

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0421

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee

Meeting 93/3

2:30 p.m., June 21, 1993

R. D. Erb, Acting Chairman

Executive Directors

L. Mwananshiku

Alternate Executive Directors

A. A. Al-Tuwaijri
J. B. Wire, Temporary
J. Prader
J. Solheim
T. Kanada, Temporary
A. Raza, Temporary
C.-W. Hon, Temporary
W. C. Keller, Temporary
P. Rubianes, Temporary
E. V. Kotova, Temporary
E. Quattrocio, Temporary
P. Bonzom, Temporary
G. Torres
O. Kabbaj
B. Dlamini
J. Dorrington
F. A. Sorokos, Temporary
Y.-M. T. Koissy
W. Laux, Temporary
H. M. Al-Atrash, Temporary
J. Jamnik, Temporary
S. C. McDougall, Temporary
Wei, B.
N. Mancebo, Temporary

J. W. Lang, Acting Secretary
K. S. Friedman, Assistant

1. Draft Provisional Agenda; and Outline of Papers
for Fall 1993 Meeting Page 3

Committee of the Whole for
the Development Committee
Meeting 93/3 - 6/21/93

- 2 -

Also Present

Development Committee: P. Mountfield, Executive Secretary;
L. Pachter. Fiscal Affairs Department: J. Schiff. Legal Department:
R. H. Munzberg, Deputy General Counsel. Policy Development and Review
Department: J. T. Boorman, Director; A. R. Boote, C. Puckahtikom,
E. van der Mensbrugghe. Secretary's Department: A. Mountford. Advisors to
Executive Directors: M. A. Ahmed, A. R. Ismael. Assistants to Executive
Directors: M. Dzervite, J. C. Estrella, A. Galicia, N. P. Hahnemann,
K. J. Langdon, S. Mills, S. del C. Olgiati.

1. DRAFT PROVISIONAL AGENDA: AND OUTLINE OF PAPERS FOR FALL 1993 MEETING

The Executive Directors, meeting as the Committee of the Whole for the Development Committee, considered the draft provisional agenda (EB/CW/DC/93/3, 5/28/93) and draft outlines for papers on social security reforms and social safety nets (EB/CW/DC/93/4, 6/4/93) and adjustment experience in low-income countries and implications for financing needs (EB/CW/DC/93/5, 6/4/93) for the fall 1993 meeting of the Development Committee.

The Executive Secretary of the Development Committee made the following statement:

I would like to take the opportunity of this meeting to brief you about the chairmanship of the Development Committee. As I told you in my note of June 10, the Venezuelan Government has changed. Dr. Hausmann is no longer a Minister, and obviously, under the rules of the Committee, he cannot remain as Chairman. I have already circulated his letter of resignation.

Members of the Committee are drawn in alternate two-year periods from the Boards of Governors of the World Bank and the Fund. At present, we are in a Fund period, and that is why I have asked Fund Directors to transmit Dr. Hausmann's letter to their Members.

It is now for the 24 Members of the Committee to select a new Chairman from among themselves. In the past, the preferred candidate has once or twice been someone who was not at the time a Member of the Committee, and in those cases, steps were taken before the formal decision to select that person as a Member in place of one of the existing Members.

The Committee itself decided, when it was first set up, that the Chairman should come from a developing country. But, of course, if there were two or more candidates and there had to be an election, all Members would have a vote.

Also, by convention, the Chairmanship rotates among regions. The pattern over the life of the Committee has been: Africa, Asia, Latin America, Asia, Africa, Latin America. Those regions have never been precisely defined.

Chairmen are appointed for a two-year term. But they can be re-selected for a second term, as Dr. Chidzero was. Dr. Hausmann succeeded Mr. Foxley, another Latin American, after two years. Dr. Hausmann only served for half a year; 18 months of his term (including three meetings of the Committee) remain to run.

The pattern in the past has been for the Executive Directors and their authorities to negotiate among themselves about the regional rotation, and about a candidate from the selected region.

There is no need to wait for the Annual Meetings. If Executive Directors, after consulting their authorities, can agree among themselves on a candidate, all they need to do is to notify me of the choice. I shall then write or cable to all the Members of the Committee, asking them to confirm the selection by a given date, after which (if there is no dissent) the selection will be announced. I understand that this is the procedure used in the Interim Committee. Of course, if there were no agreement, there would have to be an election.

My job is a passive one: only to ensure that everyone knows there is a vacancy, and that action is in hand to select a new Chairman.

But we now have the unusual situation of a mid-term inter-regnum. Dr. Hausmann's resignation leaves me without a chief to whom I can turn for instructions. And there is a lot of work to do in preparing for the September meeting. Members may therefore feel that it would be useful to reach a quick settlement, if possible before the summer recess. This would give us plenty of time to brief the new Chairman well before the meeting on September 27; and, if necessary, I could visit him in his capital first, as I did with Dr. Hausmann last year.

Turning to the main business of today's meeting, the first item is the draft agenda for the Development Committee meeting on September 27. This is virtually determined for us by the Committee's recent decisions about its future work program. As you will see, there are two main items and one progress report. As in the recent past, the agenda distinguishes the main items for discussion from the progress report, which is mainly a "take note" item.

We have not had two main items on the agenda together for some time. I shall need to consult the new Chairman about the best way of structuring the meeting so as to get the best possible debate; should we, for example, have separate morning and afternoon sessions, one devoted to each topic? I do not think we need spend time today on this point, but if any of you have any suggestions, perhaps you would let me know later, so that I can advise the Chairman. I should report that the majority, but not

the unanimous, view in the Bank Board was that we should reverse the order of the two main items, and take the "adjustment" paper first. That, too, is something the new Chairman will have to consider.

Perhaps I could say something very briefly about the two outlines.

The first item on the agenda has been given the title "Social Security Reforms and Social Safety Nets." This was a topic originally proposed by Dr. Hausmann and agreed by the Committee. I showed him this outline two weeks ago, and he confirmed that it was very much along the lines he wanted. Much of this ground was covered during the Board's recent discussion of safety nets, and I am sure the authors will have that discussion very much in mind in preparing the full draft. Incidentally, the timing of this item is quite helpful, because it allows the Committee to put on record its views on an important part of the agenda of next year's United Nations Social Summit. When the Bank Board discussed this on June 18, Directors made a number of detailed suggestions, but none that change the balance of the outline proposed by the staff.

The second is a paper originally proposed by the institutions and warmly welcomed by the Committee: "Adjustment Experience of Low-Income Countries and their Financing Needs." Here the timing is absolutely crucial. We hope that by then the IDA ratification process will be almost over in most countries, but the negotiations on the ESAF successor may still be under way, and the budgetary allocations among donors will certainly not be over. Finally, the Development Committee meeting falls in the middle of the negotiations on the Special Program of Assistance for Africa. So there is a chance for Ministers to influence these important negotiations, as well as to discuss the adjustment process in more depth. I discussed this outline with Dr. Hausmann just before his resignation. His own view was that the outline, perhaps because it is only an outline, was insufficiently specific. He hoped that the final version would be much clearer about the successes/failures of the strategy so far, and would contain some firm policy recommendations. I hope that although Dr. Hausmann is no longer Chairman, the authors will bear these comments in mind in drafting the full version.

Dr. Hausmann was also anxious that on both the main topics the Committee should have supplementary papers by outsiders to complement these staff papers. He also recognized that last time we swamped the Committee with too much paper, so he asked me to arrange only two or perhaps three outside papers this time. I can report that I have persuaded Tony Killick of the Overseas Development Institute in London, whose name many of you will know, to

write a paper on the adjustment item. We are still negotiating with the potential authors of a safety net paper. Of course, Executive Directors will have a chance to see these papers and discuss them once they have been circulated.

Mr. Al-Tuwaijri made the following statement:

I can broadly endorse the proposed draft agenda for the fall 1993 meeting of the Development Committee, as well as the draft outlines for the joint issues papers. Consequently, I will make only the following remarks.

Regarding the outline for the paper on social security reforms and social safety nets, I believe that the paper would benefit from a deeper analysis of the various and seemingly overlapping roles of donor agencies, especially the Bank and the Fund. The proposed outline distinguishes between the roles of the Fund and the Bank in terms of long-term institution-building objectives for the latter, and short-term adjustment program-related objectives for the Fund. However, the Bank also provides advice on social safety nets similar to that provided by the Fund. Hence, the paper would be enriched if it included a review of the activities of each institution in this area and specified more explicitly, and operationally, the division of labor between the two institutions. In this regard, I would reiterate the position of this chair, which views with caution the Fund's increased involvement in areas such as social safety nets, especially in light of the growing constraints on the Fund's human resources and its need to focus on its areas of expertise. Therefore, it is the World Bank that should play the lead role with respect to social safety nets and other poverty-related issues.

Turning to the outline for the paper on adjustment experience in low-income countries and implications for financing needs, I was somewhat surprised to note that no mention is made of the severe decline in the terms of trade of most low-income countries, which appears to have offset between 70 percent and 80 percent of the new financing they received. Clearly, some discussion of this phenomenon and potential policy actions is required. This highlights the crucial interlinkages between robust global economic activity and the terms of trade of low-income countries. Indeed, persistent declines in the terms of trade of low-income countries may render much of their adjustment effort futile.

On a related issue, it appears that only a passing reference is made to the importance of an open multilateral trading system. Open access to export markets is imperative if low-income countries' outward-oriented policies are to bear fruit. Here, the

implications of domestic policies of industrial countries, especially subsidies and nontariff barriers, including regulatory requirements, should be mentioned. However, it is important to emphasize that developing countries, be they middle or low income, are also responsible for an open multilateral trade system, especially in light of the growing trade among developing countries.

Finally, Section III(3) of the proposed outline addresses the role of multilateral institutions and defines the role of the Bank and the Fund in terms of providing policy advice and concessional financing assistance and catalyzing external flows to low-income countries. Here, it is important to explicitly distinguish between the role of the Fund and the Bank, especially because the Bank is more suited to providing concessional assistance in the long run. More significantly, no mention is made of the Fund's surveillance role and its efforts to encourage members to adopt policies that are conducive to a favorable global economic environment.

Mr. Laux made the following statement

As the items on the agenda reflect basically all the requests of the Committee, the agenda should be in order. I have a few remarks on the two papers, starting with the paper on social safety nets. There are three points I would like to make.

To begin with a general remark, I would hope that the paper avoids giving the impression that economic reforms are always, and necessarily, connected with adverse impacts on the poor or on vulnerable groups. I think that the opposite is true, and there is ample evidence for that. Of course, that does not mean that some reform measures might not hurt the poor. However, I believe that it would be useful to put these possible adverse or negative effects in a broader context, and not pretend that adjustment and negative impacts on the poor are sort of Siamese twins.

I have two more specific points. First, on Chapter 3C, I believe one important aspect of the practical considerations in establishing social safety nets is that these schemes should not become overcomplicated and attention should be paid to measures that meet a minimum standard of consistency, in particular in relation to what are called the permanent social security arrangements.

Second, I hope that Chapter 4, on the role of the governments and donor agencies, reflects the fact that the main responsibilities for financing social safety nets remains with the countries

concerned, and that donors can play only a limited and mostly advisory role in this respect.

On the second paper, adjustment experience in low-income countries, I feel a bit uneasy about the possible prospect that the Development Committee may become excessively involved in the evaluation of adjustment programs dealing with issues that, to a large extent, are the primary responsibility of the Fund. The Development Committee, of course, is a joint committee. However, I am concerned that papers like this will further blur the distinction between the objectives of the Fund and the Bank, particularly as the Development Committee is primarily a forum that should give advice on the transfer of resources to developing countries. Therefore, like Mr. Al-Tuwaijri, I hope that the final chapter of the paper draws a firm distinction between the roles of the Fund and the Bank. In particular, it should be made clear that the Fund's proper role is not to provide concessional financial assistance, and any such Fund assistance should be seen as exceptional and temporary.

The paper on adjustment experience does not support the popular view that adjustment leads to an increase in financing needs. It is the underlying imbalances, whether they are caused or are beyond the control of the country, that are the causes of both adjustment and financing needs. Therefore, I would prefer that the proposed title of the paper, "Adjustment Experience in Low-Income Countries and Implications for Financing Needs," be used as a heading in the agenda, too.

Mr. Wei made the following statement:

We can generally endorse the proposed agenda for the Development Committee and the draft outlines for both papers, namely, "Social Security Reforms and Social Safety Nets" and "Adjustment Experiences in Low-Income Countries and Implications for Financing Needs." However, we would like to make one comment on each.

On the first paper, regarding the role of governments, donor agencies, the Bank, and the Fund, the staff has provided clear descriptions of the role for each. However, it might need to be emphasized that when the Fund discusses such reforms with the national authorities, the member countries should take the main responsibility in the design of the social safety nets. The other point is that the coordination between the Fund and other donors, particularly the World Bank, deserves a paragraph in this paper. This was well stressed by the Acting Chairman in his summing up of

the Board's discussion on social safety nets in economic reform at EBM/93/78 and EBM/93/79 (6/2/93).

On the second paper, regarding the financing implications, the staff has correctly stressed the importance of concessional assistance, including debt relief, which we fully appreciate. Most low-income countries are burdened with heavy debts, and their adjustment efforts could be sustained only if concessional resources are provided. Some of these countries also have arrears problems. I wonder how this issue would be addressed in the paper.

Mr. Dorrington said that, with respect to the paper on social safety nets, he agreed with the points made by previous speakers about the relationship between the Bank and the Fund. In Section II, on adjustment experiences and implications for financing needs, low incomes owing to limited basic endowment weakness would be examined; to ensure a balanced analysis, the paper should look at, inter alia, low incomes that were the consequence of inappropriate policies. He agreed with Mr. Laux that it was important to have a balanced approach to the assessment of the effects of adjustment on the poor more generally.

Mr. Solheim said that he had no major problems with the outline of the paper on social safety nets. However, it could be useful to differentiate somewhat between the safety net problems in developing countries and the countries in transition, on the one hand, and the low- and medium-income developing countries on the other. The problems of those countries could differ substantially.

Mr. Mwananshiku made the following statement:

I welcome the proposed agenda. The outlines of the two issues papers are quite comprehensive and attempt to address many of the concerns that we have raised here on various occasions. Therefore, my observations will be very brief.

First, on the paper on social security and social safety nets, I should point out that for the countries in my constituency --and I believe for most of the countries in Africa-- formal social security systems are not yet very developed. They are limited in many cases to provident funds and pensions that cover only a very small segment of the population. The value of benefits under those schemes has also been eroded over the years by inflation and devaluation. It follows, therefore, that for these countries the development of safety nets during periods of adjustment should not be considered as just a complement to already existing social security arrangements. In fact, safety nets might be all that stands between the more vulnerable groups and increased poverty.

The study should take this important point into account with a view to alerting the international community to the need to provide adequate support for safety nets in low-income countries and to encouraging greater transparency in such arrangements. In the end, the usefulness of the study will depend on the extent to which it addresses the special problems of different country groupings. For example, what might be appropriate for one region may not necessarily be appropriate for another area.

On the adjustment experience in low-income countries, the proposed study could benefit greatly from the recent review of experience with programs supported by the ESAF. I believe that the issue is no longer whether or not to reform. The focus now should be on, inter alia, sustaining the adjustment momentum with appropriate domestic policies, building institutional capacity, and fighting poverty. For their part, industrial countries have an important role to play in supporting the adjustment efforts of developing countries. This includes provision of concessional support, including debt relief on appropriate terms, and creation of a more supportive trading environment.

Mr. Bonzom said that he hoped that the paper on adjustment experience in low-income countries and their financing needs would, to the extent possible, provide a balanced picture of the discussions in the Fund's Board on that subject. The paper should take into account views, in addition to those expressed by Mr. Laux, on concessional financing by the Fund.

Mr. Sorokos made the following statement:

In the context of the Development Committee's objectives, I am in broad agreement with both the content of the proposed agenda and the general thrust of the main papers to be discussed. However, given the opportunity of today's consideration by this Board of this matter, I should like to make one general comment on the role of the Fund and a few small points on enhancing the content of the main papers.

With my general comment, I should like to emphasize, as this chair has often done in the past, the need to keep in mind the primary role of the Fund, which a number of Directors stressed during the recent discussion on social safety nets in economic reform as being the "restoration and maintenance of macroeconomic balance so as to foster sustainable growth." Given that a number of us feel that "promoting sound macroeconomic policies and economic reform is the best way for the Fund to make its contribution to a country in achieving sustained economic growth and reducing poverty," the caution expressed by some Directors and shared by this chair, about the implications of increased Fund involvement

in structural policy areas, should, I feel, be always kept in mind.

With respect to the outline of the paper on social security reform and social safety nets, I believe that for both sections dealing with the more permanent arrangements of social security and the arrangements for transitory safety nets, there is a real need to ensure that the paper distinguishes clearly between the different categories of economies involved. For example, in the case of the transition economies of the former Soviet Union, many already have in place permanent and very broad, but rather costly, social programs, which are inefficient for safety net purposes and which therefore need substantive adaptation. In other developing countries, the need is to in effect establish such arrangements. These differences would seem to suggest the possible need for different approaches, which the paper should stress, in dealing with the various aspects of such arrangements and the reforms and policies needed.

I welcome the brief discussion envisaged under the topic of transitory social safety net arrangements on the extent to which the short-run adverse impact of economic reforms on the poor can be minimized through an appropriate mix of adjustment policies. However, I would hope that in this discussion there will be some indication of the different types of policy mix that have been adopted, according to the different types of economies involved and based on experience to date.

My last point relates to the paper on adjustment experience in low-income countries and implications for financing needs. Here, I note the staff will draw on various reviews, including the recent world economic outlook discussion and the review of the ESAF. In my view, it would be useful in this case if the staff, in drawing on these reviews, were to specifically indicate what the ESAF has achieved for the low-income countries and what lessons the ESAF experience suggests for such countries.

In particular, and having in mind the Board's discussion on the ESAF review, the staff might wish to deal with a number of points raised by Directors in that discussion. For instance, how would the need felt by some Directors to set preconditions and prior actions for program approval--in order to ensure that administrative capacity, a data base, and the political will exist prior to a program--affect the reforms and policies that need to be pursued to maintain the momentum in achieving sustained development and poverty reduction?

With these few points, I can go along with the proposed draft agenda and outline of papers.

The staff representative from the Policy Development and Review Department said that, in drafting the two papers under discussion, the staff would be closely guided by the recent Board discussion on the review of the ESAF. The outcome of that review was consistent with the World Bank's relevant work, and particularly a study on the third structural adjustment report. Thus, the staff of both institutions would be working together closely and would be drawing on studies that had already been seen by both Boards. On the paper on social safety nets, the staff would also be closely guided by the Fund Board's recent discussion on that subject, and particularly the relative roles of the Bank and the Fund, and coordination with donors.

The Executive Directors concluded their discussion.

APPROVED: December 16, 1993