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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

1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 477-6424

September 26, 1988

PRESS COMMUNIQUE

1. The Development Committee met in Berlin (West) on September 26, 1988, under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe. ^{1/}
2. The Committee focused its attention on three topics: (a) poverty issues, including the impact of adjustment policies on the poor; (b) the impact of industrial policies of developed countries on developing countries; and (c) developments in low- and middle-income heavily indebted countries.
3. The Committee agreed that the problems facing developing countries could only be addressed through achievement of sustained growth. It noted that while much has been done over the years to combat the worst forms of poverty in developing countries, the number of people living in absolute poverty has increased, particularly in low-income countries. Members agreed that reduction of poverty is a crucial objective of development and that intensified efforts are necessary to achieve this goal. While governments of developing countries have prime responsibility for adopting anti-poverty policies, including accelerated mobilization and efficient allocation of domestic resources, members agreed that the international community should strongly support these efforts, by providing additional and well-targeted concessional resources and a favorable external environment to stimulate growth and strengthen poverty programs, particularly in low-income countries. The renewed emphasis given by the World Bank to poverty reduction and food security in its policies and operations was welcomed. Members agreed that the Committee should periodically review progress made in addressing poverty issues.

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

4. Members emphasized that, while the poor benefit from growth-oriented adjustment programs over time, special attention needs to be paid to protecting the vulnerable poor during periods of adjustment. The Committee welcomed the positive response of the Bank and the Fund to this concern. Members urged them to intensify their efforts, working closely together, in helping to design adjustment programs and assisting with the adoption, as needed, of well-targeted compensatory measures which would help shield the poor from adverse effects. Members also encouraged, in the context of structural adjustment programs, further development of complementary measures, particularly income-generating activities and investments in human resources, which reinforce the positive impact of growth on poverty reduction. Members recognized furthermore the important role played by the International Fund for Agricultural Development (IFAD) in the fight against poverty. They called on all member countries to conclude the negotiations on the Third Replenishment successfully and expeditiously.

5. The Committee stressed the crucial importance of developed countries' trade and industrial policies for adjustment, growth and development of developing countries. Outward-looking industrial policies would not only enhance output and improve allocation of resources in both industrial and developing countries, but are also integral to progress on global adjustment and on efforts to resolve debt problems. Members noted with concern that protectionist and other trade-distorting measures particularly affect developing countries and have an adverse impact on their export earnings and national income, often substantial compared to the level of ODA flows. Members agreed there was need for greater liberalization of both international trade and industrial policies affecting agricultural and manufactured goods of developing countries. The Committee emphasized the particular responsibility of industrial countries to promote a more open multilateral trading system. Members also stressed that actions to liberalize trade were required by developing countries in order to maximize their gains from trade. The Committee emphasized the crucial importance of the Uruguay Round and the active participation by all countries in these negotiations. Members urged a positive outcome at the December 1988 mid-term review, including concrete agreements and requested to be informed of the outcome.

6. The Bank was encouraged to include assessments of the impact on developing countries' export prospects of their trading partners' trade policies in the analyses the Bank prepares in support of development and growth-oriented adjustment programs. The Fund was called upon to increase the priority it gives to industrial and trade liberalization policies, both in the context of Fund surveillance -- in cooperation with the relevant international organizations -- and in the design of Fund-supported adjustment programs.

7. The Committee discussed the problem of debt, and its impact on the prospects for growth and development of the heavily indebted developing countries. Members reiterated their support for a case-by-case, growth-oriented approach to the debt problem. They noted that the burden of debt service has become more severe due to the recent increase in interest rates. Members underscored the need to ensure adequate support for the

process of adjustment in order to enhance prospects for renewed and durable growth. The Committee emphasized that the primary contribution of the Bank and Fund in the resolution of debt problems is the financial support and advice they provide for design and execution of growth-oriented programs. In the case of highly indebted middle-income countries, the Committee encouraged debtors and their creditors to broaden the menu of market-based and voluntarily negotiated options, blending new money where appropriate, with techniques which have the effect of reducing the stock of debt without transferring risks from private to official creditors. Members reaffirmed the importance they attach to efforts by the Bank and the Fund in facilitating developments in the menu approach, thereby catalyzing financial support for a growth-oriented debt strategy. The Committee reiterated that the debt strategy should be kept under review.

8. Members also agreed that further actions were needed to support the adjustment efforts of low-income heavily indebted countries. Recalling the consensus at the Toronto Economic Summit, they warmly welcomed that arrangements have now been worked out by the Paris Club on the framework of comparability between various options providing additional debt relief. Members encouraged full implementation of the World Bank's Special Program of Assistance to debt-distressed countries in Sub-Saharan Africa. It was agreed that donors should take additional steps to ensure that commitments are translated into disbursements as quickly and effectively as possible. Developed donor countries in a position to do so were urged to convert ODA loans into grants for the poorest countries undertaking appropriate growth-oriented programs, or to adopt measures with a similar effect such as increasing grants and the concessionality of their ODA.

9. While welcoming certain positive developments in the transfer of resources to developing countries, the Committee noted the decline in overall flows to these countries and the negative net transfers to some of them. Members reiterated that enlarged flows of all types of financial resources to developing countries are needed for economic growth, poverty reduction, structural adjustment, resolution of debt difficulties and environmental conservation. The Committee recognized that foreign private investment could play a much greater role in the transfer of resources and stressed the importance of creating an enabling environment for this purpose. They expressed support for World Bank Group and Fund efforts to help revitalize markets and the private sector in developing countries, thereby assisting in the creation of an environment favorable to increased financial flows, particularly private investment. Members welcomed the recent decision by the International Development Association to allocate future repayments to enlarge available IDA resources and to allocate part of these repayments as well as IDA's investment income to supplement IDA credits to those countries undertaking adjustment programs, only eligible for IDA, and still servicing World Bank loans. They encouraged the Bank to explore further possibilities of financing poverty-reduction programs, particularly in low-income countries.

10. The shareholders of the Bank were urged to take early action to subscribe their shares of the General Capital Increase. In light of the growing need for concessional resources, the Committee welcomed the launching

of negotiations for the Ninth Replenishment of IDA and asked the President of the Bank to report regularly to the Committee on the progress achieved in the negotiations. Members welcomed the contributions to the IMF's Enhanced Structural Adjustment Facility (ESAF), but stressed the need for all potential contributors to reach decisions quickly on additional amounts. Countries eligible for the ESAF were urged to come forward with well-designed programs to make early use of the concessional resources of this facility. The Committee stressed the adverse impact of overdue obligations on the effectiveness of the Fund. It urged all members to lend their active and tangible support to the cooperative endeavor which is being put in train so as to bring countries with overdue obligations back into the mainstream of economic relations.

11. The Committee reviewed a report by the World Bank on its environmental program. Members stressed the importance of the sustainable use of natural resources and environmental protection for both developing and developed countries, within and across national borders. They welcomed the concrete steps taken by the Bank in integrating environmental considerations in its lending operations, by strengthening the review of the environmental and social impact of the projects it finances, and by supporting the development and implementation of environmental strategies by developing countries. The Committee stressed the importance of continued and improved coordination between developing countries, donors, non-governmental organizations, and multilateral development agencies in this field. In light of the links between poverty and environmental degradation the Committee urged that steps be taken to increase both bilateral and multilateral assistance measures. They emphasized the necessity of strengthening public confidence in the Bank's commitment to support sound environmental practices. The Committee called on the Bank's Executive Board to review and publish an annual report on the environmental aspects of its operations which would include an assessment of selected projects having major environmental impact.

12. The Committee considered the priorities for its future work program. Members agreed that the main theme for 1989 would be structural adjustment. The staffs of the Bank and the Fund were accordingly requested to prepare in a closely coordinated and integrated manner background documentation for each of the next two meetings which will permit, on the basis of experience gained, a thorough consideration of various aspects of the subject such as design, external environment, implementation and resource requirements of growth-oriented structural adjustment programs. Members also called on the Bank and Fund to present a progress report on various initiatives which have benefited Sub-Saharan Africa.

13. Members expressed their appreciation to the Government of the Federal Republic of Germany for its warm hospitality and excellent arrangements made for hosting this meeting of the Committee in the historic city of Berlin (West).

14. The Committee agreed to meet again in Washington, D.C. on April 4, 1989.