PRESS COMMUNIQUE

1. The Development Committee held its nineteenth meeting in Toronto, Canada, on September 5, 1982, under the chairmanship of H.E. Manuel Ulloa Elias, Prime Minister and Minister of Economy, Finance and Commerce of Peru. Mr. J. de Larosiere, Managing Director of the International Monetary Fund, Mr. A.W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a review of the world development situation and prospects by the World Development Report 1982 which constituted an important background document for its deliberations.

3. The Committee expressed its deep concern that the state of the world economy remained critical and that the development prospects for the international community had worsened over the past year. In the present unfavorable economic outlook, the developing countries are facing the serious challenge of reduced aid, continued weakness in commodity prices, deteriorating terms of trade, increasing protectionist tendencies, and concern over prospects for commercial borrowings in the context of the high interest rates and uncertainties in international financial markets. At the same time, the committee took note of the recent welcome trend toward lower interest rates. The growth rates of non-oil developing countries in 1981 and 1982 are the lowest in several decades and will be only about half the average growth rate of the 1970s, signifying an exceptional situation of decline in real per capita income for many developing countries. This disturbing situation calls for intensified adjustment efforts on the part of both developed and developing countries in order to restore the health
and vigor of the world economy. For the industrial countries, priorities would be the restoration of their own economic health and sustained growth, maintenance of a liberal environment for trade and capital flows and, continuing and hopefully increasing the flow of aid to the poorest developing countries. For the developing countries the priorities would include increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management, greater emphasis on agriculture and special attention to the poverty alleviation programs.

4. It was against this background that the Committee addressed itself primarily to the issue of transfer of real resources to the developing countries.

5. The Committee noted IDA's solid achievements since its establishment in 1960. IDA has become a very important and effective multilateral instrument for promoting development in low-income countries as is evident from the Bank/IDA staff study of IDA in Retrospect. The Committee noted that while substantial progress has been made, the poorest countries remain in desperate need of further assistance and IDA continues to merit full support of both traditional and new donors.

6. The Committee noted with satisfaction that in an effort to address the resource crisis presently faced by IDA, donors had acted to avoid the possibility of a precipitate decline in the annual volume of IDA's lending activity in FY83 and FY84. It welcomed the response of most donor countries to the call for release of the remainder of their IDA 6 contributions in full in 1983. In this regard, the Committee noted with satisfaction that since its last meeting in Helsinki in May this year, the seven major donors at their Summit Meeting in Versailles stressed the need for special temporary arrangements to overcome funding problems of IDA 6 and an early start to IDA 7. It welcomed the recent hopeful developments which indicated that 22 donor countries had agreed to release the remainder of their IDA 6 contributions in full. It urged the few remaining donors who had not yet done so to join others in taking similar action. In addition to meeting their IDA 6 obligations on the original three-year schedule without insisting on pro-rata contributions by all donors, most of them are prepared in principle to provide additional resources, amounting to up to one-third of their original IDA 6 contribution, for FY84, either through a Parallel Fund or through an Account of IDA to be established for FY84. The Committee noted the importance these donors placed on providing IDA with additional commitment authority in FY84. In view of the special action taken by other donors to maintain IDA's annual resource flows at levels not lower than what is required by the IDA program, it was hoped that the United States Congress would act to appropriate the third U.S. installment at the level requested by the Administration and ensure that its contribution under IDA 6 could be completed within four years.
7. The Committee welcomed the donors’ agreement to commence formal discussions on IDA 7 before the end of calendar year 1982 and encouraged donor governments if possible to complete negotiations by the Bank/Fund Annual Meetings in 1983 so that legislative approvals can be obtained in time for IDA 7 to become effective promptly. While recognizing the budgetary constraints of the industrialized countries the Committee strongly hoped that it would be possible to agree on a level of replenishment appropriate to the difficult situation facing the poorest countries and their expanding needs for concessional assistance.

8. In the area of non-concessional flows to the developing countries, the Committee noted with satisfaction that co-financing operations of the Bank from various sources have expanded considerably in recent years. In 1982 its co-financing operations amounted to $7.4 billion, of which $3.2 billion was from private sources compared to an annual average of about $200 million from private sources in the second half of the 1970s.

9. The World Bank is now exploring the possibilities of introducing new mechanisms to make co-financing a more effective vehicle to attract additional capital flows in the present difficult situation in the capital markets and to attract such capital on longer maturities. The Committee endorsed the efforts of the World Bank and the regional banks where appropriate to secure additional flows of resources to developing countries through co-financing from all sources on terms suitable for and acceptable to borrowing countries. These efforts should in no way alter the development character of the banks. The Committee emphasized that co-financing with private institutions should be regarded as a supplement to, and not as a substitute for, increased lending by the Bank and that instrumentalities for increased co-financing with private sources should be subject to continuing review. The Committee also urged the World Bank to continue its examination of various proposals and to report their decision to the Development Committee at its next meeting.

10. The Committee noted that the Executive Directors of the Bank have adopted changes in the Bank's borrowing practices and its lending rate policy. A lending program of $11.2 billion for FY83 has been agreed to by the Board. The Bank, while continuing to give priority to its traditional medium- and long-term borrowings, has now been authorized to make a cautious and carefully monitored start with borrowing up to $1.5 billion in short-term instruments in FY83 and to adopt a variable pool-based lending rate. This action would permit the Bank to exercise more flexibility in tapping a much larger pool of funds and would thus remove a constraint to the planned expansion of its lending program. The Committee endorsed the decision of the Executive Board that the new practice would be subject to a major review before the end of the current fiscal year. The Committee invited the Executive Board of IBRD and those of other multilateral development banks to continue their study of the scope for expansion, in real terms, of future lending to developing countries in the near term and thereafter.
11. The important subject of lending for energy development was discussed by the Committee at its Helsinki meeting. In the short time available it has not been possible to identify new approaches or financing mechanisms which attract broad support from those members expected to contribute the bulk of the capital. The Committee reiterated the importance of energy investment in developing countries, noted the limited resources for energy lending within the Bank and urged the Executive Directors to complete their consideration of matters referred to them at Helsinki and to report on them to the next meeting of the Committee.

12. In continuation of reports presented to the Committee at its earlier meetings, the Committee considered two separate reports prepared by the Bank and the Fund staffs reviewing actions taken by the two institutions in pursuing those measures to enhance the flow of resources to developing countries raised by the Group of Twenty-Four's Program of Immediate Action and the Brandt Commission Report which are within the area of their competence. The Committee noted that both the Bank and the Fund had already implemented some of the recommendations applicable to them and are continuing their consideration of other issues relevant to the Committee's work.

13. The Committee noted the problems of small island and land-locked states, and recognized the urgent need to review mechanisms and adjustment prescriptions appropriate to the particular circumstances of such states.

14. The Committee also considered and approved the Annual Report on the work undertaken by it during the period July 1981 to June 1982 and authorized its submission to the Boards of Governors.

15. The Committee expressed its great appreciation to the Government of Canada for its warm hospitality and for the excellent arrangements provided for the meeting.

16. The Committee agreed to hold its next meeting in Washington, D.C. on April 29, 1983.