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November 17, 1989

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

From: The Secretary

Subject: Development Committee - Draft Tentative Provisional Agenda
and Draft Outlines for Background Papers

Attached for the information of Directors is a draft tentative provisional agenda for the May 8, 1990 meeting of the Development Committee, together with draft outlines for background papers entitled: Draft Outline for Review of the Debt Strategy and Its Impact on the Development Prospects for Severely Indebted Countries; Draft Outline of an IMF/World Bank Group Background Paper for the Development Committee--Private Sector Development; Draft Outline for Development Committee Paper on Long-Term Perspective for Sub-Saharan Africa. The draft tentative provisional agenda and outlines have been circulated to Bank Executive Directors and will be considered by Bank Directors at a seminar to be held on December 1, 1989. This seminar would also offer an opportunity for Bank Directors to express their views on the future work program of the Development Committee.

This seminar is a new procedure for the Bank and responds to the desire of Bank Executive Directors to have an earlier, and more substantial, input into the preparatory work for the Committee. The Executive Secretary has reached an understanding with Bank Directors that they will review the final agenda together with the President's Report and the background papers about one month before the Development Committee meeting. A short report will be prepared for Fund Executive Directors on the outcome of the Bank seminar, at which time consideration can be given to the way in which the Fund's Committee of the Whole would prefer to proceed.

Any questions on the procedures may be addressed to the Executive Secretary, Mr. Fortin (477-6424).

Att: (1)

Other Distribution:
Department Heads
Development Committee Secretariat

November 7, 1989

DEVELOPMENT COMMITTEE

Tentative

Draft Provisional Agenda
for May 8, 1990 Meeting

1. The contribution of the private sector to development, including the roles of the Bank and Fund ^{1/}
2. The debt strategy and its impact on the development prospects for all severely indebted countries ^{2/}
3. Long-term perspective for development of Sub-Saharan Africa ^{2/}
4. Reports:
 - (a) Progress report on environmental issues ^{2/};
 - (b) trends in the transfer of resources;
 - (c) current international trade developments.
5. Other Business

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- 1/ Item 1 responds to the request in para. 19 of the September 1989 communique for a discussion "on enhancing the contribution of the private sector to development including the promotion of foreign private investment, and the support that the Bank and the Fund can provide for this purpose".
 - 2/ Items 2, 3 and 4(a) relate to calls in para. 19 of the September 1989 communique.

DRAFT
11/14/89

Review of the Debt Strategy and Its Impact on the
Development Prospects for Severely Indebted Countries
(Joint Bank/Fund Development Committee Background Paper)

1. Overview and summary
2. Brief review of economic trends in severely indebted countries
 - o Review developments in growth, investment, capital flows, and debt indicators.
 - o Focus on severely indebted countries identified by a set of objective criteria which will include, inter alia, countries that are successfully managing their debt problems.
3. Progress under the debt strategy
 - o Middle-income countries
 - (a) Bank and Fund experience under the strengthened debt strategy, based in part on an analysis of individual country cases, including e.g. Mexico, the Philippines, and Costa Rica.
 - (b) Preliminary assessment of progress in implementing the debt strategy.
 - o Low-income countries
 - (a) ODA debt forgiven bilaterally by official creditors.
 - (b) Debt relief provided multilaterally by official creditors
 - (i) Paris Club reschedulings for low-income countries, including concessional rescheduling.
 - (ii) Arrangements by other official creditors that reschedule outside the Paris Club.
 - (c) Bank and Fund experience under strengthened debt strategy.
 - (d) Preliminary assessment of progress in implementing the debt strategy.
4. Implications for economic development in (a) middle-income countries and (b) low-income countries. Mobilization and utilization of resources:
 - o Impact on domestic savings and investment.
 - o Effect on availability and stability of capital flows: official, private, including foreign direct investment and net capital flight.

DRAFT 11/13/89

PRIVATE SECTOR DEVELOPMENT

Outline of an IMF/World Bank Group Background Paper

for the

Development Committee

Each section of the paper will deal with the support the IMF and the World Bank Group (IBRD/IDA, IFC, MIGA) provide to private sector development, as well as the policy implications for governments of developed and developing countries.

I. Introduction

In recent years private sector development and competitive markets have reemerged as central themes of development strategies. Countries with very different economic, political and social objectives, and with private sectors at varied stages of development, are seeking ways to tap the advantages of competition and private initiative, ways which can be tailored to their individual circumstances.

Private sector development is not an end in itself, but a means to increase the responsiveness of economies to price signals and thus to promote the more efficient use of resources. The focus is on efficiency, not ownership per se. In this sense private sector development means not just more private activity, but expanded competition and better government capacity to correct abuses and regulate wisely.

II. Fostering the Enabling Environment

An "enabling" environment should provide incentives for the development of an efficient private sector which can respond flexibly and quickly to changing market signals. Consistent and sustained macroeconomic policies, combined with greater liberalization of trade and support for the effective and undistorted functioning of price signals and other incentives, are critical to the enabling environment. They are key objectives of IMF and World Bank Group activities. Realistic exchange rate and interest rate policies are crucial for establishing the right signals, while prudent fiscal management enhances both the incentive environment and the availability of financing for private activities. In most countries an enabling environment requires not only fundamental policy reforms but major changes in the legal and regulatory framework--both formal rules and informal systems--through, for example, measures to expand competition by removal of barriers to entry and exit or to protect contractual agreements and enforce disclosure requirements, etc.

Foreign direct investment is important as a source of financing, access to markets and technology, and managerial skills. Developing countries seeking to secure the advantages of foreign direct investment will need to address specifically the barriers and constraints facing the foreign investor.

Promotional programs should not be overemphasized; there is ample evidence that foreign investors are most attracted by high levels of local private investment and a generally supportive business environment. Home countries should reexamine their laws and regulations which may tend to discourage their private sector from investing in developing countries.

III. The Respective Roles of the Public and Private Sectors

Many developing country governments are reexamining the role of the state in their economies, reassessing public spending priorities, pruning unmanageable or peripheral activities, and moving to tap private skills and resources wherever possible. This can have important implications for expenditure decisions and government's approach to the business sector, as well as for the improved functioning of all activities which remain in the public sector. Donors should also reassess the impact of their programs on the relative roles and efficiency of the public and private sectors.

Privatization can be an important tool of restructuring, but experience shows that the process should be transparent and the deal should be structured to support the goals of efficiency and competition. Private delivery of public services and infrastructure may offer a way to secure additional financing and managerial skills but an adequate regulatory framework will often be needed.

IV. Financing the Private Sector

Private sector development requires a financial sector able to mobilize an adequate volume of savings and channel resources effectively to their most efficient uses. A proper macroeconomic setting combined with policies which assure that the right signals are sent to the financial sector as a whole is an important prerequisite. It will be critical to develop a regulatory framework which encourages a competitive and market based financial system while preventing abuses, to strengthen those institutions able to compete and efficiently mobilize foreign and domestic resources, both debt and equity, and to develop capital markets which can offer a range of financing instruments and are linked to international capital markets. The underdeveloped state of financial institutions, of legal frameworks for the financial system, of supervisory skills, etc., plus the interdependent nature of financial reforms, often places substantial practical limits on the pace of financial liberalization. This presents the challenge of finding ways to increase private sector access to finance in the short and medium term without creating obstacles to reform -- a key goal of IFC and MIGA.

V. Conclusions and Recommendations

Governments and donors can take action in all three areas to facilitate private sector development, starting with areas of high priority and taking full account of individual country circumstances to develop a strategy for action. The World Bank Group and IMF have important roles to play in facilitating these actions.

Draft Outline for Development Committee Paper
on
Long-Term Perspective for Sub-Saharan Africa

[NOTE: The basic background document for this topic will be the World Bank Report From Crisis to Sustainable Growth -- a Long-Term Perspective for Sub-Saharan Africa (LTPS) but to facilitate discussion by Ministers, separate papers will be prepared specifically for the Development Committee meeting by Bank and Fund staff.]

A. The Bank's paper would:

1. Highlight key conclusions of the full report. [As the report is just being released November 22, it is difficult to state with precision now which issues will require most attention by April/May 1990. The topics covered would be drawn from the following, however.]
2. Ministerial support will be sought for the overall strategy for addressing Africa's long-term development needs as set out in the report. Recognize this requires actions by African governments supported by the international community.
3. Issues concerning implementation of major priorities: human resource development; capacity building; population, agriculture and environment; and regional integration and cooperation.
4. Program set forth in the report calls for substantial external financing in support of a long-term partnership of donors and recipients; what can be done to increase flows to support this partnership? What can and should be done to enhance donor coordination and reorient existing aid programs? Does the LTPS provide a sound context for SPAII? Do Ministers support the extension of SPA into Phase II?
5. Summary of major priorities for action by all major actors.

B. The Fund's paper would draw on the experience of Sub-Saharan Africa in the context of SAF/ESAF arrangements and on recent discussions with aid agencies. Selected aspects for consideration by Ministers would be complementary to those raised in the Bank staff paper and would include:

1. To establish an environment conducive to longer-term development, a focus on the fundamentals of macroeconomic management is critical for restoring private sector confidence. A strengthened financial position of the public sector permits a rebuilding of social and physical infrastructure at an appropriate level and quality. Financial stability and a price system that accurately reflects scarcities give confidence for the private sector

to make long-term investment decisions and to direct a larger volume of resources toward productive sectors.

2. Foreign savings can play an important role in promoting a strong recovery in investment in Africa. Greater domestic saving efforts need to be supplemented by foreign financing, including concessional financing and direct investment for updated technology essential for development.
3. Priority should be given by the international community to match financial assistance with greater consistency in policy advice. This would help ensure effective and efficient use of scarce resources and permit a gradual reduction over time in countries' reliance on exceptional balance of payments assistance.