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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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PRESS COMMUNIQUE

1. The Development Committee held its twenty-ninth meeting in Washington, D.C., on September 29, 1986, under the chairmanship of H.E. Ghulam Ishaq Khan. Mr. Barber B. Conable, President of the World Bank, Mr. Jacques 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 discussions in the Interim Committee on the world economic outlook and on the evolving debt situation. The Committee also heard the Managing Director on the progress made by many developing countries in promoting adjustment and growth with support from the Fund.
3. In considering the importance of reviving growth in the heavily indebted middle-income countries, the Committee reiterated its support for the general approach to achieving sustainable growth as endorsed at its previous two meetings. It recognized, however, that substantial additional efforts continue to be required by all the major participants--indebted countries, industrial countries, commercial banks, and international financial and development institutions--given the current economic environment. The Committee requested that the Bank and Fund continue to review the implementation of growth-oriented programs, including the availability of adequate financing, and report on progress achieved to future meetings of the Committee.
4. The Committee was encouraged that many developing countries are undertaking domestic policy reforms which are the basis upon which concerted international action has been built. The heavily indebted

countries need to continue to implement growth-oriented adjustment programs, with support from the Fund and the Bank. Such programs should allow these countries to put less reliance on debt-creating external financing, encourage reflows of flight capital, and promote increased equity investment, domestic and foreign.

5. The success of such programs undertaken by the developing countries is dependent, however, on actions taken by the industrial countries which include, inter alia, greater coordination of macro-economic policies, domestic policy changes, trade liberalization, and further long-term structural adjustment designed to assure a higher level of sustained growth.

6. Overall net lending to heavily indebted countries by commercial banks has thus far fallen short of expectations. Bearing in mind the critical place of commercial banks in implementation of the debt strategy, the Committee stressed the importance of the banks providing substantial net additional flows, in adequate amounts and on appropriate terms, in support of comprehensive growth-oriented programs.

7. The Committee welcomed the initiatives taken by the World Bank and the IMF in many highly indebted countries. The catalytic and advisory roles of these two institutions have been, and will continue to be, of help in developing and implementing effective programs. The Committee welcomed the significant expansion in the past year of World Bank lending for structural and sectoral reforms in these countries, which provides further evidence of the Bank's ability to move rapidly and substantially in support of borrowers' structural adjustment and development programs. A report from the Bank on the poverty impact of such programs was requested by Members to be submitted for consideration at a future meeting of the Committee. The Committee agreed it would be extremely important to assure that the momentum of reform now underway in these countries be maintained and that the scale and range of Bank activities would need to continue to grow in support of these developments.

8. Ministers also reaffirmed the importance they attached to the central role of the World Bank as a global development institution; its fundamental objectives continue to be the acceleration of economic growth and the alleviation of poverty, and the support of investment activities should remain the predominant part of the Bank's total lending program.

9. Given these expanding requirements for Bank involvement in both the heavily indebted countries and other Bank borrowers, the Committee noted with satisfaction that IBRD lending in the current fiscal year was expected to increase to about \$15 billion, from \$11.4

billion in FY 1985 and \$13.2 billion in FY 1986, with further increases in future years expected to follow the growth path approved in April 1986 by the Committee. The Committee reiterated its assurance that lack of capital should not be a constraint on increases in the Bank's quality lending and noted that the existing capital stock of the Bank can currently support a maximum continued lending level of about \$14.5-15 billion per year.

10. To maintain the momentum of the reform effort and to permit the growth in IBRD lending envisaged for the period through FY 1990, the Committee agreed that a substantial general capital increase (GCI) will be required if quality lending materializes as expected. The Committee urged the Bank's Executive Directors to continue their discussions of GCI modalities to permit agreement on a proposal for a General Capital Increase as needed to ensure that the Bank's lending program is not constrained by the availability of capital. In this context, Members of the Committee recognized that, should quality lending materialize as projected, it is possible the program for FY 1988 might exceed the sustainable lending limit on a temporary basis.

11. The Committee also concentrated its attention on issues of particular concern to low-income countries. In these discussions it benefited from the participation of the Chairman of the OECD Development Assistance Committee (DAC). The Committee discussed the resource needs of all low-income countries and recognized the importance of official development assistance (ODA) flows to their improved economic performance and sustained growth. The Committee expressed its concern that total ODA flows are likely to grow slowly and remain inadequate for the pressing needs of low-income countries. The Committee encouraged donor country members to make maximum efforts, as a matter of urgency, to increase their ODA budgets, especially to help meet the needs of the poor countries. The value of a strong multilateral concessional assistance system was also emphasized, particularly given its focus on the poorest countries.

12. The Committee noted the progress made thus far in the operation of the Fund's Structural Adjustment Facility (SAF), including closer Fund-Bank collaboration. Ministers reiterated that cross-conditionality must be avoided and that the two institutions should seek to complement the SAF with additional bilateral and multilateral resources.

13. The Committee welcomed the statement of the Chairman of the IDA Deputies, reporting great progress achieved in the negotiations held on September 23-25. It encouraged all parties contributing to IDA to finalize the replenishment agreement for an IDA 8 of \$12 billion or

more. In this context, Ministers urged additional voluntary contributions from all donors in a position to make them. The Committee hoped the entire replenishment negotiation would be completed as soon as possible, but not later than November 1986, to enable IDA 8 to take effect on July 1, 1987. Some members of the Committee expressed concern about effects on borrowing countries of shortening of maturities and differentiation in terms during IDA 8 and expressed hope that the universal character of the Association could be maintained.

14. The Committee reviewed recent developments concerning Sub-Saharan Africa, including the constructive outcome of the U.N. Special Session which, *inter alia*, adopted the U.N. Program of Action for African Economic Recovery and Development, 1986-1990. Ministers urged multilateral and bilateral agencies to assist in implementing the program. Members noted that 1986 offered some welcome, albeit modest, relief from difficult economic conditions for many of the poorest African countries, but it recognized that these improvements did not indicate a break in the long-term declining trend in economic and social indicators. African governments continue to make progress in policy reform, but resource availability remains a major constraint. The Committee recalled its conclusion in April 1986 that industrial countries should exert their best efforts to close the estimated \$2.5 billion annual gap in concessional flows needed over the next five years by low-income countries in Sub-Saharan Africa undertaking significant reform efforts; members agreed that further efforts were required if this goal were to be met and asked the Bank to report in a year's time on progress achieved.

15. In accord with the Committee's mandate, members agreed on the need to maintain a regular overview of developments in the transfer of resources, including concessional flows, to developing countries. In this context, the World Bank was asked to prepare for a future meeting a study of the external resource requirements of poor countries outside Africa as well as to continue its regular review of Africa's economic situation and resource requirements.

16. The Committee also stressed the importance of strengthening the coordination of aid flows in low-income countries to increase their effectiveness and to reduce administrative burdens on recipient governments. It appreciated the actions already taken by the international community (as summarized in a World Bank report on Aid Coordination in Sub-Saharan Africa prepared at the Committee's request) and urged the Bank to continue to exert leadership when taking or participating in further initiatives along the lines set forth in the report, including strengthening aid recipients' capacity to play the central role in aid coordination and encouraging joint monitoring in interested recipient countries through adequate mechanisms. Ministers also encouraged the

Bank to follow up its suggestion that the costs of aid coordination be shared with other donors. The Committee requested a report in a year's time on further progress achieved in aid coordination.

17. The Committee agreed to discuss at its next meeting the issue of environment, growth and development, including policy dimensions and project experience, on the basis of a report to be prepared by the World Bank.

18. The Committee noted that the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) has been signed by 45 countries, including 34 developing countries, and that preliminary agreement has just been reached among signatory countries on MIGA's detailed plans and operational policies. Interested governments were urged to sign the MIGA Convention, and, if they have already done so, to ratify it as soon as possible so that the new agency can quickly begin to serve its objectives, including the stimulation of increased flows of private investment to developing countries.

19. Members expressed concern about growing problems in world trade which were having an adverse impact on developing country growth prospects, including particularly increased protectionism and the spread of subsidies or other incentives to production and export of agricultural commodities and other goods. The Committee noted that in response to its request at the April 1986 meeting, the Bank and Fund are preparing a report on market prospects of raw materials for discussion at its next meeting. The Committee asked that this report also include analysis of the impact of industrial countries' agricultural policies on developing countries' economic prospects.

20. The Committee was informed by the GATT Director General of the Punta del Este decision to launch a new round of multilateral trade negotiations--the Uruguay Round--and welcomed it as a significant step in strengthening and expanding the international trading system. The Committee emphasized that effective implementation of the standstill and rollback commitment made at Punta del Este was essential for reducing protectionism and to the success of the new round. Members invited the GATT Director General to continue to keep the Committee informed about progress in the negotiations.

21. The Committee took note of a report by the Chairman on the modalities of cooperative arrangements for improvements in the financial and monetary system's impact on growth and development. This report had been requested by the Committee at its April 1986 meeting.

22. Members placed on record their special appreciation for the Chairman's long and distinguished service to the Committee. His imaginative, active, thoughtful and balanced direction of the Committee's

work contributed significantly to its effectiveness as a forum for consideration of important international economic issues facing developed and developing countries. Members expressed their deep appreciation and gratitude for his lasting contributions to the promotion of development and wished him well in the future.

23. The Committee recorded its deep appreciation to Mr. de Larosiere for the singular achievements and the exceptional leadership that had distinguished his years as the Managing Director of the International Monetary Fund. He had helped the international community to meet the demands of difficult times with boldness, resourcefulness, and perseverance, and the Committee wished him well in his future tasks.

24. The Committee agreed to meet again in Washington, D.C. in the second week of April, 1987.