May 8, 1990

PRESS COMMUNIQUE


2. In the context of its broad mandate for the transfer of resources to developing countries, the Committee focused its discussion on three topics: (a) the contribution of the private sector to development and the roles of the World Bank Group and the IMF; (b) the debt strategy and its impact on the development prospects for all severely indebted countries; and (c) the long-term perspective for development of Sub-Saharan Africa. The concept of a global environmental facility, trends in the transfers of resources, and current international trade developments were also considered.

3. The Committee welcomed the growing emphasis given by developing countries to the role of the private sector, including the promotion of domestic and foreign investment, in their development strategies. It underscored the importance of creating an enabling environment favorable to private sector activities through macroeconomic stability, structural adjustment, and appropriate price and investment policies. The need to adopt legislation and administrative practices compatible with sound private sector development was also stressed. The complementarity of the roles of efficient and well-managed private and public sectors in development was emphasized. The Committee noted that infrastructure and social services, including investments in human resources, are needed to

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1 Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. S.M.A. Adeli, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.
support private sector development and for economic growth in general. The Committee also noted that the confidence of private investors could be enhanced through the adoption by all countries of open markets and sectoral adjustment policies and a supportive financial environment. Recalling its earlier invitation to the Bank and the Fund to keep under review the impact of industrial countries’ trade, agricultural and industrial policies on developing countries, members requested a report on this topic for its spring 1991 meeting.

4. Members recognized that foreign direct investment is a valuable non-debt creating external resource for developing countries, and emphasized the need, particularly for severely indebted countries, to mobilize direct investment and repatriate flight capital. They also noted the role of such investment in transferring technology, improving managerial skills and facilitating market development. Members underscored the need for policies that would increase savings and could facilitate a greater flow of direct investment to developing countries. Such investment could best be attracted to developing countries through the adoption of sound macroeconomic and market-oriented policies.

5. The Committee urged the World Bank Group and the Fund to strengthen further their efforts to support private sector development. Members encouraged the Bank to give a very high priority to private sector development in its operations, to continue to expand the scope of its activities in this area, including new approaches and instruments as may be needed, as well as to assist developing countries’ efforts to implement long-term institutional, regulatory, and legal reforms, consistent with their socio-economic situation. Members therefore emphasized the importance of close coordination within the Bank Group so as to ensure that private sector considerations are better integrated in its operations while avoiding duplication. To help achieve this, the Committee requested the Bank to move expeditiously to implement its action plan for private sector development. Considering the importance of the contribution of the private sector to development, the Committee requested that this issue be reviewed at its fall 1990 meeting.

6. The Committee noted the increasingly important role that the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) can play in assisting private sector development in developing countries, including through their policy advisory roles. It emphasized the benefits that countries can derive from membership in the Agency. Given the rapidly growing needs for private sector assistance, members noted the need for IFC to have adequate means to fulfill its role in the years ahead. In this respect, the Committee encouraged the IFC’s Executive Board to continue its discussion on the adequacy of the capital of the Corporation, including modalities of subscription. Members requested that they be informed of progress on this issue at its fall 1990 meeting.
7. The Committee reaffirmed its support for the strengthened debt strategy as endorsed at its last meeting and welcomed the progress achieved so far. Members reiterated the need to maintain the case-by-case approach to commercial bank financing packages and underlined again the central importance of appropriate adjustment programs, including measures to encourage investment and the return of flight capital, as a basis for implementing the strategy. Members noted that the combination of growth-oriented adjustment programs and commercial bank financing arrangements which include debt and debt service reduction can help improve confidence in debtor country economies. They commended the Bank, the Fund and Japan for their early and substantial support for debt and debt service reduction packages negotiated by debtors and their creditor banks. The Committee called on the Bank and the Fund to continue to provide support for debt and debt service reduction programs, with the necessary flexibility, under their established guidelines, which they reaffirmed, and to keep the strengthened debt strategy under review. It also called on the Bank and the Fund to emphasize measures to promote investment and capital repatriation in country reform programs.

8. The Committee also recalled the concerns it had expressed at its last two meetings that the development needs of severely indebted lower middle-income countries whose debts are mainly to official creditors should be given special attention. Members noted that a return to external viability and sustained growth remained uncertain for a number of these countries. Members therefore asked the Bank and the Fund to continue to analyze the debt problems of these countries as well as those of severely indebted middle-income countries with significant official debt.

9. Members welcomed the various measures taken to alleviate the debt burden of the severely indebted low-income countries, in particular the concessional official debt reschedulings by the Paris Club, the cancellation of ODA debt of many low-income countries by an increasing number of creditor countries, the utilization of IDA refloes for the benefit of IDA-only countries with outstanding IBRD debt, and the activation by the Bank of its $100 million facility to assist eligible IDA-only countries to reduce their debt to commercial banks. Members noted that even with these arrangements a number of these countries have uncertain prospects for an early return to external viability. The Committee requested the Bank and the Fund to undertake an evaluation of the benefits of the debt relief and other measures taken so far in favor of the severely indebted low-income countries. In view of the low debt service capacity of these countries, members also considered that their new commitments of assistance to the severely indebted low-income countries should be provided on highly concessional terms.

10. Members agreed that it was also important to recognize the needs of a number of indebted countries which have not restructured their external debt obligations and which have been implementing sound macroeconomic policies. The Committee urged that efforts be made to maintain adequate
financial flows to these countries, including multilateral flows, to support adjustment, development and poverty reduction.

11. The Committee welcomed the World Bank's report "Sub-Saharan Africa: From Crisis to Sustained Growth". It emphasized the complementary roles of the Bank and the Fund in the long-term development process in Sub-Saharan Africa. The Committee endorsed the approach of the report's strategic agenda. It stressed that sustained growth and development required firm commitment and good governance on the part of the concerned African governments given their primary responsibility in the design and implementation of their development strategies. Members also agreed that there is a need for adequate, effective and well coordinated funding from donors and multilateral institutions, noting that large official development assistance flows to Sub-Saharan Africa would continue to be required in the 1990s. They expressed their support for the recommendation in the report that resources be channelled more selectively to countries implementing adjustment programs, thereby maximizing the effectiveness of external assistance. The Committee requested to be kept informed of the progress in respect of the long-term strategic agenda. In this respect it welcomed the Dutch Government's initiative to hold a conference on Sub-Saharan Africa next July in Maastricht.

12. Members recalled their earlier recommendation that the Special Program of Assistance to Africa (SPA) framework be extended beyond 1990. They welcomed the agreement in principle of donors for an extension of the Program and urged them to indicate their levels of adjustment assistance for 1991-93 at the SPA session scheduled for the fall of 1990. They also suggested that donors take that occasion to continue to consider steps to unite their commitments under the SPA and to further harmonize procurement and disbursement procedures.

13. The Committee reiterated the importance it attaches to environmental issues and noted the progress being made by the Bank on a number of issues such as the new Operational Directive on environmental assessment, the integration of environmental concerns into economic analysis and the growth in lending for freestanding environmental projects. It encouraged the Bank to continue its efforts to integrate better environmental considerations in its operations. The Committee noted that there would be a comprehensive review of Bank-related environmental issues in the Bank's 1990 Annual Report on Environment in accordance with the request made by the Committee at the September 1988 Berlin meeting. It stressed that this report should be comprehensive in its coverage of the progress made by the Bank, particularly in respect of Bank-related environmental issues discussed by the Committee at its recent meetings, including environmental assessments, Bank environmental action plans, energy efficiency and conservation, forestry protection, and debt for nature swaps.

14. Members considered a report prepared by the World Bank on funding global environmental protection and generally agreed that the Bank should play an important role in this area. Members agreed that further work
was necessary to develop methods for the Bank to assist developing countries to take actions which contribute to the reduction of global environmental problems. Members agreed that efforts should continue to develop proposals for a pilot mechanism for this purpose, taking into account the Bank's existing programs. They also urged the Bank to take steps to reinforce and expand its existing environmental programs and thus assist developing countries to contribute to the achievement of the same objective according to their priorities. The Bank was urged to proceed with this work expeditiously in consultation with interested parties and close collaboration with UNEP and UNDP. Members underlined the need for sufficient flexibility to attract as wide support as possible.

15. The Committee expressed its appreciation for the successful conclusion of the negotiations for the Ninth Replenishment of IDA and called on all member governments to act swiftly to ensure that IDA-9 begins on July 1, 1990. Members also welcomed the signing of the Lomé IV Convention. In spite of these positive developments and a modest increase in official development finance, members noted with concern the impact of the recent rise in interest rates on the cost of debt servicing and the significant decline in aggregate net flows to the severely indebted middle-income countries in 1999, reflecting a sharp drop in private flows. They noted the implications of this trend on domestic investment in these countries at a time when many of them were struggling with severe poverty problems. The Committee called on donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts to increase the transfer of resources to developing countries. The Committee welcomed the recent Policy Statement on Development Cooperation in the 1990s by OECD countries, including their commitment to work for a greater degree of coherence in their policies with regard to their impact on developing countries.

16. The Committee welcomed the understandings reached by the Interim Committee on the Ninth General Review of Quotas that will allow the Fund to continue playing its role at the center of the international monetary system.

17. The Committee welcomed the decision to create the European Bank for Reconstruction and Development (EBRD) aimed at assisting economic and political reforms and the transition to market economies in Central and Eastern Europe. It called on the Bank Group and the Fund to work with the EBRD in fulfilling these objectives. Members emphasized that financial support for reforms in Eastern Europe calls for adequate resources so that the requirements of this region can be met while also allowing increased financial flows on appropriate terms to developing countries.

18. The Committee also noted that among countries facing payment difficulties, there are some with overdues to the World Bank and regional development banks. Since it is in the interest of all borrowers and shareholders to have overdues handled in a way which continues to allow
these institutions to keep the costs of borrowed funds to the lowest level possible, the Committee asked the World Bank, in consultation with the regional development banks, to review the current policies and procedures for handling overdues and to present a report to the Development Committee at its next meeting. The Committee recognized that there are other broader issues of coordination which needed to be considered.

19. The Committee heard from the Deputy Director General of GATT that the multilateral trade negotiations under the Uruguay Round were in their final crucial phase and that, while much progress had been achieved, a number of key agricultural, industrial and other issues remained unresolved. Members called on both developed and developing countries to reach an early agreement on these issues and to agree on a strengthened multilateral trading system based on predictable and uniform rules to promote trade liberalization by all countries. They stressed that a successful conclusion of the negotiations was essential to prevent the drift toward protectionism. Members also emphasized that an improvement in market access and greater participation by developing countries in GATT benefits were essential and in many cases more important than official development assistance flows or debt relief in facilitating the adjustment and growth efforts of developing countries. The Committee reiterated its call on the Bank and the Fund to keep under study, in close consultation with the GATT, the implications of regional trading arrangements for developing countries economic prospects for consideration at a future meeting.

20. In view of its previous commitment to review periodically progress in addressing poverty issues, the Committee agreed to discuss at its next meeting strategies for the effective reduction of poverty in the 1990s in the light of an issues paper based on the Bank's forthcoming World Development Report on poverty and on a contribution from the Fund. Given continuing major indebtedness problems, members agreed to continue at their September meeting their review of the debt strategy and its impact on the development prospects of all severely indebted countries with the assistance of documentation prepared by the Bank and the Fund. The Committee also reaffirmed its undertaking to give full consideration in September to the economic role of women in development and requested the Bank to prepare a paper on this subject. Emphasizing the importance it attaches to environmental issues, the Committee will consider these further at its next meeting.