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June 4, 1993

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

From: The Secretary

Subject: Development Committee - Draft Outline for Joint Issues Paper -
Adjustment Experience in Low-Income Countries and Implications
for Financing Needs

Attached for consideration by the Committee of the Whole is the draft outline of the joint issues paper on "Adjustment Experience in Low-Income Countries and Implications for Financing Needs" for the meeting of the Development Committee to be held in Washington, D.C. on September 27, 1993. This outline will be taken up at a meeting of the Committee of the Whole scheduled for Wednesday, June 16, 1993.

Prior to the Committee meeting, any comments or questions may be addressed to Mr. van der Mensbrugghe (ext. 38360).

Att: (1)

Other Distribution:
Department Heads
Development Committee Secretariat

DEVELOPMENT COMMITTEE - SEPTEMBER 1993

Draft Outline for Joint Issues Paper

Adjustment Experience in Low-Income Countries
and Implications for Financing Needs

I. Introduction

While sustained adjustment efforts in selected low-income countries have had positive and encouraging results, in general the economic response of the low-income countries to adjustment has been weaker than in the case of middle-income countries. This paper will review this experience with a view to (i) drawing lessons for policy and priorities for developing country governments, donors and the IFIs, and (ii) assessing implications for financing needs. ^{1/}

II. Overview of Recent Experience

1. The need for adjustment. The low-income countries are a diverse group. The paper will review varying circumstances leading to the need for adjustment programs, including unfavorable external environment, inadequate domestic economic policies, and fundamental structural and institutional weaknesses.

2. The nature and scope of policy reforms. The paper will take stock of the progress in implementing reform programs, assessing the experience with implementation of macroeconomic policies, such as budgetary/financial and exchange rate policies, and structural measures, such as tax and expenditure reforms, financial sector reforms, trade and pricing policy reforms, and public enterprise reforms.

3. Payoffs to reforms. While it is too early in many cases to fully assess the effectiveness of reforms, the paper will synthesize the main lessons learned thus far. What has been the impact of adjustment on sustainable growth, poverty reduction, and stronger external positions? The divergent developments across countries will be viewed in the context of the global economic environment and official flows of capital (and the increasing concessionality of such flows).

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^{1/} The paper will draw on various reviews by the staffs of the Bank and the Fund, including the Bank's Third Report on Adjustment Lending, and the Fund's recent World Economic Outlook and review under the Enhanced Structural Adjustment Facility.

III. The Road Ahead

1. Perspectives on policies

For developing countries, the paper will review the priorities in policy reforms at this time and how best to sustain momentum and integrate adjustment efforts within a longer-term framework aimed at poverty reduction and sustainable development. It will, inter alia, stress the need for continued focus on strong macroeconomic policies, careful attention to the sequencing and speed of policies within the structural constraints facing the low-income countries, private sector development, human resource development, creation of social safety nets, institutional development and the rationalization of the role of the State.

For industrial countries. The importance of sound macro and structural policies for a favorable global economic environment and better availability of external finance to low-income countries, the importance of open multilateral trade.

2. Financing implications

Low-income countries will need to redouble efforts to mobilize domestic financing, but they will also continue to need substantial external financing, primarily from official sources for countries with limited access to private flows. Adjustment should be set in a medium-term framework consistent with long-term development objectives, and needs to address the basic endowment weaknesses of low-income countries as well as shorter-term concerns.

Given the current global economic outlook, the paper will assess in broad terms the prospective financing needs associated with the strengthening of policy efforts in low-income countries and stress the importance of official concessional assistance, including debt relief, and over time, private flows.

3. The role of multilateral institutions

The role of IFIs, particularly the Bank and the Fund, in the provision of policy advice and concessional financing assistance, and in catalyzing concessional external financing flows to low-income countries.