



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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October 2, 1994

G-24 COMMUNIQUE

The attached Communique of the 51st meeting of the Ministers of the Intergovernmental Group of Twenty-four held in Madrid on October 1, 1994 is circulated for the information of the Development Committee at the request of their Chairman, Mr. Willy Zapata, President of the Banco de Guatemala.

**INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS**

FIFTY-FIRST MEETING OF MINISTERS

COMMUNIQUE

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their Fifty-First Meeting in Madrid, Spain, on October 1, 1994. Mr. Willy Waldemar Zapata, President of the Banco de Guatemala, was in the Chair, with Mr. N'Goran Niamien of Côte d'Ivoire as First Vice-Chairman and Mr. Makhdoom Shahabuddin of Pakistan as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Lewis T. Preston, President, World Bank, Mr. Mourad Cherif, Chairman, Development Committee, Mr. Roger Lawrence, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Cristián Ossa, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund for International Development, Mr. Osama Faquih, President, Islamic Development Bank, Mr. Manuel Fontecha Ferrari, Central American Monetary Council, Mr. Salvador Arriola, Latin American Economic System, Mr. Chen Yuan, People's Republic of China, Mr. Ahmed Hussain, Iraq, Mr. Abdelfettah Benmansour, Morocco, and Mr. Abdelaziz N. Alorayer, Saudi Arabia.

The meeting of the Ministers was preceded on September 30, 1994 by the Sixty-Fourth Meeting of the Deputies of the Group of Twenty-Four, with Mrs. Antonieta de Bonilla of Guatemala as Chairperson, Mr. Victor Kouame of Côte d'Ivoire as First Vice-Chairman, and Mr. Azizali Mohammed of Pakistan as Second Vice-Chairman.

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I. The Group of Twenty-Four and the Fiftieth Anniversary of the Bretton Woods Institutions

1. Ministers recognized that the Bretton Woods institutions had played an important role over the past fifty years, and had tried with increasing success to adapt to the needs of their members. They pointed out that the mandate of these institutions to foster an international monetary and financial system that facilitates and promotes trade in goods, services, and capital flows among countries, and to provide assistance and financial flows to developing countries to sustain their economic growth and development, remains valid. Despite the validity of this mandate, Ministers emphasized that fundamental changes had occurred in the international economic environment, and that the Bretton Woods institutions had therefore to continue evolving, in order to adapt to those changes. In this connection, they considered that the commemoration of the fiftieth anniversary of the

establishment of the Bretton Woods institutions represents an excellent opportunity to review the direction of their evolution.

2. Ministers drew attention to the fact that developing countries are underrepresented in the Bretton Woods institutions, although they have been making a significant contribution to the growth of the world economy. They emphasized the need to find new ways for increasing the representation of developing countries and their effective participation in the decision-making processes of the Bretton Woods institutions and, especially, to strengthen these institutions, so as to ensure their continued effectiveness, in supporting the development and adjustment efforts of these countries according to their national strategies and priorities.

3. In this context, Ministers took note of the Group of Seven industrial countries' (G-7) intended review of the framework of international institutions that will be required in order to meet the challenges of the 21st century, as announced in Naples in July 1994. They underscored that there should be a fully representative intergovernmental participation in such a review, on the general model of the Committee of Twenty of the 1970s, to evaluate the functioning of the Bretton Woods institutions and their future role in the context of a rapidly changing world economy. Ministers emphasized that such an evaluation should adequately involve the developing countries in order to carry legitimacy, ensure a broad sense of ownership, and be effective. Ministers considered that the following topics should be included in the proposed review:

- the role that the Fund and the World Bank should play in ensuring that the management of economic policies is consistent with proper operation of the global economy;
- the working of the exchange rate system with a view to reducing exchange rate volatility and misalignments;
- the possibilities for enhancing the effective participation of developing countries in the decision-making process within the Bretton Woods institutions. In this context, the functioning of the Executive Boards of the Fund and the Bank, as well as the role, functioning, and future of the Development Committee and the Interim Committee, should be examined;
- the appropriate modes of interaction between the Bretton Woods institutions and the regional financial and monetary institutions;
- the appropriate forms of interaction and division of labor between each of the Bretton Woods institutions and the World Trade Organization (WTO).

4. Ministers observed that one of the most significant structural changes in financial markets worldwide in the post-war period has been the increasing globalization of capital markets, which has contributed to a

greater access of developing countries to private capital flows since the end of the 1980s. However, they noted that this evolution also entails potential risks, an important one being the volatility of short-term capital flows. Ministers emphasized that the Fund could contribute to reducing this volatility by playing a more effective role of surveillance over the policies of industrial countries that affect the stability of international capital markets, given the ease with which macroeconomic disequilibria are transmitted among countries in a globally integrated capital market. Ministers also urged the Fund to expedite its work on the establishment of a new, short-term, and fast-disbursing facility, aimed at assisting member countries to deal with large private capital outflows arising out of sudden market speculation not generated by fundamental disequilibria or similar factors beyond their control. Ministers stressed that such a facility should be designed in a way that adequately meets the needs of members, bearing in mind that some countries might need to have ready access to resources in amounts well beyond current access limits.

5. Ministers also addressed the topic of adjustment and economic reform programs and the role that the Bretton Woods institutions had played in support of these programs. They observed that these programs had a better potential for success when they were sufficiently financed. Ministers acknowledged that, despite existing training programs for developing countries at the Bretton Woods institutions, there remained in some countries a scarcity of personnel qualified to participate in the technical formulation and implementation of economic adjustment and reform programs. They urged the institutions to increase their support for, and strengthen their implementation of, high-level training programs for officials, especially at the regional and country levels, as had been done for the countries of Central and Eastern Europe and the former Soviet Union.

6. Ministers emphasized that the Bretton Woods institutions, in line with their evolving role, should make greater use of local capabilities and consider the establishment of national and regional advisory assistance offices in interested countries; this would not only make it possible to decentralize some of the functions performed at headquarters, but also improve staff familiarity with socioeconomic and political aspects of member countries and reduce administrative costs. Other advantages would include spillover effects that would enhance policy-making skills and consultancy services in developing countries. Ministers also stressed the importance of the Bretton Woods institutions broadening their staff recruitment base, so as to reflect varying educational backgrounds and practical experience while maintaining--or even raising--standards of excellence. Such broadening should provide greater opportunities for developing country candidates to enter the institutions at a variety of staff levels, and should ensure adequate representation of qualified staff from developing countries at senior staff levels.

II. SDR Allocation

7. Ministers reiterated their strongly held view that an SDR allocation is urgently needed to supplement existing reserve assets in the world economy, as well as to address reserve needs of low-income countries and economies in transition with restricted or no access to capital markets to meet their reserve needs. Ministers expressed concern about the intention of some industrial countries to address the issue of equity in the distribution of SDRs exclusively through an amendment of the Articles of Agreement. In this regard, they underscored that a general allocation would start addressing the issue of equity immediately, ensuring the participation of all members in the SDR mechanism. Such an allocation would also serve to demonstrate the membership's commitment to make the SDR the principal reserve asset of the international monetary system. Ministers expressed their strong support for the Managing Director's proposal. At the same time, they welcomed the spirit of compromise embodied in the proposal of the eleven Executive Directors representing the developing countries. Ministers noted that these proposals involved an initial allocation under the present Articles of Agreement, and a special allocation to be authorized by an amendment to the Articles. Ministers were of the view that that initial allocation should coincide with the extension of the systemic transformation facility and the implementation of increased limits on access to Fund resources.

III. Net Transfer of Resources for Development

8. Ministers reiterated their concern regarding the steady decline in flows of official development assistance, not merely in real terms, but also as a proportion of industrial countries' GNP. They saw this as a most disturbing development at a time when needs are increasing and the number of countries requesting such assistance is growing. Therefore, they reiterated their call on the industrial countries to make priority provisions for reaching the internationally agreed official development assistance target of 0.7 percent of their GNP.

9. Ministers reaffirmed that aid should be aimed at complementing the efforts of recipient countries to achieve sustainable economic growth and poverty alleviation. They noted, however, that for aid to be effective, it should be based on the needs of the recipient countries. They emphasized that conditions imposed by donors--such as aid-tying, under which a significant proportion of aid is utilized on a noncompetitive basis--make it difficult for recipient countries to use the aid most effectively. Ministers stressed that another factor limiting aid effectiveness is that technology and resources supplied by donor countries are not always appropriate to the needs of the recipient countries. Ministers considered that aid effectiveness requires that donor countries and aid agencies enhance aid coordination. They urged donors to operate in a way that enables the substantial participation of the recipient countries in aid coordination efforts.

10. Ministers noted that for many developing countries, and especially for the low-income countries, the debt burden represents a drain on budgetary resources and continues to absorb a sizable percentage of export earnings, thereby seriously jeopardizing the growth prospects of these countries. Ministers called on the international community to take more rapid and effective action to address the debt problem on a permanent and case-by-case basis. They called on the international community to provide additional resources for the IDA Debt Reduction Facility. Ministers welcomed the Group of Seven declaration at Naples favoring a reduction in the stock of debt and an increase in concessionality for the poorest and most indebted countries. Ministers urged the Paris Club to strengthen its efforts to generalize the application of the Trinidad and Tobago terms, as well as other initiatives for the application of more concessional terms.

IV. Post-Uruguay Round Issues

11. Ministers reaffirmed their commitment toward the establishment of the World Trade Organization as agreed in Marrakesh and the ratification of the Uruguay Round agreements. They welcomed the Group of Seven's determination to accelerate their ratification of the Uruguay Round agreements, and to aim for the establishment of the WTO by January 1, 1995. Ministers stated that this would be an important step toward bringing world trade under the umbrella of multilateral principles, with the WTO as the key agency responsible for enforcing discipline that assured equal opportunities for all members. Ministers expressed the hope that an effectively functioning WTO would make faster progress on areas calling for special attention, such as the settlement of disputes, the liberalization of agricultural trade, including the elimination of export subsidies and unfair trading practices, as well as the lowering of barriers in sensitive sectors.

12. Ministers expressed their concern that, by linking trade to environmental protection and social and labor standards in developing countries, industrial countries were unfairly impeding access of developing countries to industrial country markets. They stressed that imposition of disguised trade restrictions in this context contravenes the spirit of the Uruguay Round agreements, hampers the economic performance of developing countries, and hinders their progress in improving environmental, social, and labor standards, which are themselves dependent upon the achievement of higher levels of sustainable economic growth.

13. Ministers reiterated that the Fund and the Bank should provide timely and sufficient financial and technical support to individual countries that might be adversely affected by the implementation of the Uruguay Round agreements--particularly net food importers and those that would lose preferential treatment of their exports--during the transition process. They noted that existing Fund and Bank facilities could contribute to assisting developing countries during this transition. They emphasized, however, that timely provision of resources, in adequate amounts, by the two institutions may require a rapid adaptation of existing facilities and/or consideration of the need for new ones.