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INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee  
Meeting 91/3

3:00 p.m., September 9, 1991

M. Camdessus, Chairman

Executive Directors

Alternate Executive Directors

M. Al-Jasser

L. E. N. Fernando  
Chen M., Temporary  
J. Jamnik, Temporary  
M. E. Hansen, Temporary

J. de Groote

E. A. Evans

N. Kyriazidis  
A. F. Mohammed

M. Fogelholm

I. Fridriksson  
S. Shimizu, Temporary  
B. Esdar

J. E. Ismael

J. C. Jaramillo  
P. de Fontaine Vive, Temporary  
O. Kabbaj  
S. Rouai, Temporary  
L. J. Mwananshiku

D. Peretz

G. A. Posthumus

Z. Trbojevic  
Y.-M. T. Koissy  
M. Galán, Temporary  
L. J. Morelli, Temporary

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

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Also Present

Development Committee: P. Mountfield, Executive Secretary; IBRD:  
R. L. Ayres, Policy, Research and External Affairs. Exchange and Trade  
Relations Department: T. Leddy, Deputy Director; R. M. Brooks, A. Chopra,  
M. Edo, M. G. Kuhn, K. M. Meesook, C. Puckahtikom, E. van der Mensbrugghe.  
Legal Department: R. H. Munzberg, Deputy General Counsel. Research  
Department: M. Mussa, Economic Counsellor and Director. Secretary's  
Department: A. Tahari. Personal Assistant to the Managing Director:  
B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed,  
M. B. Chatah, C. D. Cuong, A. M. Tanase, S. von Stenglin. Assistants to  
Executive Directors: A. Espenilla, F. Moss, M. Mrakovcic.

1. REVIEW OF PAPERS FOR FALL 1991 MEETING

The Executive Directors considered background papers for the October 14, 1991 meeting of the Development Committee on human resource development in developing countries (EB/CW/DC/91/10, 8/13/91) and development priorities for the 1990s and implications for the World Bank Group (EB/CW/DC/91/11, 8/13/91), as well as progress reports on implementation of the debt strategy and its impact on the development prospects of all severely indebted countries (EB/CW/DC/91/9, 8/9/91), the implementation of the Bank's operational strategy with respect to women in development (EB/CW/DC/91/12, 8/14/91), and private sector development (EB/CW/DC/91/13, 8/14/91).

The Executive Secretary stated that the current meeting was the second opportunity that Executive Directors had had to look at the papers prepared for the meeting in Bangkok of the Development Committee. Directors had had a previous chance to do so when the outlines for the papers were discussed on July 1, 1991--his very first day in office. He understood that the purpose of the meeting was to concentrate not so much on the papers themselves or their merits, but rather to judge whether they formed an adequate basis for the Ministers' discussion. It was in that spirit that he had spoken with the Chairman of the Development Committee, Mr. Alejandro Foxley, in Santiago, Chile, the previous week. Chairman Foxley had made several observations.

The Development Committee Chairman hoped that Ministers would concentrate on the two main items on the agenda, namely, the papers on development priorities and on human resource development, the Executive Secretary continued. Following suggestions that several Executive Directors had made at previous discussions, the progress reports should be regarded primarily as items to be noted, but not requiring substantive discussion. Of course, that was not to rule out a discussion if a particular Minister so wished it, but the Chairman would suggest to Ministers in his letter to them that they concentrate on the two main papers.

The Chairman had found the papers generally satisfactory, the Executive Secretary reported. In the paper on human resource development, however, he wished that more information could be provided on the actual implementation of the policy in the past year or so, both by the Bank and by other donors and lenders. In the paper on development priorities for the 1990s, the Chairman had thought that it might be helpful to have details of the way World Bank lending between the various main sectoral areas had evolved over the preceding few years, and how the Bank saw it evolving in the succeeding few years. He had agreed with the staff that some summary statistics in that regard should be included in the draft.

While the Chairman recognized that the progress report on debt, as a progress report, was inevitably retrospective, he believed that it would be useful to include an assessment of the prospects for the future and about alternative financing mechanisms for countries emerging from the debt problem, the Executive Secretary noted. Of course, the Chairman recognized that such a concern was very much a Chilean preoccupation that might be of interest only to a minority of Development Committee members.

Continuing, the Executive Secretary remarked that the Chairman had been pleased with the paper on women in development. The paper on private sector development, while good, should perhaps have focused a bit more on developing new types of instruments for lending to the private sector. The Chairman had mentioned that theme before, in his initial statement to the Committee at its last meeting.

Because of the time constraints, the Chairman's intention was to convene a single morning session of the Committee and an extended lunch session, to which he hoped that as many Ministers as possible--rather than alternates--would come, the Executive Secretary went on. The Chairman believed that it would be more useful if Ministers themselves could attend that meeting and speak informally and off the record in a way that might be difficult to do in the plenary sessions. The primary focus of the luncheon debate would be on trade questions, and Mr. Arthur Dunkel, Director-General of the GATT, would be invited for that reason. However, he also hoped that development priorities would be discussed, as well as any remaining outstanding points on the Committee's communiqué.

He had discussed briefly with Directors the work program of the Development Committee, the Executive Secretary concluded. The Chairman's preference would be to consider trade and environment questions at the spring meeting in 1992, together with the outstanding progress reports--on the legal framework for inward investment, on debt, on the transfer of resources, and on poverty. As to future meetings, he was keeping his options open at present and would want to hear what Ministers had to say during the Bangkok meeting.

Mr. Al-Jasser made the following statement:

I am in general agreement with the thrust of the documents prepared for the Development Committee meeting.

The dual economic development objectives of economic growth and reducing poverty are worthy ones. Furthermore, linking economic growth and welfare to human resource development and infrastructure in the context of sound macroeconomic policies is the appropriate direction for development strategy to follow in the future.

The staff papers claim that we face an increasing degree of complexity in the formulation of strategies and synergies to attain economic development objectives. Therefore, it is crucial that the Fund and the Bank continue to assist the developing countries to devise and implement development policies, to design efficient institutions, and to mobilize external financial support.

Although increasing domestic savings in developing countries is a basic policy, there is a role for global mobilization and transfer of savings to these countries. Clearly, this will not be uncomplicated in a decade that promises to witness increasing demands on the shrinking pie of industrial countries' development assistance. Furthermore, the problems of international banking suggest that private lending to developing countries is not likely to rise considerably. Accordingly, trade and direct foreign investment will be the major vehicles for the transfer of resources to developing countries. In this context, it is imperative that industrial countries take the economic policy actions that are indispensable to enhancing the generation of global savings. In particular, they need to implement the appropriate economic policy mix to deliver economic growth near the potential level.

Here, the industrial policies of the industrial nations are of vital importance, especially in the area of international trade. A satisfactory conclusion of the Uruguay Round should enhance the effectiveness of the multilateral trading system and promote global welfare. The antithesis of this is the evolution of noncooperative trade blocs that could have detrimental welfare effects on industrial as well as developing countries. Clearly, an open multilateral trading system continues to be the most viable route toward an efficient transfer of resources between the developed and developing countries.

Regarding human resource development, it is clear that the quality of human resources is a fundamental determinant of economic growth and welfare. Moreover, the data show that it was underemphasized in the past. Accordingly, more resources will have to be devoted to education, health, and nutrition to foster a larger contribution by human resource development to future economic development. Moreover, this should enable society to harvest the yield of economic externalities arising from education and training.

During our discussion of the world economic outlook last September (EBM/90/134 and EBM/90/135, 9/5/90), I raised the issue of assisting in closing the gap in the current accounts of surplus and deficit industrial countries through the transfer of resources from the surplus countries to the developing world through direct foreign investment. I said that

In my view, an alternative approach merits consideration, whereby surplus countries with high capacity utilization strive to transfer resources to developing countries to boost their economic activity. This would not only increase growth in the developing world, but also would allow developing countries to absorb exports from deficit industrial countries. Therefore, it improves global welfare to resolve the problem of external imbalances by reintegrating the developing world into the international system as equal partners, since that would put in motion a virtuous cycle of global noninflationary growth. It goes without saying that this should not minimize the importance of a complementary reduction in fiscal deficits among industrial countries.

Such an alternative approach will facilitate the flow of nondebt creating capital through direct foreign investment and through a drastic reduction in international trade barriers. Clearly, this could become a most promising approach for reintegrating the developing world into the international economic system.

It would be worthwhile if the Development Committee, with the help of the staffs of the Fund and the World Bank Group, could investigate the possibility of developing such a strategy.

Mr. Jamnik made the following statement:

This chair joins others in welcoming the new Executive Secretary. We see a common thread in all of these papers, that is: the key to improved medium-term prospects is in the hands of the individual countries, and in their ability and determination to undertake and sustain economic reforms. We agree entirely with this emphasis.

An overview of these papers suggests that, while there may well be an emerging consensus on the development priorities and approaches, the availability of financial resources to address

these objectives may prove problematic. Increased demands for external finance by the developing countries will compete with new claims on diminishing global savings. Even prospects for increased development assistance have to be qualified by the need for many donor countries to address their own fiscal imbalances.

Despite progress in the implementation of the debt strategy, which should serve to lessen the burden on many indebted countries, it is clear that only those countries that develop and sustain comprehensive adjustment policies, including private sector development, can hope to attract needed inflows. Given constraints on foreign capital flows, it will be important that these resources are used efficiently. This fact points to the need for greater attention to human resource development and greater recognition of women's role in society.

I would like to confine my specific remarks to the joint paper on implementation of the debt strategy. We were struck by the observation that the grant element in Toronto terms reschedulings amounted to only about 20 percent. Furthermore, we were surprised and disappointed to see that net cash flow savings during consolidation periods under all Toronto terms reschedulings amounted to less than \$115 million. These facts underscore both the need to reach early agreement on a significant enhancement of Toronto terms and the need to proceed on phased debt-stock reduction, conditional on performance. This chair urges all Paris Club creditors to move decisively on this issue.

We fully support the staff's conclusion that deeper concessions in reschedulings for low-income countries can make an important contribution to restoring external viability and improving growth prospects for a number of countries.

Given the importance which we attach to speedy resolution of outstanding issues relating to the enhancement of Toronto terms, we thought that even greater emphasis should have been given to the need for more far-reaching debt relief for eligible countries, particularly in the introduction to the paper. Indeed, we are of the view that the paper should serve to direct Ministers' attention to the fact that they will need to forge a consensus on this issue.

We broadly share the paper's conclusions regarding lower middle-income countries. We agree that for some of these countries, creditors will soon have to determine how best to provide concessional support to strong adjustment programs through new money and/or debt restructuring. In this regard, a few

middle-income countries have already provided convincing evidence that the combination of good policies and the lowering of debt-service burdens does yield positive results.

Finally, we welcome the inclusion of a review of those countries which have avoided recourse to debt reschedulings. The analysis of those cases reinforces our view that it is incumbent on all of us to encourage these countries to remain in the virtuous circle of sound economic policies and access to voluntary external financing. The paper rightly points out that the costs of lapsing into the vicious circle of poor performance, rescheduling, and loss of access to international capital markets is high and very lasting.

Mr. de Fontaine Vive made the following statement:

I will only make some brief comments on the first three reports on the agenda. The progress reports on private sector development and women in development seem to be intended only for the information of the Committee of the Whole. They will certainly be subject to long discussions in the World Bank's Board, particularly the one on private sector development, which is a sensitive and controversial issue.

I have to compliment the staff for the quality of its work on the three reports on the Development Committee's agenda. These papers are well written and short enough to handle the issues in a convenient manner. The caliber of the work is certainly attributable in part to the fruitful cooperation between the Fund and the Bank.

This point is specifically dealt with in paragraph 42 in the paper on development priorities for the 1990s and implications for the World Bank Group. The close coordination between the two institutions seems to be mutually beneficial, and the examples in the recent past provided by the report demonstrate it, if that is necessary. This attitude needs to be pursued and could even be expanded to stimulate global resource mobilization for development.

I particularly welcome the coverage, analysis, and conclusions of the paper on human resource development in developing countries. It appears to be especially relevant for the Development Committee to address the issues related to human resource development. Following the 1990 World Development Report on Poverty, it was necessary to translate into actions the



analysis undertaken and summarized in this paper. I understand that the Ministers will have the opportunity to place this priority at the forefront, which the Bank will translate into operational directives before the end of the year.

The last two paragraphs of the paper on human resource development provide a modest but well-oriented summary of the Fund's actions in this regard. I would like specifically to support strongly the idea that "in the period ahead, the Fund will also concern itself with the extent to which unproductive public spending can be reallocated towards increased development expenditures, including human resources."

Concerning the debt paper, the comprehensive review of the latest developments also deserves to be praised for its quality. As the Board will review the debt strategy quite soon, I will limit myself to only a few remarks.

I welcome the reassertion of the three underlying tenets of the strategy, which is needed to emphasize the importance of the strong conditionality that is necessarily a part of any financial aid.

Debt cancellations for low-income countries have now reached the amount of \$6.9 billion, of which \$3.7 billion was forgiven by the French authorities. Such an effort should be noted, and the effect should be analyzed country by country.

I hope that the Paris Club might reach a consensus quite soon on the proposed improvements in the Toronto terms. The Paris Club must also be concerned to pursue its work on improving the conditions for debt restructuring for lower middle-income countries. There should be no administrative limits preventing a coherent solution for countries either above or below them.

If commercial debt is a small proportion of the debt of low-income countries, my authorities would certainly wish that the \$100 million set-aside within IDA be used as quickly as possible. The first agreement under that facility--for Niger, and supported by France in particular--should be an example for others to follow in the near future.

I would like to reiterate our wish that the Development Committee focus on two issues. One of these is embodied in the paper on priorities for the 1990s for the World Bank Group, and the other in the paper on human resource development. The right balance has to be found for the discussion, especially as we are

fully aware of the fact that the outcome will certainly provide some exceptionally interesting subjects for the Ministers' attention.

Mr. Peretz stated that he welcomed the Development Committee Chairman's intention to focus the discussion on the two main papers on the Committee's agenda. The point of the present discussion was to make sure that the papers were in good shape for the Ministers; their substance need not be discussed at any length, accordingly. He had originally pressed very hard for short papers that highlighted the main issues and that the Ministers could easily tackle. The authors of the papers had done a good job in meeting those aims. The summaries also had brought out very well the key issues for discussion.

He had a number of detailed comments on the papers, which he had already sent separately to the Executive Secretary, Mr. Peretz continued. He would thus make only two or three short comments on aspects of particular interest to Fund Directors.

He had been pleased to see the section in the human resources development paper on the implications for the Fund, Mr. Peretz commented, and he associated himself fully with the remarks made by Mr. de Fontaine Vive in that regard. The Fund had a particularly important role to play in technical assistance to help in the functioning of a few key public sector institutions in developing countries.

He would have welcomed a fuller assessment in the paper on debt of the possible implications for the seniority of Fund and World Bank debt of the new securitized bonds mentioned in paragraph 26 of the paper, Mr. Peretz concluded. In the last sentence of paragraph 52, which dealt with debt relief and rescheduling for lower middle-income countries, he would have preferred to have seen the word "concessional" changed to "additional." An examination of the text would make clear the reason he would suggest such a change.

Mr. Mwananshiku stated that he joined others in thanking the staff for preparing the excellent papers, both the contents and presentation of which he supported. He thanked the Executive Secretary for his introductory remarks, which would surely contribute to the discussion. For many of the developing countries, the most critical issue at present was the debt problem, an issue to which the World Bank and the Fund should pay increasing attention. Although many indebted countries had been undertaking far-reaching adjustment measures, those measures had too often not been met by commensurate steps by creditors to reduce the impact of debt, and the debt situation continued to affect very negatively the prospects of indebted countries. Investment in indebted countries remained anaemic, as a large

proportion of earnings went to debt service--in those cases in which that was even possible. In other cases, arrears to the Bank and the Fund had grown, complicating the situation even more, especially for debtor countries in Africa. He called on the Paris Club to do whatever it could to improve the Toronto Terms as soon as possible so that relief could be extended to deserving countries.

Mr. Rouai made the following statement:

We thank the staffs of the World Bank and the Fund for the concise yet well-documented papers prepared for the forthcoming meeting of the Development Committee. We agree with the general thrust of these papers, and we would like to comment briefly on those issues directly related to the Fund's role, particularly the review of recent developments in the debt strategy.

Our assessment of the overall progress in revitalizing the debt strategy is positive, although we are concerned that progress continues to be slow and, most importantly, uneven among the various categories of debtor countries.

With regard to middle-income restructuring countries, we welcome the staff's preliminary findings that some countries which have maintained strong adjustment programs and completed market-based debt restructuring with commercial banks are making progress toward external viability. These indications, reinforced by a recent report of the Organization for Economic Cooperation and Development (OECD), confirm that the approach to the debt problem must continue to be placed in a collaborative framework. It goes without saying that the role of debtor countries in implementing strong and comprehensive adjustment programs in this process is critical. While it is encouraging to note that some countries in this category are experiencing improvements in economic performance and restoration of capital flows, we must be cautious and not complacent. We should keep in mind that these results are rather limited, and that they have been achieved after a protracted period of negotiations. We would like also to emphasize that this outcome was made possible mainly because of a shift in the structure of lending toward international financial institutions and away from commercial banks, which continue to exhibit a lack of enthusiasm in extending new money, and a strong preference for reducing their exposure to developing countries. For these reasons, while we believe that the adjustment efforts of middle-income restructuring countries must be supported by appropriate and timely financing, as well as by substantial debt reduction, we call on commercial banks to adopt a more constructive approach in

their negotiations with debtor countries and to contribute to the establishment of an adequate balance between debt reduction and debt service and the provision of new money.

The staff details the support extended by official creditors to middle-income restructuring countries. The recent far-reaching debt restructuring agreements with Poland and Egypt are most welcome, and we hope that these initiatives will create a dynamic process leading to more favorable debt relief for all deserving cases.

With regard to low-income countries, while we recognize the importance of recent initiatives, the progress appears, however, to be less encouraging, particularly if viewed against the increasing uncertainties regarding the prospect of restoring growth and external viability. We welcome the increasing attention being devoted to official debt, as well as the proposals for more extensive multilateral debt relief. However, in view of the protracted character of the difficulties facing many low-income developing countries, we believe that meaningful debt forgiveness should be extended to those low-income countries that adhere to strong adjustment programs. In this context, we must single out the commendable initiatives of France, Germany, and Canada in the forgiveness of official development assistance (ODA) debt to the severely indebted low-income rescheduling countries, and we hope that these initiatives will be matched by similar efforts from other official creditors.

We continue to urge the Fund and the Bank to monitor the potential impact of the debt strategy on nonrestructuring countries. Despite the assurances contained in the report, the availability and cost of external financing for these countries should be assessed regularly in view of the general tightening of capital market conditions and increasing uncertainties in the external environment.

Mr. Esdar stated that the papers that had been prepared for the Development Committee meeting were appropriate and balanced. He had only some technical remarks to make concerning the paper on debt. The paper had indicated that the Toronto terms included the debt swap option. He had understood that debt swaps were not an element of the Toronto terms, but that they had rather been discussed as a possible additional option in the context of the Trinidad terms. Debt swap arrangements had so far been included only in rescheduling agreements for the lower middle-income debtors. The paper had also noted that more than half of the liabilities of the severely indebted low-income countries were denominated in currencies

other than the U.S. dollar, and that therefore those countries were affected by the rise in non-U.S. dollar interest rates. However, he had understood that most of the outstanding debt of those countries was concessional in nature. Perhaps it might be appropriate to qualify that statement, accordingly. The rescheduling agreements with Egypt and Poland had been referred to several times in the paper. The very exceptional nature of those agreements, and the fact that they were linked to the special situations of Egypt and Poland, should be made clear in the paper, so that misleading expectations were not inadvertently created.

Mrs. Hansen said that she had found the papers to be in good shape for the Ministers' consideration. Mr. Esdar had mentioned the one point that she had wanted to raise on the debt strategy paper--that the action that had been taken on Egypt and Poland was exceptional, and that the paper should stress that fact.

Mr. Mohammed observed that in the paper on development priorities, it had been stated that "...it appears difficult for the growth of ODA from OECD countries to average much more than 2 percent per year in the 1990s." It might be useful to clarify whether that 2 percent was in nominal or real terms.

The paper on human resource development was an excellent one, Mr. Mohammed commented. The paper referred to the balance between financing capital costs and recurrent expenditures. One of the points that he had made previously was that, to some extent, recurrent costs could be met by endowment funds, which would be contributions of capital that would have the specific purpose of helping local communities meet their recurrent costs in the earlier years, and which could be gradually reconstituted by the communities through their savings. He wondered whether the reference in paragraph 27 of the paper to selectively providing a mechanism for a phased reduction of external support, slice by slice, was an echo of that idea; perhaps that should be clarified.

Mr. Shimizu made the following statement:

I join other Directors in thanking the staff for the excellent papers prepared for the Development Committee. I am in general agreement with the papers and have only a few comments to make.

The progress report on the implementation of the debt strategy and its impact on the development prospects of all severely indebted countries concentrates appropriately on providing a concise and factual description of the debt strategy. As the staff notes, each of the three elements of the debt strategy--namely, policy adjustment programs, external financing support,

and a favorable environment--is essential if indebted countries are to regain external viability. However, it seems that the paper focuses more on external support--debt relief, for example--than on adjustment policy, which is dealt with in only general terms. In my view, the paper would have been more balanced and helpful if more emphasis had been placed on the role of adjustment policy.

Regarding the paper on human resource development (HRD) in developing countries, clearly HRD is indispensable for medium- and long-term economic development, and it therefore basically does not conflict with the Fund's purposes of promoting international monetary cooperation and encouraging the expansion and balanced growth of international trade. As the paper notes, the Fund's activities have indirectly supported HRD, by including measures for poverty alleviation in Fund-supported programs, for example. At the same time, in spite of the importance of HRD, HRD is not the Fund's principal objective, and thus the Fund's activities should not be aimed directly at it. Further analysis and discussion of the implications of the Fund's operations on HRD, as well as the role of the Fund in this area, are needed. Close collaboration between the Fund and the Bank is necessary, especially in the case of HRD.

Mr. de Groote stated that he had understood the purpose of the meeting to be to check whether or not the questions to be submitted to the Ministers were appropriate, so his remarks would reflect that perspective. He was not certain whether the report on the development priorities for the 1990s included the most relevant issue--that the World Bank was no longer a net lender to any substantive extent in terms of net transfers. It appeared that such a curious state of affairs would persist for the forthcoming two or three years; perhaps the Ministers might focus on that.

The reason for that situation was well known, Mr. de Groote continued. It related to the limited absorptive capacity of developing countries, which had been affected so seriously by the debt crisis that the pipeline of projects had had to be reviewed, as the Vice President of the World Bank had pointed out. Nevertheless, the problem that the prime international institution dedicated to a transfer of resources through the market mechanism from rich to poor countries was having difficulty doing so merited some serious reflection. He wondered whether the time had come for the World Bank gradually to reduce its involvement in the financing of development; whether the developing countries no longer needed investment in their

infrastructure with the resources of high income countries; and whether developing countries were ready to graduate from the Bank and approach the market-oriented mechanisms of the IFC.

In the paper on the debt strategy, the chapter on nonrestructuring countries had been placed at the end, Mr. de Groote concluded, as if non-restructuring countries were some kind of oddity. Nonrestructuring countries were in many respects the healthy ones, and the question that needed to be raised was why it took the financial community such a long time to recognize that fact. There should be a shorter response time between good performance under programs supported by the Fund and the Bank, and regained access to commercial sources of financing on the part of the adjusting countries.

Mr. Posthumus commented that the paper on human resource development stated that the issue of unproductive public spending was one with which the Fund should concern itself. Although that issue was on the Board's agenda, no paper had yet been circulated, and he believed that it was inappropriate to include such a pronouncement on unproductive public spending in the paper for the Development Committee before the Board had discussed the issue first. Many questions remained to be answered about unproductive public expenditure, and about the major component of it--military expenditure--in particular. The issue of whether or not the Fund should focus on it had not been resolved.

That was not to say that unproductive public expenditure was not an important subject, Mr. Posthumus cautioned, but it appeared that the paper intended to deal with it in a rather limited way--in the context of human resource development only in developing countries. He questioned whether the present paper--which was to be dispatched to Ministers--was an appropriate vehicle for the Fund to announce that it would concern itself with the extent to which unproductive public spending could be reallocated to increasing development expenditures.

The Chairman replied that he appreciated Mr. Posthumus's concerns. The Board should first discuss the issue before a mention of it was made in the report for the Development Committee. The paper on unproductive public expenditure--which was to be circulated to the Board shortly--would stress the importance of a better balance in the national budgets of both industrial and developing countries between productive spending and unproductive spending in the light of the present world situation, which allowed for a reduction of military expenditure in particular.

One of the Fund's chief concerns would be to find better ways to identify military spending within the budget, the Chairman observed. At present, the Fund lacked clear information on military spending, and a crucial first step would be better data collection to form the basis for

clearer judgments on the matter. At the beginning, the Fund could not raise expectations too high about its role in promoting a shift toward more productive public spending.

The staff representative from the Exchange and Trade Relations Department stated that a debt swap operation had been applied for the first time in the context of the rescheduling for Senegal in June 1991, and it had been referred to in the paper on debt for that reason.

The increase in official development assistance flows of 2 percent per year that had occurred during the 1990s was in real terms, the staff representative noted. The reference to the slice by slice reduction of external support clearly overlapped with Mr. Mohammed's ideas about an endowment fund. The concept in the paper was that certain aspects of expenditure could be funded domestically, with foreign funding of other aspects.

The staff had tried to be reasonably cautious in its references to the agreements reached with Poland and Egypt, but it would look at the text again in the light of the comments that had been made, the staff representative from the Exchange and Trade Relations Department concluded.

The Chairman commented that, since the rate of GDP growth of the industrial countries had averaged 3 percent in the 1980s, while the rate of increase in their official development assistance flows had averaged only 2 percent, it was clear that the internationally-agreed target as a percentage of GDP of the industrial countries was moving ever farther away.

APPROVED: March 12, 1992