0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee

Meeting 90/3

12:20 p.m., April 6, 1990

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. Raza, Temporary
	C. Enoch
	D. Powell, Temporary
	Zhang Z.
	C. S. Warner
	J. Prader
	L. B. Monyake
	M. J. Shaffrey, Temporary
	P. O. Montórfano, Temporary
	A. Napky, Temporary
	N. Kyriazidis
	A. M. Othman
	I. H. Thorláksson
M. R. Ghasimi	
	B. Goos
J. E. Ismael	
	J. R. N. Almeida, Temporary
	J.-F. Cirelli
Mawakani Samba	
	M. Al-Jasser
	G. P. J. Hogeweg
	S. Yoshikuni

J. W. Lang, Jr., Acting Secretary
M. J. Primorac, Assistant

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Also Present

Development Committee: Y. L. Fortin, Executive Secretary; T. Kivanc. IBRD: S. Burmester, Deputy Secretary; J. Underwood, Strategic Planning and Review Department. African Department: M. Touré, Counsellor and Director. Exchange and Trade Relations Department: T. Leddy, Deputy Director; J. T. Boorman, Deputy Director; P. D. Brenner, J. J. Clark, M. Fisher, H. Hino, G. R. Kincaid, J. Landell-Mills, K. M. Meesook, C. Puckahtikom, B. C. Stuart, C. M. Watson. Legal Department: W. E. Holder, Deputy General Counsel. Research Department: R. D. Haas, M. S. Khan. Advisors to Executive Directors: J. M. Jones, K.-H. Kleine, D. Powell, S. P. Shrestha. Assistants to Executive Directors: M. A. Hammoudi, M. E. Hansen, J. Heywood, K. Ichikawa, J. K. Orleans-Lindsay, D. Saha.

1. DRAFT PROVISIONAL AGENDA; AND REVIEW OF PAPERS FOR SPRING 1990 MEETING

The Executive Board, meeting as the Committee of the Whole for the Development Committee, considered the draft provisional agenda for the May 8, 1990 meeting of the Development Committee (EB/CW/DC/90/1, 3/15/90) and the background papers for that meeting: on the contribution of the private sector to development and the roles of the Bank group and the Fund (EB/CW/DC/90/2, 3/15/90); on the long-term perspective for the development of sub-Saharan Africa (EB/CW/DC/90/3, 3/15/90); and on the debt strategy and its impact on development prospects for all severely indebted countries (EB/CW/DC/90/4, 3/16/90).

The Executive Secretary of the Development Committee noted that the tentative draft provisional agenda had already been reviewed by the Committee of the Whole of the Fund Board on January 17, and by the Committee of the Whole of the Bank on December 1. In response to the comments made by Executive Directors, two minor amendments had been made to the draft agenda. In item 1 of the agenda, on the contribution of the private sector to development, the phrase "including the roles of the Bank Group and the Fund" had been changed to "and the roles of the Bank Group and the Fund," in order to reflect the importance attached by many of the Directors to the discussion of the role of the institutions in promoting the private sector. The second minor amendment to the tentative agenda was the inclusion of footnote 3 to item 4(a), on environmental issues, which drew attention to the fact that that item would also cover the request of the Development Committee made in September 1990 for the World Bank to prepare a study of the mechanisms and financial requirements that might be needed to address the environmental challenges of the developing world. In that connection, the Bank had issued a report on the March 15-16 Paris meeting of donors, at which the possibility of establishing a global environmental facility had been discussed.

Committee members would recall their discussion of the outlines of the background papers on January 17 (CW/DC/Mtgs. 90/1 and 90/2), the Executive Secretary continued. A number of valuable comments had been made at that time, and it might be helpful if Directors took those into account in making their interventions at the current meeting. Like their colleagues in the Bank, Executive Directors of the Fund had also agreed that the Development Committee papers should in the future be shorter and analytical and somewhat more issue oriented. The papers currently before the Board had moved in that direction. The papers would be revised as necessary in the light of the comments made by Directors at the current meeting as well as those made by the Bank Executive Directors at their meeting.

The staff representative from the Exchange and Trade Relations Department indicated that the background paper on debt would be revised to reflect the recent extension by the Paris Club of rescheduling on Toronto terms to Bolivia.

Mr. Al-Jasser made the following statement:

I will not repeat the comments that I made during our preliminary discussion of the draft provisional agenda in January 1990, but rather, will take this opportunity to appraise the collaborative effort expended in preparing these papers.

I particularly look forward to the forthcoming discussion by the Development Committee of the paper on the contributions of the private sector to development and the roles of the Bank Group and the Fund (EB/CW/DC/90/2, 3/15/90). This discussion should be the first step in elaborating an integrated approach to promoting the development of the private sector, especially, but not exclusively, in the developing countries. The role of Schumpeterian entrepreneurial innovation, is needed now more than ever before, if economic growth and prosperity are to be restored.

The paper on the contribution of the private sector to development is an excellent one, especially in its coverage of the most important elements of the "enabling environment." The web of relationships between the various elements and subelements are well highlighted. Of special significance to fostering that enabling environment is understanding and appreciating the interdependence between the macroeconomic, structural, institutional, and financial spheres of the economy. Moreover, articulating these interdependencies in a consistent, implementable policy framework is also essential. The paper is also most helpful in bringing together the most relevant considerations in these processes of understanding, articulation, and implementation.

Since I concur with the thrust of the paper's analysis and recommendations, I will restrict my comments to a few issues that I feel are deserving of special attention.

It cannot be overemphasized that stability, economic and political, is the most significant factor in generating confidence and reducing risk, and hence promoting private sector development. In situations of increasing instability, private investment is the first to suffer and the last to recover. It is instability that makes public sector activity a substitute rather than a complement to private sector activity. Moreover, the resulting costs and distortions have proven to be a potent recipe for underdevelopment. The Fund's and the Bank's advice should always emphasize the critical role of stability in attaining growth and development.

I note with satisfaction that the leveraging of the Bank Group's resources for private investment has improved considerably in the recent past. However, I have the feeling that the currently more conducive environment for private investment in most of the developing countries calls for a greater transfer of private resources with the help of the Bank Group. I believe that the International Finance Corporation (IFC) has attained a level of expertise, as well as an internationally respected status that, with the support of the Multilateral Investment Guarantee Agency (MIGA), should be able to increase the institution's involvement in promoting joint ventures and private investments. By harnessing its technical expertise in this area, the IFC can play the critical role of catalyst, not only in mobilizing the private financing required, but just as significantly, in identifying projects that utilize the comparative advantage of the concerned country.

What is needed is probably a major international initiative to develop a private investment profile based on a careful study of the comparative advantage of countries. Here, the technical expertise of the IFC and MIGA is most invaluable. This profile should act as a blueprint, with a list of projects that domestic and international private sectors should find attractive as well as feasible. The Bank Group can play its appropriate catalytic role to see that these projects materialize. Such an initiative could prove to be an important vehicle in promoting private sector development, and consequently economic growth and development in general.

My last point concerns an issue that is conspicuous by its absence from the paper's discussion of the enabling environment. The external environment has a critical role to play in encouraging a policy of export-oriented private investment or, alternatively, a policy of inward-looking import substitution. A recent study by the World Bank showed that textile-exporting developing countries lose about $8 billion annually, and industrial countries' consumers lose billions annually in higher prices, owing to restrictions imposed by industrial countries on textile trade. This is one example where trade in goods, in which developing countries have a comparative advantage, is restricted. Such barriers can only frustrate the development of the private sector in the developing world. Another example is trade in petrochemical products. Here also, oil producers have a clear comparative advantage in producing these products very economically, and yet some industrial countries find excuses to restrict their flow. Similar arguments can be made about trade in agricultural and processed primary products.

My point is that we cannot expect weak or nascent private sectors in the developing world to grow stronger if a myriad of obstacles to their exports is created by more able and richer countries. The benefits of economies of scale and specialization cannot be realized by private sectors in the developing world if they are deprived of the opportunity to capitalize on their comparative advantages. Therefore, it is incumbent upon all international organizations, especially the Fund, the Bank Group, and the GATT, to ensure that the efforts of developing countries to help themselves through production for export are not frustrated by narrow interests. We all have to be cognizant of the fact that interdependence is a two-way street, lest destructive protectionism take hold to the detriment of us all. Personally, I believe that this approach is the best way to effect the integration of the developing economies into the world economy in the 1990s.

I do not have anything to add to the papers on the debt strategy and on the long-term perspective for the development of sub-Saharan Africa except to emphasize the role of opening up markets for the exports of these countries. This is the surest way, and I might add the least expensive, to help these countries to help themselves. Moreover, helping these countries to develop their private sector activities can go a long way in enhancing their chances for growth, medium-term viability, and long-term development.

Mr. Goos asked whether Directors were expected to make policy statements on the papers before them. As he understood it, the intention was to discuss the presentation of the papers, their formats, and the appropriateness of the issues that were being put forward for discussion by the Development Committee.

The Acting Chairman said that as he saw it, the purpose of the meeting was to review the broad content of the papers. After incorporating the comments of Directors, the papers would be forwarded to the members of the Development Committee to lay the groundwork for its discussion.

Mr. Al-Jasser remarked that it seemed appropriate for Directors also to make comments on the content of the papers, which were still being revised. For example, he hoped that some of the points that were not included in the papers as they stood would in some way be addressed by, or at least brought to the attention of, the Development Committee. Directors had previously discussed the outline of the papers, and it was now only appropriate to discuss their content.

The Executive Secretary said that he had hoped to obtain comments from Executive Directors on the adequacy of the papers in terms of whether the right issues were raised, and whether they were raised in the right manner, for example. He understood the point of Mr. Al Jasser that the current meeting might also provide an opportunity to comment on some of the issues from the policy point of view. However, procedurally speaking, the next step was for the Committee Secretariat to revise the papers in light of the comments presented by Directors.

The staff representative from the Exchange and Trade Relations Department said that the staff intended to listen to the views and concerns expressed by Directors at the current meeting; hold discussions with Bank colleagues; revise the background papers as appropriate; and then send the papers back to management for finalization, after which they would be circulated to Executive Directors for information.

Mr. Mawakani noted that the paper on the long-term perspective for development of sub-Saharan Africa in fact contained two papers--one each from the Bank and the Fund. He would have preferred to have one paper issued by the two institutions. As it was, the two sections did not complement each other. The Fund's section only discussed the use of the structural and enhanced structural adjustment facilities, while the Bank's paper simply summarized the major report that the World Bank had recently distributed to member countries (<u>Sub-Saharan Africa: From Crisis to Sustainable Growth (A Long-Term Perspective Study</u>)). A presentation of what the two institutions were currently doing did not constitute a review of the long-term prospects for the region.

Mr. Monyake agreed that the paper on sub-Saharan Africa should have been prepared jointly by the two staffs. Any programs that were established through the Bank or the Fund had to complement each other. The paper should not only describe ongoing programs, but should also draw on the experience gained over the period that those programs had been in effect and look to the future.

Mr. Ghasimi made the following statement:

> We have no objection to the proposed draft agenda, which conforms with the wishes of our Ministers as expressed at previous meetings. With regard to the reports listed under item 4, we reiterate the importance that we attach to the issue of international trade developments and to the need for keeping this subject continuously under review by the Development Committee.
>
> Turning to the three papers prepared by the staff of the World Bank and the Fund, we find their format and presentation very useful and appealing. They obviously manifest an effort on the part of the staff to follow the desire expressed by the two Boards. Indeed, the papers are relatively short and well focused, and the section on the issues for discussion is a feature that our Ministers will certainly appreciate. We therefore commend the staff of the two institutions for their fruitful efforts and

encourage them to persevere in the same manner. We would also urge them to try to go further in their collaboration and preparation of joint papers for the Development Committee, and regret that this was not feasible in the case of the paper on the long-term perspective for development of sub-Saharan Africa. Any clarification by the Executive Secretary or by the staff in this respect would be helpful.

We can broadly endorse the conclusions of these papers, which draw heavily from the experience of the two institutions. However, we have some brief comments.

First, on the paper on the contribution of the private sector to development and the roles of the Bank group and Fund, although we definitely recognize the importance of the private sector initiatives in developing countries, we believe that policies to enhance the role of private sector should not neglect the socio-political and economic conditions in these countries. In addition, while it could be the case that comprehensive and rapid reform of the private sector is desirable in some countries, in others a gradual approach might be much more appropriate.

Again, and without any hesitation, we concur with the idea that the private sector is, generally speaking, a very important vehicle to promote economic development. However, realities or limitations in some countries sometimes make it difficult to rely solely on the mechanisms described in the paper--for example, confining state intervention to infrastructure and social activities and promotion of the private sector initiatives in the rest of the economy, particularly at the initial stage of economic development.

Experience shows that providing the necessary incentives to the private sector within the framework of appropriate macroeconomic policies and structural changes has not always produced the desired outcome, owing to domestic as well as external factors. With respect to domestic variables, the paper lists some limiting factors such as absence of efficient financial markets, existence of rules and regulations inhibiting private initiative, lack of technological know-how and financial capabilities, and preference for family-type corporations. It should, however, be recognized that developing countries are also confronted with external competition from the private sector in industrial countries, which is facilitated by efficient functioning of financial markets, absence of restrictions on capital movements, better infrastructure and communications, and on the whole, better opportunities.

Another remark relates to the lack of sufficient attention in the paper to the importance of increasing public sector efficiency in developing countries. This chair has previously drawn the staff's attention to the need to address the issue of reforming existing public sectors. In the absence of an immediate capacity of the private sector to flourish, would it not be much more appropriate to reform the existing public enterprises and to enhance their efficiency?

Turning now to the paper on the debt strategy and its impact on development projects for all severely indebted countries, I will be very brief since the Board will be discussing this issue very shortly. Generally, I agree with most of the paper's conclusions, and only wish to comment on the reasons for the small number of agreements under the new enhanced debt strategy. One cannot help but get the impression that the paper puts most of the blame on the countries that "have not yet adopted sufficiently strong adjustment programs." However, experience shows that those countries that have reached agreement with commercial banks have had to wait for a long time after adopting very strong adjustment programs and even at the end have had to settle for much less satisfactory compromises than initially anticipated.

On the other hand, we are pleased to note that the paper puts some emphasis on the case of a number of severely indebted, middle-income countries that are mainly indebted to official creditors, to which this chair has constantly drawn the attention of the Board. We certainly agree with the recommendation to tailor the magnitude of concessionality in rescheduling agreements to the country's circumstances. However, we feel that this approach will not provide a lasting solution to the problem. In our view, the appropriate solution would be a clear-cut debt and debt-service reduction initiative to be offered by official creditors to these countries as is now recognized in some circles in industrial countries.

Finally, on the paper on the long-term perspective for the development of sub-Saharan Africa, it is quite clear that the problems of this continent are of such complexity that no given set of solutions is the right answer. The formulation and implementation of reforms and policies in sub-Saharan Africa should take into account the realities of the continent and, more important, the timing of such reforms should be realistic if they are to succeed. What seems to be clear is that the international environment has not been conducive to many countries in sub-Saharan Africa that have witnessed over the past decade negative growth rates and declines in per capita income. In such a situation, generous external resources and additional concessionality in debt relief are definitely indispensable.

Mr. Cirelli made the following statement:

I can go along with the proposed agenda and with the background paper on the contribution of the private sector to development. I will concentrate my comments only on the issues that are sources of concern for my authorities.

Regarding the paper on debt strategy, while this chair generally concurs with the analysis and diagnosis of the background paper, we have more problems with some of the concluding remarks and issues for discussion on official debt.

We strongly feel that the Fund's debt strategy and that on official debt for both middle and low-income countries is working and is appropriate. For middle-income countries, this strategy is based on bringing in important amounts of new money, through both export credits and official development assistance (ODA), following the extensive rescheduling of countries' public debt. This seems all the more appropriate since private new money has fallen short of our expectations. In this regard, we certainly do not consider it a good idea to put forward, as is done in the issues for discussion, the question of concessional rescheduling for middle-income countries: in the present fiscal context, this could destabilize the flows of ODA and export credits going to these countries, thus further aggravating their cash flow difficulties. Furthermore, it seems that strong and successful adjustment programs will enable most of them to meet their debt obligations in the future. To the extent that some debt overhang appears unsustainable, it has been dealt with--as in the case of Poland and Côte d'Ivoire--by granting rescheduling of exceptionally long maturity. I also have great difficulty with the idea of official debt reduction for middle-income countries as put forward as the fourth issue for discussion.

As for the low-income countries, I would like to make three remarks. First, treatment on the Toronto terms has been extended to a country outside Africa, namely, Bolivia, and the question raised under the fourth issue is thus no longer relevant. Furthermore, it would be misleading to give the impression that some regional limits have been assigned to Toronto treatment, which, of course, is not true. Second, the impact of the Toronto terms has to be assessed together with the cancellation of ODA debt by some creditor countries, including mine, in favor, in particular, of sub-Saharan African countries. For France alone, this means that the stock of existing debt has been reduced by F 27 billion, or nearly $5 billion. It is our assessment that this will bring about a dramatic improvement in the debt situation of those countries, especially if, as we expect, the adjustment programs currently implemented are successful. Third, even considered by itself, the Toronto initiative represents a major effort on the part of the international community; up to now, 16 countries have benefited from these reschedulings for a total amount of $3.6 billion. Three countries have already undergone two successful reschedulings under Toronto terms.

I therefore do not see how it can be stated, under the third issue for discussion, that Toronto terms will not be sufficient and that the situation require additional concessionality. Nothing in the report documents such an assertion.

On the whole, I think that the questions raised on these specific issues are somehow biased and not properly timed. Nothing, certainly, lasts for ever and our present official debt strategy will, no doubt, evolve in the future. But it is neither the right time nor, should I say, the right place, for raising such issues and it could prove somehow counterproductive. In our view, the issues and concluding remarks should be formulated in a new positive manner so as not to send the wrong signal to our ministers.

Given the comments made by Mr. Mawakani and Mr. Monyake, I will only make two remarks on the long-term prospects for development of sub-Saharan Africa. First, like Mr. Mawakani, we note that we have been provided with two separate reports on this subject. We would like to know what were the reasons for adopting this approach. As far as we are concerned, it would be perfectly logical to integrate the two into a single report. Second, regional integration and coordination could be a useful way to accelerate the long-term economic recovery in order to set up a stable macroeconomic and sustainable environment. We are pleased with the emphasis that has been given in the report to regional vocational initiatives. The customs and monetary zones in Africa undeniably represent signs of progress that deserve further encouragement.

The Committee members agreed to continue their review of the papers for the spring meeting in the afternoon.

APPROVED: February 11, 1991