1. The Development Committee held its 46th meeting in Washington DC on May 1, 1993, under the chairmanship of Dr. Ricardo Hausmann of Venezuela. The Committee recorded its deep regret at the violent death of President Ranasinghe Premadasa and sent its condolences to the Government and people of Sri Lanka.

2. The Committee devoted most of this meeting to an examination of ways of encouraging private capital flows, as part of its ongoing review of the transfer of resources to developing countries. The Committee reaffirms its belief that a high level of investment in the private sector is important to sustainable economic growth in developing countries. It recognizes that the majority of this investment comes from these countries' domestic savings. Private foreign flows and official development assistance have a complementary but crucial role to play. Private foreign flows have been largely concentrated in a small number of countries. The challenge before the international community now is to enlarge this number as quickly as possible.

3. The Committee notes that host countries have the primary responsibility for creating an environment attractive to foreign investors. This will require a stable political climate and sound macroeconomic policies; a healthy, vigorous and competitive domestic private sector; a legal and institutional framework which encourages investment without discrimination; a liberal exchange regime; a flexible labor market; improved management capacity in the public sector; and provision of the necessary physical and human resources.

1/ Dr. Hausmann is the Minister of State and the Head of CORDIPLAN in Venezuela. Mr. Lewis Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Mohammed Imady, Minister of Economy and Foreign Trade of Syria and Chairman of the Group of 24, and Mr. Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

2/ For the purpose of this Communiqué the phrase "developing countries" includes economies in transition.
infrastructure. Prompt servicing of debt will reassure investors. Reduction of the debt overhang, where appropriate, for reforming countries, will also help. Because much investment in developing countries is in export industries, open world markets are essential. Once these measures are in place, which may take time in some countries, funds will tend to flow naturally to profitable ventures.

4. Where unnecessary institutional and regulatory barriers to the supply of such funds remain, the Committee calls on the industrial countries and the international financial institutions to do all they can to remove them, and to catalyze greater volumes of investment. The IFC in particular can help by doing more to support investments in poorer countries with less access to private capital.

**Foreign Direct Investment**

5. The Committee believes that FDI is the most valuable form of private external finance, since it brings with it access to the technical know-how, managerial expertise and wider markets of the industrial countries. Because it moves in response to perceived market needs, it is much more efficient than state-directed capital flows. It poses less risk to the host country's fiscal or balance of payments position. The Committee welcomes the action taken by most host countries to attract FDI, by reducing discrimination against foreign investors. It also calls on the industrial countries and the international institutions to play their part by providing technical assistance, investment sector lending, fuller information, guarantees and where appropriate financial support.

**Portfolio Investment**

6. The Committee welcomes the sharp increase in portfolio investment in equities and bonds in several developing countries in recent years. Foreign portfolio investment will add flexibility and depth to domestic capital markets. These markets should be expanded further. The Bank Group and the Fund should provide continuing support for market development, through policy advice, finance and technical assistance. The Committee calls on both industrial and developing countries to speed up the removal of the remaining regulatory and other impediments to portfolio flows, particularly by facilitating the greater participation of institutional investors.

**Bond Markets**

7. The Committee also welcomes the reform efforts made by several developing countries. These have restored confidence and allowed them to enter or regain access to the international market for bonds and other financial instruments. It encourages the governments of "source" countries to review and address the remaining obstacles which prevent access to their securities markets by creditworthy developing country borrowers.
Commercial Bank Lending

8. The Committee recognizes that commercial bank lending is not always a suitable form of long-term development finance, or available or appropriate for countries facing severe balance-of-payments deficits. However, the successful resolution of the debt problems of many middle-income developing countries has permitted a small increase in commercial bank lending. The Committee encourages industrial countries which have not already done so to review their regulatory mechanisms and requirements regularly, and in doing so to examine the scope for easing constraints on trade and project finance to developing countries, without weakening proper prudential supervision. It notes the role of the World Bank's Enhanced Cofinancing program in supporting lending.

Private Sector Development

9. The Committee also reviewed a related report by the World Bank Group on its private sector development strategy which also helps to attract more foreign investment. It welcomes the emergence of a new generation of loans through which the World Bank supports policy, regulatory and legal reforms directed at improving the day-to-day environment in which firms operate. It commends the work already done or in hand, while calling on the Bank Group as a whole to make even greater progress by promoting small and medium-scale industry and the entrepreneurial role of women, in encouraging the private sector in developing countries, especially the poorest, and in supporting the necessary underpinning public sector reforms.

Official Flows

10. The Committee recognizes that, for poorer countries and those presently unable to attract sufficient private capital, official development assistance remains essential. It therefore welcomes the completion of the IDA-10 negotiations, and calls on the donor countries to complete the ratification process, so that there is no disruption to commitments. It also calls on the Bank to increase further the focus on poverty reduction and environmentally sustainable development. It welcomes the rapid progress in considering the operational modalities for a successor to the ESAF, the Fund's concessional facility for its poorer members; it urges that this work be completed by November 1993, and calls on the Fund to explore all options for funding. It also notes that a review of the pilot phase, discussions on restructuring, and negotiations for the replenishment of the Global Environment Facility are about to commence; it agrees on the importance of a productive outcome by December 1993. It notes that other negotiations are in hand to replenish the concessional funds of other multilateral agencies, and hopes they can be concluded as soon as possible. It calls on industrial countries to consider further ways of increasing flows of officially supported export finance. Finally, it points to the continued stagnation in flows of official development assistance, despite the increased needs, and invites donor countries to do their best to increase their aid as circumstances permit, particularly where it still falls short of 0.7% of GNP.
Ministers also underscored the critical importance of ODA achieving its intended developmental impact. They called on all donors and recipients to strengthen efforts to improve the quality and effectiveness of assistance. Ministers commended the World Bank's effort to undertake a frank and critical self-evaluation of its project performance, and stressed the importance of a vigorous action program. They also urged all development agencies which have not already done so to undertake similar efforts to improve the development impact of their assistance, and to concentrate aid operations on the poorest countries and those where aid can be most effective.

Trade

11. The Committee records its increasing concern about the continued delays and risk of breakdown in the Uruguay Round negotiations. Failure could easily lead, not to continuation of the status quo, but to a downward spiral of increasing protectionism. This would be extremely serious for the growth of the world economy and particularly for the developing countries, leading to a progressive reduction in the markets for their exports and a consequent fall in the living standards of their citizens. It would weaken the developing countries' resolve to liberalize trade further, and to undertake structural reforms. On the other hand, an early agreement will benefit all countries. The Committee asked that all countries firmly resist protectionist pressures. It calls on all the parties for a prompt and successful conclusion to the Round by the end of 1993, and its early implementation.

Next meeting

12. The Committee agreed to meet again in Washington DC on September 27, 1993, when it will concentrate its discussion on two topics: long-term social policy reforms and short-term safety nets; and adjustment experience in low-income countries and their financing needs. It will also review action taken, or in hand, to follow up the suggestions made at today's meeting.