in the Fund which will provide assistance on concessional terms to low-income countries with protracted balance of payments problems in support of medium-term macroeconomic and structural adjustment programs. The Committee noted that the new Facility will require close

coordination between the Fund and the World Bank to assist eligible members in the formulation of a comprehensive medium-term policy framework. The Committee expressed the hope that the SAF resources would be complemented by additional bilateral and multilateral concessional assistance in support of agreed programs. Ministers reaffirmed that such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows.

17. The Committee recognized that concessional flows are of critical importance to the success of adjustment and growth programs in the poorest developing countries. In this context, the Committee welcomed further Bank reports following up on the conclusions of the Task Force on Concessional Flows. As part of the effort to encourage implementation of the Task Force Report's conclusions, including an increased flow of official development assistance, the Committee requested the World Bank to prepare a report for its next meeting on the volume of ODA flows forecast for the period 1986-90.

18. The Ministers took note of the discussion in the Interim Committee on the issues raised in the recent G-10 and G-24 Reports. The Ministers also recalled the commitment made by the Chairmen of the Interim and Development Committees at the Seoul meetings to communicate with each other with a view to seeing to what extent arrangements could be made for cooperation on matters pertaining to development. Taking note of the Chairman's intervention in the meeting of the Interim Committee, the Ministers requested him, after holding further consultations with the Chairman of the Interim Committee, to report to the next meeting of the Development Committee his views on the modalities of cooperative arrangements for improvements in the financial and monetary system's impact on growth and development.

19. The Committee was informed by the GATT Director General of the latest developments on international trade issues and the progress made by GATT's Preparatory Committee in defining the agenda for the proposed new round of trade negotiations. The Committee reiterated its call for all governments to resist protectionism and encouraged governments to launch the new round under GATT auspices at an early date with a view to further opening markets and strengthening the trading system. Ministers expressed the hope that Contracting Parties would take into account trade liberalization measures adopted in developing country adjustment and growth policies in the context of trade negotiations within the GATT framework. It invited the GATT Director General to continue to keep it informed about further developments.

20. The Committee expressed its profound appreciation to the retiring President of the World Bank, Mr. A. W. Clausen, for his energetic support and encouragement of the work of the Committee, and for the highly significant contributions he has made during his five years in office to the cause of economic and social progress in the developing world. His imaginative and dedicated leadership of the Bank during a period of

considerable stress in the global economy has, the Committee noted, positioned the institution well to build on the expanded role which has rightly been assigned to it. The Committee wished him well for the future.

21. The Committee agreed to meet again in Washington, D.C. on September 29, 1986.