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)

SUPPORTING LOW-INCOME COUNTRIES IN LIGHT OF CHANGES IN THE WORLD ECONOMIC SITUATION

Joint Statement of the President of the World Bank and the IMF Managing Director

The attached joint statement of the World Bank President and the IMF Managing Director to the Development Committee and International Finance and Monetary Committee is a background note to Item I.A of the Second Revised Provisional for the 64th meeting of the Development Committee to be held in Ottawa, Canada, on November 18, 2001.

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1. Reducing global poverty remains one of the foremost challenges of our time. Safeguarding progress in light of the recent deterioration in the global economic situation will require a renewed and strengthened commitment by low-income countries as well as by the international community as a whole. Over the past eight weeks, the IMF and the World Bank have been working with low-income member countries, and with other development partners, to assess the country-by-country economic and financial impact of recent events, and the responses that will be necessary to maintain the momentum of the fight against poverty. Preliminary analysis and consultation indicate that, in aggregate, there is likely to be an adverse, but manageable, impact on most low-income countries’ external financing needs, although this will vary widely among individual countries. The shortfall will need to be addressed by a two pillar approach. The countries themselves will need to follow sound macroeconomic policies and poverty reduction strategies and, in many cases, undertake further policy adjustment. In the second pillar, the international community will need to be proactive about providing support to these countries’ efforts. The following statement outlines the early plans for assistance from the IMF and World Bank. Our actions must be part of an approach of stronger support from the entire international community to do more, through trade liberalization, increased official development assistance, full participation in providing debt relief, and better alignment of donor development assistance with country-owned poverty reduction strategies.

Economic Outlook for Low-Income Countries More Uncertain

2. In the aftermath of the September 11 terrorist attacks, economic policy throughout the world will need to be framed in an environment of unusually large uncertainty. Short-term economic forecasts have been revised downwards for virtually all major economies; capital markets have tightened considerably with a flight to quality across many investor categories; and slower world growth prospects have been translated into lower demand for developing country exports and lower prices for many primary commodities. Fortunately, economic fundamentals in many countries were on a reasonably sure footing, and policy responses have already taken place or are underway to deal with the economic downturn and the September 11 aftermath. As a result, we continue to expect that there will be a recovery during the coming year. However, there is also the possibility of a worse outcome, involving even lower growth and increasing financing difficulties for many countries.

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1 This category refers to PRGF-eligible/IDA-eligible countries.
3. The worsened international economic situation has affected low-income countries through a number of channels. For developing countries, trade is the single most important channel affecting growth. Lower demand for their exports, which account for 30 percent of GDP on average for these countries, comes at a time when prospects for net export earnings were already deteriorating due to a downward trend in agricultural commodity prices, some of which continue to be distorted through production and export subsidies, notably those of industrialized countries. In particular, prices of cotton, coffee, and copper, three commodities on which many low-income countries are dependent, are lower than they have been for many years, and even lower commodity prices may be in store.

4. For oil-importing countries, the current downward trend in oil prices will serve to offset part of the impact of lower commodity prices on export earnings. As a result, while the outlook for individual countries varies widely, real GDP growth is projected to continue for the group as a whole, albeit at somewhat lower levels. However, there are substantial uncertainties in the growth forecast for the poorest countries, especially with regard to the future direction of prices of agricultural commodities and oil. These countries were in a precarious situation to begin with, and it must be noted that their external financing positions are being hit disproportionately hard—even with continued growth—given factors such as further declines in tourism receipts and workers’ remittances from abroad. For both oil importing and exporting countries, the first line of defense in cushioning against the adverse impact of slower growth on external financing is maintaining sound macroeconomic policies and adhering to existing adjustment programs. Where policies are sound, additional external financing on appropriate terms will also be a key component of the response to the deterioration of their external accounts.

**IMF and World Bank Support to Low-Income Countries**

5. IMF and World Bank staff will continue to work with country authorities to monitor the situation. Staff of both institutions have already been in contact with most low-income country authorities to assess the new situation and the country’s planned response, with a view to the role that the IMF and World Bank might play. Both institutions will continue to ascertain changing needs on an ongoing basis—the IMF through upcoming program reviews, Article IV consultations, and other assessment activities; the Bank through its ongoing dialogue on the preparation and implementation of operations and Country Assistance Strategies (and Progress Reports). Increased technical assistance and analytic work will be important components of the response of both institutions to update diagnostics, strengthen countries’ capacity to respond effectively to changing needs and underpin Bank and Fund financial assistance. In many countries, technical assistance and analytic work will likely focus on areas such as trade policy, fiscal and public expenditure management, financial management and procurement reform, financial sector reform, and the design and implementation of social safety nets, including the targeting of pro-poor spending.

6. The Fund is currently providing concessional resources under the Poverty Reduction and Growth Facility (PRGF) to support 39 low-income member countries, and will review and augment these resources as appropriate. In other low-income countries with sound policy frameworks and demonstrated financial needs, Fund staff are working with authorities to set up new PRGF-supported programs. For members not ready to undertake a three-year structural reform program but where stabilization policies can be agreed, stand-by arrangements may be
considered. For some developing countries, the Fund’s Compensatory Financing Facility (CFF) can provide assistance in the case of temporary export shortfalls. The IMF has reviewed its existing financial instruments and modalities; these continue to appear adequate to respond to the current needs of the membership. The Fund will be ready to consider adjusting them, if necessary, in the light of future developments. For example, if there were an unanticipated increase in oil prices, one step that could be considered is to introduce a temporary oil element within the CFF to allow compensation for higher import costs through this facility (as was done during the Gulf War crisis).

7. With the new projections, we anticipate that demand for PRGF resources for next year could be as much as $1.5-2.0 billion. While this is high by historical standards, it should be manageable with existing resources, if limited to one year. The minimum resources necessary for a continuation of PRGF lending have now been secured with the contributions of nine lenders to the PRGF Trust totaling SDR 4.1 billion, and we urge others to follow their lead. For low-income post-conflict countries, the IMF has established a special subsidy account to lower the interest cost of Emergency Assistance to 0.5 percent on an annual basis. An initial contribution has been received and the IMF is seeking further donations to this account.

8. The Bank Group’s existing instruments and policies make available a wide variety of options to provide new financial assistance to low-income countries affected by the economic downturn and the September 11 events and their aftermath—including both new lending and disbursements under existing loans. IDA, IFC, and MIGA will use these options to respond flexibly in helping countries meet their financial needs and supporting sound poverty reduction strategies and social programs. For IDA, new or supplemental adjustment lending may be an option for affected countries with sound macroeconomic policies and reform programs. The Bank may also, within existing policies, advance the preparation or increase the scope of selected new investment projects, such as social funds, or provide supplemental investment operations where the impact of the crisis has led to project cost overruns. Emergency recovery operations may be provided in countries where the September 11 events have led to serious short-term economic dislocations, such as those caused by a sharp increase in the number of refugees. The Bank also has the flexibility, within existing policies, to work with borrowers to restructure the existing portfolios—for example, by reallocating loan proceeds to channel resources to activities that most effectively mitigate the social impact of the crisis—or to increase or accelerate disbursements under existing operations, as appropriate. IFC and MIGA will be utilizing the flexibility within existing instruments in tailoring their responses—with a focus on helping sustain private investment flows to affected countries.

9. Projected IDA lending for FY02 is up to $7.8 billion, compared with up to $7 billion before the September 11 events. Beyond the current fiscal year, the initial estimate of lending during the IDA 13 period (FY03-05) was $23 billion (SDR18 billion). Estimates completed after the September 11 events suggest that the crisis and ongoing economic downturn, especially if prolonged, could result in significant incremental needs during IDA 13, particularly for countries in Africa and Asia. Looking ahead to the next meeting of IDA Deputies on December 6-7, 2001, a timely and expeditious agreement on a substantial IDA 13 replenishment will be key to meeting the needs of low-income countries, especially those that are now facing even greater challenges.
The Heavily Indebted Poor Countries (HIPC)

10. The heavily indebted poor countries are an important subgroup of low-income countries. While the growth impact in these countries will not differ from that of the group as a whole, their financing positions have the added dimension of a high debt burden. The primary purpose of the HIPC initiative is to bring the debt burdens of these countries to sustainable levels, and this should remain the guiding principle for its role during the current downturn. The Initiative, as currently structured, provides significant flexibility in responding to any adverse impact on HIPCs, both in the immediate and longer terms. First, interim debt relief under the enhanced Initiative provides significant flow relief beginning immediately at the decision point. We encourage creditors who are not yet providing interim relief to do so. In recent years both bilateral and multilateral creditors have increased interim relief to HIPCs in response to natural disasters, and some bilateral creditors are providing debt relief beyond the HIPC framework.

11. Second, HIPCs’ maintenance of long-term debt sustainability will depend largely on sustained policy reform and strengthened debt management. The enhanced framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country’s economic circumstances due to exceptional exogenous developments. The relevant operational procedures have recently been approved by both Boards. To the extent that recent events represent a major exogenous shock, our staffs, together with country authorities, will analyze the impact of recent events on each country in detail in the debt sustainability analysis undertaken as HIPCs reach their completion points. Very preliminary assessments by staff of the impact of the projected economic downturn suggest that the need for additional debt relief under the enhanced HIPC framework may be modest and limited to a few cases. However, this analysis is inherently uncertain—debt sustainability projections require assumptions about the future size and composition of the export base, movements in the discount rate, as well as judgments about any new borrowing and its concessionality.

Broader International Response Is Necessary

12. The efforts of the Bank and Fund must necessarily be part of a much broader international response. The regional development banks have been active partners in assessing the economic and financial impact and providing advice on appropriate responses. They also have significant parallel programs of support underway. Similarly, bilateral donors will need to fulfill and expand upon existing commitments, for all regions. As the IMF and World Bank continue their country-by-country reviews of financing impacts and responses, we urge bilateral donors to finalize, as soon as possible, plans for next year’s assistance for individual countries, so the recipients have greater certainty in formulating their budgets for next year. Where appropriate, export credit agencies will need to remain engaged to ensure continued availability of trade finance.

13. A new trade round and maintaining momentum on trade liberalization in all countries will be important for increasing poor countries’ access to world export markets and for spurring global growth with resulting benefits to the poorest countries. The Fund and Bank participated in the WTO Ministerial that just concluded in Doha, and we are encouraged by the agreement that
was reached to launch a new trade round that gives special weight to the needs and concerns of developing countries. It will be important now to translate these words into concrete actions. The IMF and the World Bank are committed to helping our poorer members integrate more deeply into the global economy by strengthening their own policies, institutions and capacities, and by adopting development strategies that harness trade to accelerate growth and reduce poverty. We stand ready to assist our members in this process, through financial support, technical assistance, and policy advice. We are also committed to the success of the UN Financing for Development Conference in Mexico next March. The IMF and the World Bank have participated actively in the preparations for the conference, and we will continue to support the UN in ensuring that this conference results in creative ideas to improve the international community’s involvement and effectiveness in support of appropriate domestic policies to promote sustained growth and reduce poverty. We also encourage donor countries to decisively increase official development assistance funding, to resume progress toward meeting the United Nations goal of 0.7 percent of donor country GNP.

**Looking Forward**

14. Since the beginning of 2000, the country-driven Poverty Reduction Strategy Paper (PRSP) process has provided a framework for IMF/World Bank support to low-income members, both concessional assistance from IDA and under the PRGF, as well as the delivery of HIPC debt relief. It has also increasingly become the framework adopted by other development partners for their support. Experience to date with the PRSP approach augurs well for its contribution to improving both the poverty focus of national development programs and the effectiveness of donor support for these country-led efforts. HIPCs and other low-income countries must continue to move forward responsibly and expeditiously with designing and implementing their poverty reduction strategies, with a particular focus on how new resources can be most effectively directed to the needs of the poorest and most vulnerable.

15. The Fund and the Bank welcome comments and suggestions for further improving the design and implementation of PRSPs. All concerned are learning by doing, and it is particularly important that we refine and improve the process in light of early experience. In this regard, we are looking forward to the joint review of the PRSP approach, which we are undertaking over the coming months. We are committed to drawing on the views of the PRSP countries themselves, and of international institutions, donors, and civil society organizations, with a view to benefiting from their diverse perspectives and experiences and making any needed modifications in the PRSP framework. In parallel, the IMF will also conduct a review of the initial experience under the PRGF. These reviews will be ready for consideration by the April 2002 meetings of the IMFC and DC.