

FOR IMMEDIATE RELEASE



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 met in Washington, D.C. on September 28, 1987, under the chairmanship of The Hon. B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe. 1/
2. The main focus of the Committee's attention was on the following three issues:
 - o Proposals for action for low-income countries facing exceptional difficulties, especially the seriously indebted countries in Sub-Saharan Africa;
 - o Growth-oriented programs in the heavily indebted middle-income countries;
 - o The World Bank's role and its resource requirements.
3. The Committee's discussions centered on ways and means to revitalize growth in the developing countries. While the Committee recognized that progress had been achieved it emphasized the need for strengthened adjustment efforts in many developing countries. The Committee recognized that, in general, the growth prospects for the developing countries continue to be adversely affected by persistent weakness in commodity prices, modest growth of the industrial countries, increasing protectionist pressures, high debt service burdens, as well as inadequate external financial flows. It also noted the adverse impact of increases in real interest rates on the economies of the

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

developing countries, particularly the heavily indebted countries. The Committee stressed the importance of raising the level of global economic activity by an improvement in the policies of industrial countries. It urged countries to liberalize their trading systems, especially to improve market access for developing countries. In this regard, developed countries were encouraged to pay particular attention to the impact of their industrial and agricultural policies on the developing countries.

4. Members expressed great concern about the exceptional difficulties confronting many low-income countries, especially the seriously indebted in Sub-Saharan Africa, and agreed that there was an urgent need for action. The Committee, therefore, supported the recent proposals by the Bank and the Fund that are geared to the resumption of growth in these countries through more adequate financing and continued adjustment. Members appreciated that these proposals provided donors and creditors with a variety of measures which they could adopt to assist the low-income countries. The Fund and the Bank were urged to strengthen their joint efforts in assisting the low-income countries. It was also noted that further improvements in aid coordination arrangements would help strengthen the development efforts of these countries.

5. The Committee strongly supported the proposal by the World Bank for an increase in IDA disbursements to these countries and hoped that the negotiated IDA 8 replenishment will be made effective soon, so that the resources urgently needed by IDA for this purpose could also be made available expeditiously. It encouraged donors to increase the flow of concessional resources in co-financing operations with the Bank.

6. Members also strongly endorsed the initiative of the Managing Director of the Fund for a substantial increase in the resources of the Structural Adjustment Facility (SAF) to support growth-oriented programs. Some countries have already pledged specific contributions to the enhancement. The Committee emphasized that enhancement of SAF resources should be based on genuine additionality in availability of concessional resources to low-income countries. It called on the international community -- developed and developing countries -- to proceed as quickly as possible with discussions to bring an enhanced SAF into operation. These discussions should be concluded within this year.

7. Members held that the financing needs of low-income countries should largely be met through assistance on appropriately concessional terms. It was noted that a number of donor countries had converted their ODA loans to these countries into grants. Developed donor countries who have not already done so were urged to do so, or if not possible, to take equivalent action tending to this direction. The Committee welcomed the recent decision of the Paris Club to provide longer grace periods and maturities for heavily indebted, very low-income

countries. The Committee also considered proposals for debt relief by reducing interest rates for these countries, provided they were pursuing appropriate adjustment policies. It was noted that for some of these countries continued reliance on rescheduling at commercial interest rates did not provide a realistic solution to the difficulties facing them. They urged donors to find ways to increase the concessional element of their support in order to strengthen the efforts of this group of countries.

8. After a review of growth-oriented programs in the heavily indebted middle-income countries the Committee noted that progress had been achieved by some countries but concluded that there was a need to keep the debt strategy under review so as to enhance prospects for growth and development. Members emphasized the crucial importance of effective adjustment efforts of these countries and recognized that these efforts could be significantly assisted by the correction of imbalances by major industrial countries in order to attain an improved external environment. The Committee underlined the need for increased capital flows on terms adapted to the payments situation and the specific economic circumstances of individual countries.

9. The Committee emphasized that the Bank and the Fund had a strong leadership role to play in expanding flows of finance, as well as in mobilizing additional resources and providing policy advice. Noting the reduced lending by the commercial banks, the Committee encouraged the Bank and the Fund to assist in promoting a "menu" approach, including help in diversifying financial instruments attractive for creditors and bank financing. The Committee wished to see increased private direct investment to the indebted countries so as to improve the availability of non-debt creating resources for development. The International Finance Corporation (IFC) should play an increasing role in this connection, including an intermediary role of debt equity swaps. This could be further reinforced with the early establishment of the Multilateral Investment Guarantee Agency (MIGA).

10. The Committee noted discussions in the Bank's Board of Executive Directors on the modalities for a general capital increase (GCI). Based on the Bank's expanding financial role in helping to meet the needs of the developing countries, the Committee gave full support for a substantial increase in the Bank's capital base, sufficient to support a growing lending program for an appropriately long period of time. The Committee agreed that a general capital increase is urgently needed, and it called on the Executive Directors of the Bank to complete their deliberations on such an increase expeditiously so that the provision of increased capital subscriptions to the Bank could start as soon as possible. In supporting a general capital increase, the Committee emphasized that this should not be regarded as a substitute for expanded flows of resources from private sources. The Committee requested a report by the Bank on this matter for its Spring 1988 meeting.

11. The Committee again benefited from a presentation by the GATT Director General on current international trade issues, in particular on the status of negotiations in the Uruguay Round. While welcoming the progress thus far in these negotiations, Members stressed the importance of ensuring effective observance of the standstill and rollback commitments. The Committee also stressed the importance of trade liberalization in a global strategy on debt and development. The Committee emphasized the role of the Uruguay Round in furthering trade liberalization and removing distortions to trade in both agricultural and industrial products.

12. The Committee, recalling its earlier request for a report on the adequacy of resource transfers to all developing countries, agreed to consider this critical subject at its next meeting. It had a report from the World Bank's President on the Bank's environmental program and agreed to continue further discussion on the subject in April 1988. The Bank was asked to prepare a paper for this discussion taking into account elements in the Brundtland Commission's Report of relevance to the Committee. In the meantime, it called upon the Bank to take forward the initiatives agreed upon at the April 1987 meeting. The Committee reiterated its request for an in-depth study by the Bank and the Fund on the impact of industrial policies of the developed countries on the developing countries for consideration by this Committee as soon as possible. Other important matters discussed included options for dealing with the commodity problems and the poverty impact of adjustment and development programs. The Committee requested the Chairman to develop a work program to deal with these other subjects in future meetings of the Committee taking into account the views of Members.

13. The Committee appointed Mr. Yves Fortin (Canada) to succeed the present Executive Secretary, Mr. Fritz Fischer (Federal Republic of Germany) with effect from November 16, 1987. Members placed on record their deep appreciation for the invaluable service which Mr. Fischer had rendered to the Committee and wished him well in the future.

14. The Committee agreed to meet again in Washington, D.C. on April 15, 1988.