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August 3, 1983

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

From: The Secretary

Subject: Development Committee - Annual Report

Attached is a communication dated August 1, 1983 from the Executive Secretary of the Development Committee on its draft Annual Report.

The draft Annual Report is being circulated to Executive Directors with the request that comments, if any, may be forwarded to the Executive Secretary. To permit comments to be made after the end of the informal recess, it is suggested that they reach the Executive Secretary by Tuesday, August 23, 1983. Thereafter, a revised draft incorporating the comments will be circulated and, unless Executive Directors desire otherwise, it will be for lapse-of-time consideration before its circulation as one of the documents for the September 26 meeting of the Development Committee.

Att: (1)

Other Distribution:
Department Heads



DEVELOPMENT COMMITTEE
OFFICE MEMORANDUM



Mr. T. Thahane, Secretary, IBRD
TO: Mr. L. Van Houtven, Secretary, IMF

DATE: August 1, 1983

FROM: Hans E. Kastoft *HEK*

SUBJECT: Draft Annual Report of the Development Committee

I attach the draft Annual Report for 1982-83 which has been discussed and agreed to with the staffs of the two institutions. It is requested that it be circulated to Executive Directors suggesting that if they have any comments they might send them direct to me by August 19. A revised version of the report will then be circulated to Members as one of the documents for the September meeting of the Development Committee.

Attachment

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REPORT OF THE JOINT MINISTERIAL COMMITTEE OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE TRANSFER OF REAL RESOURCES TO
DEVELOPING COUNTRIES

(July 1982-June 1983)

I. INTRODUCTION

1. This is the ninth annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). It covers the period from July 1982 to June 1983.
2. The Development Committee was established in 1974 on the recommendation of the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) to provide a focal point at a high political level in the structure of economic cooperation for the formation of a comprehensive overview of the development process, for efficient and prompt consideration of development issues and for coordination of international efforts to deal with problems of financing development. According to the Resolutions establishing the Committee, the consideration of the question of the transfer of real resources to developing countries was to be undertaken in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment and official development assistance.
3. The Members of the Development Committee were to be Governors of the Bank and the Fund, Ministers or others of comparable rank and were to be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. Each Member of the Committee was to be assisted by seven Associates and the Executive Directors of the two institutions representing his constituency on the Executive Boards.
4. Against the background of analyses and projections contained in the IBRD's World Development Report and the IMF's World Economic Outlook and other studies specially prepared, the Committee during the year under review considered a number of issues relating to promotion of development and to the improvement of capital flows and their effective utilization in the developing countries. The agendas were designed to focus the attention of the Ministers, representing developed and developing countries, on vital development issues of interest and urgency and sought to promote international consensus to facilitate decisions in appropriate bodies at national and international levels.

5. The Committee held three meetings during the year. The first meeting was in Toronto on September 5, 1982, at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund. It was chaired by His Excellency Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru. This was followed by a short procedural meeting at Toronto on September 8 for the selection of a new chairman on the completion of Mr. Ulloa's term following the election of the new Executive Directors of the Bank and the Fund. At this meeting, the Development Committee unanimously selected His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce, Planning and Coordination of Pakistan, as its new Chairman. The other meeting during the year--the twenty-first in the series--was held at Washington, D.C. on April 28-29, 1983, under the chairmanship of Mr. Ghulam Ishaq Khan.

6. At the technical and preparatory level, the Task Force on Concessional Flows which had been set up by the Committee in May 1982 to conduct an in-depth study of the problems affecting the volume and quality and effective use of concessional flows, held during the year three meetings under the chairmanship of Mr. John P. Lewis, Professor at Princeton University. The first status report on its work so far will be presented at the meeting of the Committee in September 1983.

7. The Committee is currently operating under the procedures established in April 1979 which placed the responsibility for the organization of its work on the Chairman, the President of the Bank and the Managing Director of the Fund, assisted by the Executive Secretary. The other measures then adopted included greater and closer involvement of the staffs and Executive Boards of the two institutions in the work of the Committee. These changes in the organization and procedures have contributed to the effectiveness of the Committee but the search for the realization of the Committee's full potential continues to receive the attention of all involved in its operations.

8. The main thrust of the Committee's work in the year under review has been on the capital flows to developing countries--both concessional and non-concessional--with particular emphasis on the increase in the level of lending by the multilateral development banks, including their capital base and the replenishment of their concessional funds, particularly IDA, to meet the serious challenge of the 1980s. The subjects of additional lending for energy and new mechanisms for increased co-financing with the public and private sectors also received the Committee's sustained attention. The important subjects which received fresh attention in the context of the serious world economic situation related to the external debt problems of the developing countries and the linkages between trade and the promotion of development.

II. COMMITTEE CONSIDERATION OF MAJOR DEVELOPMENT
ISSUES DURING THE YEAR JULY 1982-JUNE 1983

A. Economic Situation and Prospects Facing the Developing Countries
in the 1980s--with the World Development Report 1982 and the
World Economic Outlook as Background Documents

9. Both the IBRD's World Development Report and the IMF's World Economic Outlook served as valuable background documents for the Committee's discussions on many current and prospective development issues. These documents showed that the world recession was now in its fourth consecutive year and had lasted longer and had proved more stubborn than had been expected earlier. It had hurt both rich and poor countries and had surpassed in its sweep anything experienced in the last 40 years. Its impact on non-oil developing countries had been particularly severe. Developing countries faced both deteriorating terms of trade, as commodity prices reached their lowest levels in 30 years, and a dramatic decline in world trade which affected them disproportionately. Many of these countries had large external current account imbalances, and the situation was further aggravated by declining ODA in real terms, a slowdown in private capital flows, and a mounting burden of debt. The level of unemployment remained unacceptably high with its social and political impacts and tended to strengthen protectionist trends. Growth rates declined in both industrial and non-oil developing countries and, in the latter group, the growth was in fact the lowest on record in several decades signifying an exceptional situation of decline in real per capita income in many of them. There was little expectation that the large and serious imbalances would be corrected quickly and therefore problems relating to external financing and debt were likely to persist.

10. The economic problems of the developing countries were particularly noted in the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of 77 held at Buenos Aires. These also came under review at the Williamsburg Summit and constituted the major theme in the agenda for the Sixth Session of the United Nations Conference on Trade and Development.

11. The Committee noted, however, that lately there had been some welcome trends: inflation rates had come down, particularly in some of the larger industrial countries; interest rates had been on the decline although they still remained high in real terms; oil prices had fallen and, at the same time, some commodity prices had started to rise. All these factors play an important role in the economies of all countries.

12. It is important to consolidate and improve upon these hard won gains in order to sustain, strengthen and enlarge the process of economic recovery now in evidence in some of the industrial countries. The Committee considered that for the industrial countries priorities would be the restoration of their own economic health and sustained non-inflationary growth, maintenance of a liberal environment for trade and capital flows and continuing and, it is to be hoped, increasing flows of aid to the poorest developing countries. For the developing countries priorities would include increasing levels of domestic savings and investments, greater efficiency in the use of capital, strengthening of general economic management, greater emphasis on agriculture and special attention to the poverty alleviation programs.

B. Concessional Flows

(i) ODA Flows

13. The Committee viewed with concern the global economic deterioration and, in particular, the bleak prospects for the low-income developing countries. The World Development Report 1982 had shown that between 1979 and 1982 the current account deficit of oil-importing countries had grown by 88 percent, while ODA had increased by only 39 percent. A large part of the increase in ODA had been offset by higher debt-servicing charges, as interest payments had more than doubled. This required a review of the developing countries' domestic policies and programs and, at the same time, increased outside assistance through bilateral and multilateral channels to reduce economic and social strains in the economies of these countries, particularly when they are engaged in carrying out adjustment programs. The World Development Report projections indicated that to attain growth in the high case scenario--an objective which is modest by previous standards--the ODA equivalent from DAC countries would amount to only 0.37 percent of their GNP.

(ii) IDA-6 and IDA-7

14. The Committee, recognizing that the poorest countries had been most affected by the global recession, paid special attention to the problems surrounding IDA which, since its establishment in 1960, had become a very important and effective multilateral instrument for promoting development in low-income countries. Delay in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended IDA commitment had a serious impact on the low-income developing countries especially the poorest nations in Sub-Saharan Africa and other regions. The Committee welcomed the commendable efforts made by the Bank management and also by the vast majority of the IDA donors whose response had resulted in the release of IDA-6 contributions on the original three-year schedule without

insistence on pro rata contributions and the provision of additional resources for FY84 through a Parallel Fund or through a Special Account of IDA for FY84. The Committee, while acknowledging with satisfaction this helpful development, urged the U.S. to provide its full third payment of \$945 million in FY83 and to complete its IDA contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

15. In this context, the Committee welcomed the donors' agreement to commence formal discussions on IDA-7. While recognizing the budgetary constraints of the industrial countries, the Committee strongly hoped that, in view of the extremely serious economic predicament of the poorest developing countries, the expanded IDA recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries, it would be possible for the donors to agree on a level of replenishment appropriate to the situation. It was also important that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, in order to prompt a further funding gap from arising.

(iii) Progress Report of the Task Force
on Concessional Flows

16. The issue of concessional funds and their effective use is of critical importance to the low-income developing countries. In May 1982, the Committee established a Task Force on Concessional Flows in order to carry forward and widen the continuing study of the problems affecting the volume and quality and the effective use of concessional flows in the shorter and longer terms. The 18-member Task Force, representing industrial donor countries, oil producers and non-oil developing countries, under the chairmanship of Mr. John P. Lewis, Professor at Princeton University and former Chairman of the Development Assistance Committee of the Organisation for Economic Cooperation and Development, held its first meeting in Paris on October 19-20, 1982, and the last one in Helsinki on June 2-4, 1983. The Chairman will present a progress report at the September meeting of the Development Committee.

C. Non-concessional Flows

Financial Flows from and Level of Lending by
Multilateral Development Institutions (MDIs)
and Implications for Their Capital Base

17. Those developing countries which rely heavily on private capital markets or non-concessional flows from MDIs also face many uncertainties. The

magnitude of their financial needs, in the context of the persistent large deficits, high cost of borrowing, increasing indebtedness, decline in growth of exports, inability or unwillingness of private markets to bridge the gap, underline the importance and urgency of providing the MDIs with additional resources to assist developing countries in their development efforts. The Task Force on Non-concessional Flows, which had examined the whole subject in depth, had concluded that an essential condition for meeting the external financing needs of oil-importing developing countries was that non-concessional flows continue to be available to them in conjunction with private direct investments and concessional and part-concessional flows. Its recommendations, therefore, stressed examination of various possibilities of increasing the future lending capacity of the World Bank and other MDIs and the consequent implications for their capital requirements. This matter, therefore, received attention by the Executive Board of the World Bank and by the Development Committee in both of its substantive meetings held during the year.

18. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee further invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. In this connection, it noted the Bank management's intention to propose an expansion of 5 percent per annum in real terms beginning in 1985. The Committee also urged the management of the Bank to present, in accordance with past policy and practice of the Bank, a specific proposal to the Board of Executive Directors for a selective capital increase following, and in line with, the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

19. As regards the regional banks and the International Fund for Agricultural Development, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions to enable them to continue to play their important role in the development efforts of their member countries.

D. Co-financing

20. The Committee noted the efforts of the World Bank to make co-financing a more effective vehicle to attract additional non-concessional flows to developing countries on longer maturities. The Committee noted with satisfaction that the co-financing operations of the World Bank from various sources had

expanded considerably in recent years. Thus, in 1982, its co-financing operations amounted to \$7.4 billion, of which \$3.2 billion was from private sources compared to an annual average of about \$200 million from private sources in the second half of the 1970s. The Committee endorsed the efforts of the Bank and regional banks, where appropriate, to secure through new mechanisms of co-financing additional resources on terms suitable for and acceptable to borrowing countries. However, co-financing with private institutions was to be regarded as a supplement to, and not as a substitute for, increased lending by the MDIs and these arrangements were not in any way to alter the development character of these institutions. The Bank has since introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to extend maturities and increase financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This would be of special significance to low-income borrowing members of the Bank.

E. External Debt Problems of Developing Countries

21. The external debt problem of the developing countries had assumed new importance and urgency in the current economic situation. The Committee was presented with a paper prepared by the Fund which described the growth of developing countries' debt and debt servicing over the period since 1974, outlined the dimensions of the debt-servicing difficulties faced by many countries in 1982 and commented on the near-term outlook with regard to financial flows and debt servicing.

22. The Committee expressed its concern about the severity of the debt-servicing problem faced by many developing countries. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. In this connection, it welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral agencies to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources. It further noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies. The Committee also welcomed the joint 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. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

F. Linkages between Trade and Development

23. Another subject of increasing importance which attracted the Committee's attention during the year under review related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. A paper jointly prepared by the Fund and the World Bank pointed out that the expansion of world trade was a vital ingredient in economic development and had made and could continue to make an important contribution to economic growth and development of both industrial and developing countries. This was evident from the experience of the 1963-73 decade when the growth of international trade provided an environment in which the developing countries recorded impressive growth rates. The Committee, therefore, welcomed the intensified efforts of the Bank and the Fund to encourage an expanding and open world trading system while remaining sensitive to the special needs of the developing countries. The Committee urged both institutions to collaborate with the General Agreement on Tariffs and Trade in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of trade barriers. It also called 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 industrialized countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade and development, and to keep the Committee informed of the results of those examinations.

G. Additional Lending for Energy

24. The important subject of lending for energy development was last substantively discussed by the Committee at its Helsinki meeting. The search continues to identify new approaches or financing mechanisms which attract broad support from those members expected to contribute the bulk of the capital. A full consideration of this subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which would take into account the recent developments and future prospects in this area.

H. Status of Group of 24's Program of Immediate Action
and Brandt Commission Report

25. The Committee, at its earlier meetings, had considered reports prepared by the Bank and the Fund staffs reviewing actions taken by the two institutions in pursuing those measures to enhance the flow of resources to developing countries raised by the Group of 24's Program of Immediate Action and the Brandt Commission Report. In further consideration of this matter at its Toronto meeting, the Committee noted that both the Bank and the Fund had already implemented some of the recommendations applicable to them and were continuing their consideration of other issues relevant to the Committee's work.

III. FUTURE TASKS

26. The Annual Report, largely based on the communiqués following the Committee's meetings in September 1982 and April 1983, describes the serious and urgent economic problems which currently confront both the developed and developing countries. These will continue to receive the Committee's primary attention in the period ahead. There is growing recognition that no single approach or action by a single country or even a group of them can provide a durable solution. It has to be a joint and sustained effort of all, within their respective capabilities and responsibilities, which will produce the desired results in this increasingly interdependent world. The domestic policies of the developing countries, the external support and appropriate policies of the industrialized countries, and the programs of the multilateral development institutions have to be harnessed together in an environment of free and growing world trade unimpeded by protectionist policies to produce the right results.

27. The Development Committee with its broad mandate, its political stature, its compact size, and the support of the two premier multilateral institutions in the fields of finance and development continues to provide a high level ministerial forum which attempts to seek international consensus on a number of vital development issues and thereby facilitates decisions in appropriate bodies.

Annexes to the final report

- A. Members of the Committee
- B. Organizational and Administrative Aspects
- C. Text of Parallel IBRD and IMF Resolutions
Establishing the Development Committee
- D. Agendas and Press Communiqués of Meetings
Held in September 1982 and April 1983