



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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April 4, 1989

PRESS COMMUNIQUE

1. The Development Committee met in Washington on April 4, 1989 under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.¹
2. The Committee discussed three closely interrelated issues: (a) problems and issues in structural adjustment; (b) development prospects in the severely indebted countries; and (c) progress on initiatives intended to benefit Sub-Saharan countries. It also considered reports on recent developments in international trade, trends in the transfer of resources to developing countries and the status of negotiations for the Ninth Replenishment of IDA.
3. The Committee initiated its first global review of experience with growth-oriented structural adjustment programs assisted by the Bank and the Fund and focused at this meeting mainly on design and implementation of programs. Members agreed that, while results varied, structural adjustment programs adopted by developing countries generally have helped to make their economies more efficient and to lay the foundation for the resumption of growth, which would lead to an improvement in living standards. They underlined the central roles which the Bank and the Fund had to play in contributing to the adjustment process by policy advice and financial support for sound reform programs.
4. The Committee concluded that the essential ingredients for successful structural adjustment programs were:
 - (a) government-owned programs and sustained political commitment to sound macroeconomic policies;

¹ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Lemboumba-Lepandou, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

- (b) well-designed programs with broad public understanding, drawn up with a realistic time frame taking into account the deep-seated structural problems and the country's social, demographic and political environment;
- (c) the integration of poverty reduction objectives and environmental considerations into the design of programs as well as ways of mitigating the adverse effects on the most vulnerable groups preferably by income-generating programs;
- (d) administrative and institutional capacity adequate for their implementation which could be strengthened where necessary with the assistance of the Bank, the Fund and donors; and
- (e) adequate and timely financing, a supportive external environment, including open markets and structural adjustment in the industrial countries.

5. The Committee welcomed the benefits derived by a number of countries from the introduction of structural adjustment programs. Accordingly, they called on all governments to reaffirm their commitment to growth-oriented adjustment which could build confidence in the investment community at home and abroad.

6. Given the central roles of the Bank and the Fund in assisting the design and the financing of structural adjustment programs, members welcomed the efforts by the institutions to develop further their collaboration, while avoiding cross conditionality, and to make full use of their comparative advantage in respect of the advice they offer borrowing countries on the design, financing and monitoring of programs.

7. The Committee reviewed the development prospects of the severely indebted countries. In spite of the improvement in trade earnings, prospects were adversely affected by the low level of investment and rising interest rates. The Committee welcomed the fact that new proposals had been made by France, Japan and, more recently, the U.S. to review and strengthen the current strategy through stronger emphasis on a broader-based approach to voluntary debt and debt service reduction, new investment, adjustment measures, the repatriation of flight capital, together with new lending by commercial banks. Efforts in these areas could help to ease debt service burdens, reduce negative transfers and produce more manageable new financing needs. Members agreed that the strengthening of the debt strategy required a cooperative effort by debtor and creditor governments, commercial banks, and international institutions. The Committee stressed that official creditors should not substitute for private lenders. Members also felt that the development needs of low- and lower middle-income countries whose debts are mainly to official creditors had to be given special attention. They agreed to discuss the evolving debt strategy and its impact on development prospects at their next meeting with the assistance of appropriate analyses covering all indebted countries.

8. Members recognized that an increased level of investment in debtor countries was critical to improving growth and development prospects. Priority should be given to the adoption of economic policies that will restore investor confidence, encourage domestic savings and the repatriation of flight capital, stimulate foreign investment in these countries and expedite their return to international capital markets. Members called on debtor countries to consider the potential benefits of debt-equity conversion programs and to implement or strengthen such programs, consistent with the need to maintain appropriate macroeconomic frameworks.

9. Members agreed that active support by the commercial banks remained critical. The Committee called on commercial banks to provide more diversified financial support, including new lending and debt/debt service reduction, to debtor countries implementing sound economic reform programs. Members felt that the prospect of an improvement in the quality of commercial banks' claims should encourage them to move expeditiously in removing legal impediments to debt and debt service reduction in loan agreements. The Committee encouraged debtor countries and commercial banks to work closely together to achieve this objective.

10. Members agreed that, as part of the critical assistance the World Bank and the International Monetary Fund can offer for adjustment programs, the two institutions should provide support for voluntary, market-based debt reduction transactions. The Committee agreed that the Bank and the Fund should set aside a portion of members' policy-based financing to support debt reduction operations. In addition, the Bank and the Fund should examine the possibility of limited interest support for transactions involving significant debt or debt service reduction. The Committee stressed that this should be done in a way that would preserve the financial integrity of the institutions and should not adversely affect the availability of resources for their traditional operations. The qualification criteria for the support of such debt alleviation operations should be carefully examined. Members requested the Bank and Fund to move expeditiously to develop and implement specific proposals to achieve this objective. Members recognized that these efforts by the institutions needed to be supplemented by other financial sources and warmly welcomed the intention of Japan to extend additional finance in parallel to Fund arrangements.

11. Governments of creditor countries were encouraged to continue to provide financial support through Paris Club reschedulings and export credit cover policies. They were also encouraged to examine their tax, accounting and regulatory measures with a view to reducing unnecessary impediments to voluntary debt and debt service reductions. Members encouraged financial support to strengthen the debt strategy from countries in a position to do so.

12. Members welcomed the recent further development of cooperative efforts in helping countries with overdue obligations to the Bank and the Fund to become current with multilateral financial institutions and to regain access to international financial resources. They encouraged the

two institutions and bilateral donors to continue to cooperate closely in pursuing these objectives.

13. The Committee reviewed the progress on initiatives intended to benefit Sub-Saharan African countries. It took note of recent positive economic developments, particularly in countries which have adopted adjustment programs with the joint support of the Bank and donors in the framework of the Special Program of Assistance (SPA) and of the Fund through its structural adjustment facilities. It encouraged these countries to persevere in the adjustment effort. Members welcomed the implementation by the Paris Club of the recent agreement to provide concessional debt rescheduling including debt and interest rate reduction to low-income debt-distressed countries undertaking adjustment programs. In view of the financial needs of Sub-Saharan Africa, the Committee urged bilateral donors and multilateral agencies to speed up commitments and disbursements in the SPA and further harmonize their procedures.

14. Members agreed that the international community should work toward facilitating external financial support to African governments' adjustment efforts in the period beyond 1990. This should include continuation of the collaborative framework for donor action developed under the SPA and coordinated by the Bank as well as the examination of possible additional measures to address the economic and debt problems of these countries. Members also underlined the need to supplement quick-disbursing assistance to support adjustment in Sub-Saharan Africa with adequate investment financing and technical assistance to help deal with the longer-term problems of the region.

15. The Committee received an account from the Director General of GATT on recent international trade developments and on the multilateral trade negotiations in the framework of the Uruguay Round. Members welcomed the overall growth in the volume of world trade and the improvement in the prices of some commodities exported by developing countries while the price of certain other commodities remained depressed. The Committee, however, reiterated its concern about the harm that protectionism continues to impose on the world economy and particularly on the developing countries. The Committee called for a speedy resolution of the outstanding issues to allow a successful conclusion of the mid-term review of the Uruguay Round. Commitment by both developed and developing countries to the liberalization objectives of the Uruguay Round is necessary for the success of these multilateral trade negotiations.

16. The Committee reviewed recent trends in resource transfers to developing countries. Members called for efforts, especially by donors whose assistance levels are below the 0.7% target, to reverse the current declining trend in financial flows to the developing countries, and the negative transfers of several developing countries. They stressed the urgency of the need for poverty reduction on which the Committee had called for priority attention, particularly in the heavily populated Asian region and in Africa. Members reiterated the importance of a

favorable climate for foreign private investment and called on the World Bank, IFC and MIGA to strengthen their efforts to stimulate such flows.

17. Members emphasized the need in the case of the low-income countries for increased concessional resources to promote growth, poverty reduction and adjustment objectives. Given the central role of IDA in this respect, members welcomed the start of negotiations for the Ninth Replenishment of IDA. The Committee underscored the importance of reaching agreement on IDA's Ninth Replenishment, at a level commensurate with the pressing needs of IDA-eligible countries, possibly by the next meeting of the Committee so that it could have effect from July 1990.

18. The Committee agreed to continue its review of experience with growth-oriented structural adjustment programs at its next meeting, at which time the focus will be mainly on the resource requirements of such programs and the external environment in which programs are implemented. Documentation will be prepared by the Bank and the Fund. Having in mind the important contribution that private savings and investment can play in such programs, members also agreed to discuss in Spring 1990 the support the Bank and the Fund can provide in enhancing the role of the private sector in development. They also agreed to consider the economic role of women in development at a future meeting.

19. Members stressed the increasing importance attached to environmental issues and to the timely dissemination of environmental information on Bank-supported operations. They welcomed the fact that the World Bank would provide a comprehensive report annually on the environmental aspects of its operations as requested at the September 1988 meeting of the Committee. They agreed to discuss at their next meeting the Bank's efforts to support the environment including the integration of environmental concerns in Bank operations and measures to increase public awareness of Bank environmental activities.

20. The Committee agreed to meet again in Washington, D.C., on September 25, 1989.