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March 7, 1983

To: Members of the Committee of the Whole
on the Development Committee

From: The Secretary

Subject: Development Committee - Annotated Agenda

There is attached for consideration by the Committee the annotated agenda for the April 28-29, 1983 meeting of the Development Committee.

This subject has been tentatively scheduled for discussion on Monday, March 28, 1983.

Att: (1)

Other Distribution:
Department Heads

DRAFT
March 7, 1983

DEVELOPMENT COMMITTEE

Agenda
for the Meeting in Washington, D.C.
April 28-29, 1983

1. Elements of Global Economic Recovery Efforts
 - (i) Financial flows from and level of lending by multilateral institutions and implications for their capital base
 - (ii) Status and funding of IDA
 - (iii) External debt problems of developing countries
 - (iv) Linkages between trade and the promotion of development
2. Future Work of the Committee
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DRAFT ANNOTATED AGENDA

Development Committee Meeting in Washington, D.C.
April 28-29, 1983

1. Elements of Global Economic Recovery Efforts

- (i) Financial flows from and level of lending by
multilateral institutions and implications
for their capital base

(a) IBRD

The background paper for this item will be the Board paper on alternative lending plans of the World Bank (DC/83-) and the Summary of the Outcome of the Board discussions on the subject (DC/83- , Sup.1).

Over the past few months, the management of IBRD has completed a re-examination of future IBRD lending plans, taking into account both changes in the demand for IBRD lending and changes in the prospective supply of external capital. A principal conclusion of that review was the need to reorient the FY83 and FY84 programs along the lines described in the recent memorandum on the Program of Special Assistance. ^{1/} For the years after FY84, this same country-by-country review has led to the conclusion that the current planning assumptions made in 1981, which envisage an IBRD lending program of US\$60 billion during the period FY82-86, fall short of what the Bank can and should do to assist borrowers during this period. Accordingly, management has initiated a discussion of possible alternative lending plans for the five-year period FY83-87. In that connection, the capital requirements of the IBRD have also been re-examined and the possibility of a selective capital increase has been raised.

^{1/} World Bank Program of Special Assistance to Member Countries, 1983-84, R83-22, dated January 28, 1983.

It is expected that the Board of Directors of the IBRD will discuss these issues in (early April) and a summary of the outcome of those discussions will be distributed to the Development Committee in advance of the forthcoming meeting.

After this paper on alternative lending plans has been discussed and approved by the Board, the following paragraph will be added to the annotated agenda.

Ministers may wish to:

- note action taken by the World Bank Executive Board in February 1983 to accelerate financial flows from the Bank;
- express support for the revised planning assumption for the Bank's lending program during the next five years, taking into account the increased financing requirements of the developing countries; and
- urge that a start be made in the consideration of a selective capital increase following the Eighth General Review of Quotas of the Fund.

(b) Other MDIs

Annotation will follow.

(ii) Status and Funding of IDA

The background paper for this item will be (DC/83-), which will be discussed by the Executive Directors of the Bank on March 23.

The paper points out that there have been delays in the effectiveness of IDA-6 in terms of the IDA-6 Resolution. The delays in the U.S. appropriation have resulted in a shortfall of SDR 1.3 billion over FY81-83--14 per cent below the originally planned commitment level. This has reduced the operational program of the Association and has implications for IDA donors who are following modified pro rata arrangements. The stretching out of IDA-6 has delayed the start of the Seventh Replenishment of IDA. As stated in the paper, negotiations are proceeding for IDA-7 replenishment in the context of the difficult situation projected for the low-income developing countries, particularly the poorest countries in Sub-Saharan Africa, in the present world economic crisis.

Ministers may wish to:

- take note of the serious situation of IDA-6 and, in this context, urge the United States to complete its full third payment of US\$945 million in FY83 and complete its IDA-6 contribution in FY84; and
- take note of the serious economic difficulties of the developing countries and urge governments to do their utmost to ensure an IDA-7 replenishment size commensurate with the expanding needs for concessional assistance of IDA borrowers.

(iii) External debt problems of developing countries

The background papers for this item are External Debt and Debt Service of Developing Countries (DC/83-) and Fund Policies and External Debt Servicing Programs (DC/83-). These papers will be discussed by the Executive Directors of the Fund on April 4, 1983, and the Managing Director's summing up at the conclusion of that meeting will be transmitted to Committee Members.

The paper on External Debt and Debt Service of Developing Countries is based on a study "Trends and Prospects in International Capital Markets and Survey of External Debt Situation" prepared by the Fund staff as background to the recent World Economic Outlook exercise. It summarizes the material from that study which is of direct relevance in assessing the situation and outlook for developing countries and updates the information on bank lending to developing countries. The paper describes the growth of developing country debt and debt service over the period since 1974, outlines the dimensions of the debt servicing difficulties faced by many countries in 1982, and comments on the near-term outlook with regard to financial flows and debt servicing.

The paper on Fund Policies and External Debt Servicing Problems discusses the recent experience with official multilateral and commercial bank debt reschedulings and traces the sources of current debt servicing difficulties. It describes recent initiatives to strengthen the Fund's surveillance activities on matters relating to external debt and debt management and to increase technical assistance and statistical services provided by the Fund in these areas. Issues which have arisen with regard to the need for adequate external financing of members undertaking adjustment efforts

are reviewed and recent developments in this area are outlined. The experience with external debt limitations in Fund-supported programs is discussed.

Both the Bank and the Fund have taken steps to increase substantially their assistance to member countries in the areas of external debt monitoring and management. The Fund has recently expanded the role of the Central Banking Department in providing technical assistance to member countries in the external debt field and the Bank has increased the number of external debt missions by 50 per cent in the last two years. The Bank and the Fund are working together to improve external debt statistics, with the Bank introducing major improvements in its Debtor Reporting System and the Fund contributing to improving statistics on international banking flows and short-term debt.

Ministers may wish to:

- express their concern about the severity of the debt servicing problems facing many developing countries;
- stress the importance of avoiding sharp fluctuations in the level of international bank lending to developing countries and welcome the efforts of the Fund and of bank regulatory agencies in the main creditor countries to ensure that a reduction in reliance on private bank credit, where necessary, is accomplished in a manner consistent with smooth and orderly adjustment of the domestic economies of the creditor countries;
- emphasize the necessity, in the current difficult situation, of maintaining and increasing financial flows to developing countries from official sources, both bilateral and multilateral; and

-- note the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and welcome the efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management.

(iv) Linkages between trade and the promotion of development

The background paper for this item is

(DC/83-), prepared jointly by the staffs of the Bank and the Fund.

/This paper will be discussed by the Executive Directors of the Bank and of the Fund on March 23 and 28, 1983, respectively./

The paper underscores the need for expanding world trade as a vital ingredient in economic development. It is only in such a context that rapid economic growth can be achieved. Expanding export earnings not only contribute directly to output and employment in the short run but, more importantly, they enable the developing countries to generate the foreign exchange necessary to increase domestic investment and, thereby, achieve more rapid and sustainable growth, higher employment, and an improved standard of living for their people over the longer run. The growth of international trade during the period 1963-73 provided such an environment, and the developing countries recorded impressive growth rates during that decade.

The paper traces developments with regard to tariff and nontariff barriers to trade, emphasizing those questions which are of particular concern to developing countries. It discusses the recent increase in protectionist pressures reinforced by lack of structural adjustment and in nontariff barriers to trade, particularly sector-specific and bilaterally-negotiated

trade actions. The economic consequences of protectionism, both for the country imposing such measures and for its trading partners, are investigated. The paper summarizes research which has concluded that an outward-looking economic strategy both promotes growth and increases the resiliency of the economy to external shocks. It explains the ways in which barriers to trade not only reduce the welfare of the nation as a whole but also ultimately undermine the viability of the sectors which the measures were originally intended to protect. The intensified efforts of the Bank and the Fund to encourage an open trading system, through both their lending policies and their ongoing dialogues with member countries, are described.

In the Declaration adopted at their meeting in November 1982, GATT Ministers recognized that "the multilateral trading system, of which the General Agreement is the legal foundation, is seriously endangered" and undertook to "make determined efforts to ensure that trade policies and measures are consistent with GATT principles and rules and to resist protectionist pressures in the formulation and implementation of national trade policy and in proposing legislation" and to "avoid measures which would limit or distort international trade." They also agreed on a future work program, which included seeking means to "ensure the effective implementation of GATT rules and provisions and specifically those concerning the developing countries, thereby furthering the dynamic role of developing countries in international trade."

Ministers may wish to:

-- emphasize the important contribution that the establishment and expansion of an open trading system has made and can continue to make to the economic growth and development of both industrial and developing countries;

- register grave concern regarding the increase in protectionist pressures and actions and stress that an increase in barriers to trade would not only prolong the current world recession but also carry the threat of reducing the rate of growth of world output, income, and employment over the longer run;
- welcome the intensified efforts of the Bank and the Fund to encourage an open trading system and urge the Bank and the Fund, in continued close collaboration with the GATT, to keep under careful review the progress made by member governments in dismantling existing trade barriers;
- call upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries; and
- urge the Bank and the Fund, in continued close collaboration with the GATT, to pursue their examination further on the linkages between trade and development in the light of discussions at this meeting with a view to preparing a study for consideration at the next meeting.

2. Future Work of the Committee

No document.

3. Status/Progress Reports

(i) Co-financing

Since the Committee last met, the Board of Executive Directors of the Bank has approved the introduction of a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. These instruments will be tested in a pilot program during the next 12-24 months. Under the pilot program, the World Bank is authorized to provide up to a total of US\$500 million for its participation in the commercial loans made for World Bank projects. The three forms of World Bank participation are all intended to provide longer maturities, increased financial flows or other benefits to developing country borrowers. They are: (i) direct financial participation by the World Bank in the later maturities of a commercial loan; (ii) contingent participation by the Bank in the later maturities of a commercial loan which would be initially financed entirely by commercial lenders; and (iii) guarantees of the later maturities of the commercial loan by the World Bank, instead of direct funding. Discussions of possible operations with interested borrowers have started.

Also since the Committee last met, a meeting was held in December in Washington, D.C. with representatives of 30 export credit institutions to discuss possible ways of increasing the volume of co-financing where officially guaranteed export credits can be mobilized. Follow-up discussions on a bilateral basis are taking place in areas where improvements in techniques may prove possible.

In the present circumstances, an increase in co-financing with official lenders is of particular importance for IDA and its low-income borrowers.

In this connection, implementation of the framework agreements entered into with the Italian and Belgian Governments is under way and the first operations under these agreements are anticipated soon. A draft frame agreement is also at an advanced stage of discussion with the Australian authorities and discussions have been initiated with the Dutch authorities.

(ii) Energy lending

The Bank is making a further analysis of investment and financing needs of developing countries in the energy sector and is expected to present a paper on the subject to the Executive Board in April. The developing countries' transition to high energy costs is incomplete. Heavy investments are a necessary part of the adjustment process. The World Bank is unable to lend more than 25 per cent of its total lending for energy development without prejudice to other priority sectors.