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March 23, 1988
Corrected: 3/23/88

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

From: The Secretary

Subject: Draft Minutes of Meeting 87/4

Attached are the draft minutes of Meeting 87/4 of the Committee of the Whole for the Development Committee held on September 10, 1987. If no revisions are proposed by the close of business on Tuesday, March 29, 1988, the minutes will be deemed approved as of that date.

Att: (1)

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CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee

Meeting 87/4

3:00 p.m., September 10, 1987

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
A. Abdallah	E. T. El Kogali
	Jiang H.
	M. K. Bush
J. de Groote	J. Prader
	M. Hepp, Temporary
M. Finaish	
	B. Goos
J. E. Ismael	J. Reddy
	J. Hospedales
	M. Foot
M. Massé	
	J. K. Orleans-Lindsay, Temporary
Y. A. Nimatallah	I. A. Al-Assaf
	L. Filardo
	M. Fogelholm
H. Ploix	
G. A. Posthumus	
	C.-Y. Lim
G. Salehkhou	O. Kabbaj
	L. E. N. Fernando
K. Yamazaki	M. Sugita
S. Zecchini	

J. W. Lang, Jr., Acting Secretary
B. J. Owen, Assistant

Also Present

F. Fischer, Executive Secretary, Development Committee; D. R. Clarke. IBRD: R. Ayres, C. Humphreys, External Relations Staff. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; M. W. Bell, E. Brau, S. B. Brown, B. Christensen, K. B. Dillon, H. Hino, S. Kanesa-Thasan, R. L. Sheehy. External Relations Department: P. E. Gleason, P. C. Hole. IMF Institute: O. B. Makalou. Legal Department: R. H. Munzberg, J. M. Ogoola. Middle Eastern Department: S. Thayanithy. Research Department: D. A. DeRosa, N. M. Kaibni. Treasurer's Department: T. Leddy, Deputy Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: M. B. Chatah, L. P. Ebrill, A. G. A. Faria, S. M. Hassan, G. Pineau, I. Puro, J. E. Zeas. Assistants to Executive Directors: N. Adachi, A. R. Al-Abdullatif, F. E. R. Alfiler, M. Arif, O. S.-M. Bethel, F. Di Mauro, W. N. Engert, S. K. Fayyad, V. J. Fernandez, M. A. Hammoudi, G. K. Hodges, S. King, K.-H. Kleine, D. V. Nhien, C. Noriega, L. Rieffel, S. Rouai, G. Schurr, G. Seyler.

1. PROPOSALS FOR ENHANCING ASSISTANCE TO LOW-INCOME COUNTRIES FACING EXCEPTIONAL DIFFICULTIES

The Committee members considered a paper prepared jointly by the staffs of the Fund and the Bank in response to the request by the Development Committee that proposals for action be made to address the problems of countries facing exceptional difficulties (EB/CW/DC/87/6, 8/19/87; and Sup. 1, 8/26/87).

Mr. Fritz Fischer, Executive Secretary, and Mr. D. R. Clarke, Development Committee; Mr. R. Ayres, and Mr. C. Humphreys, World Bank, were also present.

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

> It is customary for the Executive Secretary of the Development Committee to give a brief account of the previous deliberations in the Bank's Committee of the Whole. Although the only topic on the agenda is the discussion of the joint Bank/Fund paper on proposals for enhancing assistance to low-income countries facing exceptional difficulties, as you know, the Bank Board discussion centered on the draft report of the President of the Bank.
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> The Bank Board members discussed the three major portions of the President's report. In particular, the need for enlarging the capital base of the Bank and for a sizable capital increase was emphasized. There was widespread support for this proposal.
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> On the subject of the heavily indebted middle-income countries, there was a broad discussion of the debt strategy and the need for active involvement by the Bank, in financing, advice, and as a catalyst for additional resources.
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> As to the low-income countries facing exceptional difficulties, Bank Directors warmly welcomed the joint staff paper on this subject. There was general support for the proposals, and many Directors expressly endorsed the importance of tripling the structural adjustment facility. Several Directors recognized the contribution of the policy framework approach. Proposals for concessional rescheduling of interest payments were supported by several Board members, although others expressed reservations. Finally, some Directors made a few editorial and technical suggestions.
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> With respect to other points on the provisional agenda of the Development Committee, several Executive Directors referred to Item 2 on the impact of the industrial policies of the developed countries on the developing countries and emphasized the need for

urgent action to address this and the other issue. Other Executive Directors underlined the importance of continuing the discussion on environment and development.

All in all, one could draw a lot of comfort from the Bank's debate, which reflected the growing potential of the Development Committee as an appropriate joint forum for an action-oriented discussion of Ministers. I am sure that today's discussion in the Fund Board will further strengthen this encouraging development.

The staff representative from the Exchange and Trade Relations Department said that the Fund and Bank staff, following the discussion in the Bank's Committee of the Whole, had made three principal revisions in the joint staff paper. On page 2, in the introductory section, a descriptive paragraph would be inserted on the UN Program of Action for African Economic Recovery and Development that had been endorsed by the UN General Assembly in 1986. On page 10, in the first full paragraph of subsection 3 on bilateral donors, the provisional estimate of the decline in volume terms of bilateral disbursements of overseas development assistance to sub-Saharan Africa could fortunately be updated to a figure of 2 percent rather than of 12 percent. Finally, on page 16, a new sentence should be added preceding the penultimate sentence of Section VII reading: "the analytic work has been based largely on only 14 countries but this does not mean that all of these countries or only these countries would be eligible."

Further revisions to the joint staff paper would be made in light of comments made by members of the Committee, the staff representative from the Exchange and Trade Relations Department stated. A revision of the paper would be issued as soon as possible.

Mr. Foot said that as his counterpart in the World Bank had already noted at the discussion of the Bank's Committee of the Whole on September 1, the joint staff paper would make a helpful contribution to the deliberations of the Development Committee. He supported the general thrust of the analysis and agreed with the conclusion that the problems of sub-Sarahan Africa were so great as to justify special treatment. He particularly welcomed the support given in the paper to Chancellor Lawson's proposals for interest relief on Paris Club debts which, as he had explained in the Board's recent discussion of debt, his authorities saw as one necessary leg of an appropriate strategy for sub-Sarahan Africa. As he had emphasized at that Board meeting, the Chancellor's proposal was fully complementary to the proposed enhancement of the structural adjustment facility, a subject that would be taken up the following week.

Speaking personally, Mr. Foot remarked first that he had found the conclusion of Section VI 3 on commercial banks to be rather naive. The message should not be that "commercial banks might consider generous and imaginative solutions." Rather, it should be that imaginative solutions were likely to be in the banks' own best long-term commercial interests. Second, he wished to stress the importance of the comment about the quality of data that was made in the second footnote on page 17. In particular, there were several countries on the list in the first footnote on page 16 of debt-distressed countries with a debt service ratio of 30 percent or more during 1988-90 whose debt service ratios would be much better than they appeared currently if appropriate exchange rate and supporting policies were followed and if those countries were successful in attracting "unofficial" exports back into official channels.

Mr. Abdallah made the following statement:

I welcome this opportunity to discuss the World Bank proposals for enhancing assistance to low-income countries facing exceptional difficulties that are to be considered by the Development Committee. I will start with a few general observations. First, the most distinctive characteristic of the present proposals is their relative comprehensiveness and the clear effort to treat the adjustment question in a manner that highlights the debt problem of low-income countries--which had not received due attention in the past--and the need for concessional flows to secure a minimum level of imports in support of domestic adjustment. Second, the initiative represents a major step in the direction of focusing the attention of the international community on the plight of the poorer countries and their debt problem. Third, the program puts emphasis on reorienting aid flows toward adjustment and tends to make policy framework papers the focal point of all financial assistance, including direct project loans and grants. On previous occasions this chair cautioned that while there is merit in using policy framework papers to promote aid coordination, there is the danger that they might be taken as an elixir for all development and structural problems that a country could be facing. There is also the danger that in the absence of a meaningful increase in resources, the policy framework process might lead to the repackaging of already existing development assistance. Of course, this would create a situation in which all resource flows to low-income countries will become highly conditional and tied to Fund- and Bank-supported programs. Such a situation might result in unnecessary complications without achieving the desired objectives. With this caveat, I should like to say that the countries in my constituency fully support the thrust of this new initiative.

I will now turn to issues which are raised in the paper. One should keep in mind, as stated clearly in the paper, that many low-income countries in sub-Saharan Africa have been and are implementing comprehensive adjustment programs and have made substantial progress in reducing imbalances and improving economic efficiency. There have been striking reforms in a number of areas, including the exchange rate, fiscal management, the performance of public enterprises, and production incentives, particularly in the area of agriculture. However, in most cases, the impact on economic growth or the standard of living has been minimal if not negative, basically because of the lack of sufficient external financing to support domestic adjustment. The obvious conclusion is that adjustment with growth can only be realized in low-income, heavily indebted countries if the strong commitment to deepening policy reforms that is seen in a large number of countries is supported by the appropriate level of capital flows.

The second point requiring emphasis is that the amount of additional external resources needed to support strong growth-oriented adjustment programs in low-income countries eligible to use the resources of the structural adjustment facility and IDA over the coming three years is substantial and would require a considerable increase in aid flows from bilateral and multilateral sources and meaningful debt relief on concessional terms. An enhanced structural adjustment facility along the lines proposed in the Managing Director's initiative should play an important role not only in providing financial support for domestic adjustment efforts, but also in ensuring resource availability on a timely basis. The role of the facility is also important in making available to eligible countries the technical expertise of the Bank and the Fund in the design, implementation, and monitoring of growth-oriented adjustment programs. This means that it is very important that we proceed with vigor to make the enhanced facility operative by January 1, 1988 as proposed by the Managing Director. I should stress, however, that the structural adjustment facility can only function properly in the context of a comprehensive strategy, including debt relief and additional external resource flows from bilateral and other multilateral sources.

Further, the increased pledges for the replenishment of IDA-8 are most welcome and will complement in a substantial fashion adjustment programs supported under the enhanced structural adjustment facility. It is necessary that IDA-8 become effective fairly soon, and we would join the Bank administration in urging the donor governments to accelerate their budgetary procedures. Strengthening the financial base of the African Development Fund through a substantial fifth replenishment is also essential if resource flows in support of adjustment efforts of member countries are to be reinforced. It is most disturbing that the volume of bilateral aid flows to sub-Saharan Africa substantially declined in 1986, and we would urge donors to make determined efforts to reverse this decline and ensure much higher aid flows than in previous years, particularly in view of the complete drying-up of nonconcessional flows and the adverse external developments and prospects for commodity prices. It is important to ensure that development assistance to the poorest countries is not affected by budgetary constraints and fiscal adjustment in donor countries. Slow disbursement of bilateral aid has also been a major concern of recipient countries and has made implementation of adjustment policies very difficult. Therefore, disbursement of official development assistance should be speeded up to ensure its timely arrival.

As mentioned before, we are concerned about the overriding emphasis being placed on complex and detailed policy prescriptions for most aid commitments and the tendency toward the exclusion of traditional development assistance which is also needed to finance projects. This has implications, not only with regard to conditionality, but also for long-term growth in aid recipient countries which require a major increase in public investment, including economic and social infrastructure and human resource development. It is crucial to stress that financial stability in the long run depends on economic growth and development. The planning process, therefore, as well as project financing continues to have a role in developing countries.

An important element of the present proposals is the strategy for alleviating the external debt service burden of the low-income countries as an integral part of the package. I fully share the view that a lasting resolution of the debt problem of the countries experiencing exceptional difficulties would require more concessional and innovative approaches. Despite substantial improvements in the terms of debt rescheduling by Paris Club creditors, repeated reschedulings have not resulted in any meaningful improvement in the external payments position of the poorest, highly indebted countries of sub-Saharan Africa. The temporary debt-servicing relief provided by reschedulings has been at the expense of rapid growth in overall indebtedness. The more recent multiyear reschedulings of principal and interest by Paris Club creditors on more concessional terms--by the extension of maturities and grace periods for a number of the poorer countries--is a welcome development and should be extended to other poorest, highly indebted countries. However, the reluctance of many Paris Club creditors to alleviate the debt-servicing burden by reducing interest rates on rescheduled debt does not help in finding a lasting solution for the debt problem of these countries. Any fundamental improvement in the debt position of the low-income, highly indebted countries would require a substantial reduction of interest rates on existing debt and we would urge official creditors to support such proposals. The steps taken by a number of official donors to convert ODA loans to grants is a positive development and we would urge all official donors to join in converting the remaining ODA loans into grants through outright conversion or equivalent actions where outright conversion is not possible for legal and other reasons.

It is to be noted that commercial banks have not participated in any significant way in alleviating the debt service burden of low-income countries. None of the countries has benefited from the internal write-offs or provisionings undertaken by these banks. Moreover, the new innovations in addressing debt-servicing problems of large debtors may not work for the low-income countries, and commercial banks have to consider more generous and innovative solutions--perhaps along the lines of the recent proposal of debt buy-back at a discount for Bolivia financed by concessional assistance from official creditors--to be able to contribute to the resolution of the debt problem of low-income countries. As ably put by Mr. Foot in his circulated statement, imaginative solutions are likely to be in their own best long-term commercial interests.

On the specific proposals for a special program of assistance to debt-stressed countries, I think that the inclusion of only 14 countries, while a number of low-income African countries facing exceptional difficulties are excluded, leads to a rather limited coverage. Some countries facing exceptional difficulties are excluded; for instance, Ethiopia, perhaps because it is not experiencing severe debt-servicing problems. Another excluded low-income debt-stressed country which has recently embarked on a comprehensive adjustment program, is Sudan. Some countries which meet all three criteria set by the program, such as Mozambique, are equally excluded for reasons which are not clear to me. Adjusting the program to include these countries will definitely have implications for the level of external resource requirements.

Moreover, the debt relief component of the program does not explicitly address the question of what these countries owe to multilateral institutions which do not reschedule their debts, including the Fund. This issue should not be excluded from the debate on devising a new debt strategy, since what these countries owe to multilateral institutions is a major segment of their external indebtedness. There are indications that some new ideas on this sensitive issue may be presented at the forthcoming Annual Meetings.

The proposed debt service ratio of more than 25 percent which the Bank staff considers to be manageable is, in my view, very high and likely to be unsustainable unless the external environment remains highly favorable over several years. That the said ratio is high is clearly reflected by the fact that almost 50 percent ($0.7 billion) of all the external financing requirements for the program ($1.5 billion) will be devoted to debt servicing after rescheduling. There can be no doubt, therefore, that debt relief on much more concessional terms than envisaged in the program will be required.

Lastly, a word on the proposed implementation mechanism. While I understand the need and importance of aid coordination, I am concerned about excessive conditionality, cross-conditionality, and double conditionality that could arise from the proposed mechanism. Bilateral donors have their own national interests which they try to serve and multilateral institutions also have their policy objectives which may not always coincide with those of donors all the time. It will be extremely difficult for a recipient country to satisfy the many varied interests, particularly when circumstances are changing fairly fast, and the complications that might arise are likely to leave an adverse impact on disbursement.

In conclusion, I would like to reiterate our support for the thrust of the analysis and the proposed program.

Mr. de Groote made the following statement:

Let me begin by commenting on the conditions necessary for a successful overall debt strategy, before turning to the proposals for enhancing assistance to low-income countries facing exceptional difficulties, because these general conditions are valid for these countries, too.

The debt problem will be with us for years to come unless certain actions are taken in time. A debt strategy promising an ultimate solution must include, at a minimum, the following three elements:

First, the debtor country must implement adjustment policies for the revival of sustainable growth with a viable balance of payments position over the medium term. The design of such policies should be neither too general, nor too standardized. The country's needs should be identified and specifically addressed by a package of policies tailored to the individual case. The solution for each country is unique. Second, there must be adequate financial support on concessional terms. This support may be extended by reducing scheduled debt service obligations to more sustainable levels, or by providing additional quick-disbursing assistance. And third, the external economic environment should be favorable. Ideal conditions would be a growing, stable world economy, less afflicted by uncertainties, in which free trade can generate adequate demand for the debtor countries' exports.

Ideally, all three elements should be present. In the case of adjustment programs which must be conducted under conditions like those prevailing for the last several years, the assumption has been made that additional financial support can more or less offset the cyclical shortcomings of the economic environment. Unlike the environmental factors, however, the elements of good program design and vigorous execution cannot be dispensed with.

Let me now turn to the particular topic of this meeting. We speak of "exceptional difficulties." Despite the arduous efforts of the last several years to implement growth-oriented adjustment policies on the part of many low-income countries, particularly in sub-Saharan Africa, their very serious difficulties persist. The total debt of sub-Saharan Africa amounted to $76 billion by the end of 1986. Although this amounts to only 6 percent of the total outstanding developing country debt, and may thus seem a modest amount, it is enormous relative to the very limited economic capacity of sub-Saharan Africa.

There are about 22 African countries with severe debt problems, where severity is defined as a debt service/export earnings ratio higher than 30 percent. These countries' total outstanding debt averages 450 percent of their exports, and their scheduled debt service before rescheduling averages roughly 55 percent of their exports. Their per capita imports and per capita GDP have fallen steeply since 1980, and their average annual per capita growth rate between 1986 and 1995 is estimated at between 0.3 percent and 0.5 percent. Growth in aid flows to these countries, including those undertaking adjustment programs, remained below the recent average for all of Africa. These countries will need an additional $1.5 billion annually for the three years 1988-90, to support import growth and a modest growth in per capita GDP and consumption, without letting debt service payments rise to an unmanageable level.

I cite all these facts to stress how urgent it is for us to act.

The paper before us is a good example of Bank-Fund collaboration, on which I would like to congratulate the staffs of both institutions. It suggests a very comprehensive program for addressing the most urgent needs of the low-income debt-distressed countries undertaking adjustment programs.

Particularly useful is the effort to make participation in the program's financing as flexible as possible to meet the widely varying special circumstances of donors, creditors, and the debt-distressed countries themselves.

The principal measures included in the program are the provision of concessional debt relief, including reductions in interest rates, extension of grace periods and maturities, and conversion of some ODA loans into grants; increased concessional flows from IDA; increased cofinancing to support adjustment operations aimed at accelerating the disbursements of other ODA commitments, and an increase in the resources of the structural adjustment facility of the Fund. Since such a broad program will require active and timely collaboration by a wide variety of participants, including creditors, donors, borrowing governments, and multilateral institutions, it seems a correct move to use the policy framework paper as a basic coordinating document. Special attention will have to be given to the legal constraints under which most of those participants have to act.

There is really no need for me, in this Board, to stress the severity of the problems confronting this group of countries and the urgency of addressing them. We can perhaps be reassured by the words of its President that the Bank too is aware of these matters so well known to us. As Mr. Conable said of their situation, "we do not have the luxury of dealing with them at some future point in time. They must be dealt with now."

Mr. Ismael made the following statement:

I welcome this opportunity to discuss how the international community can enhance assistance for growth to low-income countries facing exceptional difficulties. I agree with the proposals outlined in the staff paper to increase the amount and effectiveness of resource flows to these countries. In particular, I support the proposal for a wider use of the policy framework papers to strengthen the mechanisms for coordinating the exceptional financial flows that are required to support adjustment efforts.

Before I comment on specific aspects of the paper, let me make a few general remarks. First, I welcome the growing recognition that the low-income countries with severe debt problems require exceptional financial assistance on concessional terms to overcome their difficulties, and that the provision of such assistance is a responsibility of the world community. Second, the program to restore per capita import growth is relatively modest, and should be taken as the minimum of what would be desirable. I note in this connection that import volume per capita in sub-Saharan Africa would be no higher by the year 2000 than in 1980, even if the program is fully achieved. Third, despite its moderate aims, the required exceptional financing would not be easy to achieve, or if achieved, may only postpone some of the financial problems into the 1990s.

Let me now come to some specific comments. The staff proposals on additional financing are wide-ranging and imaginative, and have left few options unexplored. At this stage, however, I regard these proposals more as a listing of possible avenues than as concrete expectations. For them to materialize would require a strong commitment, sustained active participation, and timely collaboration of all parties involved in the program--creditors, donors, governments of the low-income countries, multilateral institutions, and the authorities of the major industrial countries--especially with regard to the international economic environment. I hope these efforts will be forthcoming and be sustained over the fairly long period of time required for the proposals for a special program of assistance to have an impact.

Like Mr. Foot, I find the conclusion that "commercial banks might consider generous and imaginative solutions" rather unsatisfactory. I had hoped that the staff would be more forthcoming with a proposal for a buy-back, at a deep discount, of the debt owed to commercial banks with donated resources. This would reduce significantly the debt service burden of the low-income countries at a fairly low cost. For example, assuming a discount of 90 percent and an interest rate of 10 percent, donated resources of $100 million would reduce outstanding commercial debt by $1 billion and annual interest costs by another $100 million, at least in the initial years. The leverage would be much greater than with new concessional lending of the same amount. One of the gross injustices of the present debt strategy--which keeps the debt-distressed countries in a perpetual morass--is that their obligations to repay principal and pay interest continue to be based on the full face value of their debt despite internal write-offs and provisioning by the banks. A debt buy-back scheme would address this issue effectively at a low cost.

One feature which has struck me is the frequent rescheduling of previously rescheduled official debt in the Paris Club, including arrears of interest from past debt consolidations. The staff paper notes that this had contributed to rapid growth in the overall level of indebtedness and future debt service. Zaïre is a stark example of this kind of exercise. Official creditors are increasingly concerned about the lack of fundamental improvement in debtors' external debt situations. Yet, official rescheduling continues to be one of the central strategies in the staff paper. Appendix IV of the supplement indicates that further rescheduling of official debt would be required in the 1990s until the year 2000. I wonder whether the staff has considered resolving the matter once and for all with a write-off--or a write-down--of official debt. I appreciate that there would be difficult legal and budgetary obstacles, but the exceptional difficulties of the debt-distressed, low-income countries require an exceptional effort. In the long run, legislators in the creditor countries might be more tolerant of such a measure than of frequent requests for additional allocations necessitated by repeated reschedulings and lowering of interest rates. The possibility of such write-offs should not be dismissed.

Lastly, I come to the role of multilateral institutions in alleviating the external debt service burden of the debt-distressed countries. I tread cautiously because of the tremendous legal and financial implications, especially for the revolving nature of resources, and would not want to be regarded as a strong advocate of measures in this direction, but only as an innovator with an idea to be explored. Two points have struck me in the staff paper in this regard. One, we are calling on everyone but ourselves to reschedule or provide concessional rates on existing debt. Two, the servicing burden imposed by multilateral debt represents a high proportion (55 percent) of the debt service due from sub-Saharan Africa after conventional rescheduling. Yet, any contribution in this direction by the multilateral institutions has been dismissed outright in the past. In exceptional cases, there should be some flexibility in rearranging repayments from low-income debt-distressed countries, and I raise this as a possible option available to the Fund.

In conclusion, I realize that some of my ideas may be somewhat provocative. But I offer them in the spirit of trying to get to the heart of the problem rather than tackling it on the periphery. After all, the exceptional problems of the debt-distressed, low-income countries do require exceptional and innovative solutions.

Mrs. Ploix said that she agreed with the basic thrust of the staff paper, and would comment only on a few specific proposals. Her authorities strongly support the tripling of the structural adjustment facility. The facility was very well adapted to the needs of the low-income countries and all efforts should be made to overcome the technical difficulties put forward with respect to its enhancement. While she wished to stress her support for the increased role of the policy framework paper, for the time being, the stand-by arrangement must remain the basic condition for rescheduling with the Paris Club.

On the World Bank proposal to increase assistance to debt-distressed countries, the slight reorientation of IDA flows corresponded to the request of her authorities during the IDA negotiations, Mrs. Ploix noted. An increase in cofinancing was also a positive move. In that respect, however, France's present stance was adequate, and her authorities were not prepared to envisage an agreement that would make use of the World Bank to redistribute the extensive aid that they were already directing to the countries concerned.

As for certain reservations of her authorities on other proposals, Mrs. Ploix referred first to the conversion of all remaining ODA loans into grants. She recalled the conclusions of UNCTAD VII, noting that there was still some progress to be made along the lines defined at the UNCTAD meeting. She agreed with the proposal to extend the share of grants in ODA in the future, but saw some danger in a rapid shift from loans to grants. It could lead to a global reduction in financial flows if it was made too rapidly.

As regards the application of concessional interest rates, her authorities were well aware of the recent improvements made by the Paris Club in its rescheduling conditions, Mrs. Ploix stated. They were also aware that discussions on the topic are continuing within that forum. The basic idea was to reduce the total cost of rescheduled debts, and went beyond more concessional interest rates, the application of which could have detrimental consequences. Creditors might tend to reduce their commercial financial flows; new reschedulings would also become very expensive and might be compensated for by a reduction in current aid budgets; countries which did not service their debt would be better treated than those countries which put all their efforts into remaining current; and finally, public and private creditors would receive different treatment, depending on the guarantee they receive.

Mrs. Hepp made the following statement:

> The economic situation of many low-income countries remains most difficult, and their prospects in terms of sustained growth in conditions of stability seem to be limited. We agree that the two basic conditions for improving the situation are: the adoption of strong growth-oriented adjustment programs, and their association with the support of the international community in providing the required financial assistance.
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> We recognize the efforts of a number of these countries to adopt comprehensive economic programs, aimed at restoring internal and external imbalances and improving economic performance. But in many cases, the actions have been insufficient, and the programs require strengthening.
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> The international community has supported the efforts of the low-income countries by a series of initiatives, presented in the staff paper. However, the exceptional difficulties faced by these low-income countries call for stronger action, both by the authorities of the countries themselves, and by the whole international community, including creditors, donors, multilateral institutions, and other governments.
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> In this regard, the proposed enhancement of the structural adjustment facility is an appropriate response, providing additional concessional resources and assistance in designing and implementing the needed economic policies. Also, the World Bank's proposal is an effective complement to the enhanced structural adjustment facility, oriented to assist the low-income, debt-distressed countries in sub-Saharan Africa in a flexible and selective fashion. However, we would like to stress the need to make

these proposals operational as soon as possible, so as to permit timely assistance and disbursement of resources. It is important to note that both programs--the enhancement of the structural adjustment facility and the assistance of the World Bank--are proposed to become operational in the period 1988 to 1990.

Since we fully endorse the diffrent steps and actions proposed in the staff papers to increase the amount and effectiveness of the required resources, we will focus our remarks on two specific points: the prospects for the long run, and the mechanisms of coordination.

The prospects for the debt-distressed countries in the long run show that conditions will remain difficult. Indeed, considering relatively conservative assumptions for the long run, the debt-distressed countries will face a growing import-financing gap during the 1990s. The different rescheduling options analyzed by the staff that are currently being considered for these countries will be insufficient to eliminate the growing financing gap. The conclusion of the exercise is that additional efforts and actions are needed, if the financing of the resulting gap is to be consistent with a positive but modest per capita growth over the long run. Some of the options are presented in Appendix IV of the staff paper. The results suggest the need perhaps for deeper policy reforms and for a longer perspective in the analysis of debt relief and debt rescheduling. In this broader perspective, the benefits of higher concessionality are evident: a lower debt burden or debt exposure in the future, and the possibility of a viable external position for these low-income countries in the longer run.

Our second point is related to the mechanism for coordinating assistance in each country, and the need to improve coordination so as to improve the opportunity for obtaining the required assistance and to increase its effectiveness. The policy framework paper prepared by the authorities with the assistance of the IMF and World Bank should play an important role in coordinating the efforts of the different parties involved. But the country should play the central role in aid coordination, and the most simplified operational mechanism for each country has to be established so as to minimize the effort and optimize the assistance.

In sum, any effort to enhance assistance to low-income countries is welcome and we fully endorse the proposals presented for today's discussion. Our concerns are expressed to make clear the importance we give to the enhancement of assistance to low-income countries in an opportune, flexible, and broad fashion.

Mr. Orleans-Lindsay made the following statement:

We welcome today's consideration of the joint Fund/Bank staff proposals for action to address the problems of low-income countries facing exceptional difficulties. These proposals are wide-ranging and seem to cover almost all the areas of concern on which the international community has focused attention in recent years in searching for a lasting solution to the debt problem. Let me state at the outset that we broadly support these comprehensive proposals for enhancing the flow of financial resources to low-income countries experiencing exceptional difficulties. I would only like to comment briefly on three aspects of the proposals, namely, the deepening of policy reforms, policy framework papers, and the role of commercial banks in the solution of the debt problem.

First, we note that Sections I and II of the paper highlight the efforts of low-income countries in sub-Saharan Africa to implement adjustment programs aimed at reducing internal and external financial imbalances and improving the efficient functioning of their economies--efforts that have not been adequately supported by external financing. Despite this, and the recognition that there have been some shortcomings in policy formulation and implementation, most of the authorities in some of these countries doubt that a "commitment to sustain and deepen" policy reforms, with all their social and political consequences, will indeed attract the necessary external financial resources to support their medium-term programs of growth and adjustment.

My second comment concerns the importance that has been given in the proposals to policy framework papers apparently reflecting the emphasis now placed on policy-based lending to assist in the implementation of credible medium-term, growth-oriented structural reform programs as well as the need to identify financing requirements under Fund and Bank aid coordination mechanisms. Indeed, the policy framework paper has become a central policy instrument, as is well recognized by low-income countries, especially since it will be used to assess the deepening and the adequacy of policies. However, like other Directors, we are concerned that the use of policy framework papers to meet the lending requirements of bilateral donors and multilateral institutions could lead to unnecessary delays and weaken the commendable attempts being made to accelerate the disbursement of aid. Furthermore, the wider use of these papers is creating the perception that conditionality is being intensified and extended to cover these proposals for a special program of assistance. A stronger mechanism is thus needed for aid coordination in order to reduce the bottlenecks that are likely to occur under the proposed implementation mechanism discussed in Section VI.

My last comment is on the role of commercial banks in the alleviation of the external debt service burden. The staff proposals do not appear to go far enough. The commercial banks should be called upon to accelerate their cooperative efforts and announce innovative measures that are suited to the plight of the low-income countries, as in the case of Bolivia.

Mr. Fogelholm made the following statement:

We also welcome today's meeting on an important topic which, no doubt, will be comprehensively addressed by the Development Committee. The document before us provides a good basis for the forthcoming discussion, and we broadly agree with its conclusions.

The deteriorating economic situation in the poorest countries is not only due to difficulties in the adjustment efforts of these countries and adverse climatic conditions, but also to insufficient growth in the industrial countries and to the growing protectionism that has increased the export problems of the developing countries. The industrial countries have the main responsibility to see to it that the world economic environment is conducive to progress under the debt strategy.

Many of the poorest countries have addressed the situation by undertaking major adjustment efforts. However, progress has to be strengthened by intensifying the reforms. Programs should also be undertaken in those countries that so far have not embarked on an adjustment path. A strengthening of commitment to policy reforms has to be urged for all the countries concerned.

Deepening reform programs require special efforts by the international community to provide the needed additional external financing, estimated in the staff paper to be about $4 billion a year. Filling the gap has to take the form of more financing on concessional terms as well as appropriate debt restructuring arrangements.

There are encouraging signs that the international community is becoming increasingly responsive to the difficult situation of the low-income countries. A number of measures are in the pipeline, notably the enlargement of IDA, the structural adjustment facility, and the World Bank proposal. Prompt notifications by governments are needed to make IDA-8 fully effective.

Also, bilateral donors seem to be responding more quickly to problems that arise and to have improved their coordination with multilateral agencies. At the same time, the major responsibility of some of the Fund's largest member countries to increase their ODA needs to be emphasized.

We agree with the staff that the commercial banks could, in view of the limited number of cases where bank debt represents a significant part of the total, consider generous and imaginative solutions. We also agree with Mr. Foot that they should do so precisely because it is in their own interests.

In the strengthening of the debt strategy, the use of policy framework papers needs to be enhanced. As the staff paper points out, they provide a potentially effective way to intensify adjustment and to attract adequate donor support. They should be more widely used as the framework for coordinating Fund and World Bank assistance as well as that from other sources.

With regard to the specific proposals to address the problems of the poorest countries, this chair fully endorses the enlargement of the structural adjustment facility. Undoubtedly, the facility is a most appropriate device to channel additional concessional resources and to tailor them to meet the specific needs of individual countries. I hope that sufficiently flexible solutions can be worked out to make contributions to this scheme possible.

Finally, we welcome the World Bank proposal to increase assistance to debt-distressed countries. We endorse its objectives and hope for success in its implementation. We also welcome an enhanced role by the World Bank in the financing of the debt-distressed countries and in the resolution of the debt problem in general. We would, however, like to emphasize the need for close cooperation in this field between the IMF and the World Bank.

Mrs. Filardo made the following statement:

After reading the proposals for low-income countries facing exceptional difficulties and the supplement on enhanced assistance, and after listening carefully to the discussion on the evolution of the debt strategy at EBM/87/130 and EBM/87/131 (9/4/87). we have come to the conclusion that there are three different opinions on how the situation has evolved and how we should proceed: those of the idealists, the optimists, and the realists.

The idealists are those well-intentioned individuals who have tended to believe that the international community has reacted very favorably to their problems, and that with the new initiatives presented to us today, we are taking steps in the right direction.

The optimists are those who believe that the results of the debt strategy have been positive, that for some countries the ability to serve debt has improved, and that the menu approach implies a great progress, but that low-income countries should be cautious in how they solve their debt problem, because any considerations of forgiveness would result in legal problems. Thus, the solution for low-income countries continues to be deep adjustment, rescheduling, and some concessional assistance.

The realists are those who believe that, although a case could be made for stating that in theory the debt strategy was well designed, three fundamental conditions were crucial for it to succeed, namely, a favorable external environment; continued and adequate financial resources from both private and official creditors; and the implementation of growth/adjustment programs by the highly indebted countries.

Nevertheless, the only strong adjustment that has taken place is on the part of developing countries and it is indeed the force of circumstances that is charting the course for the resolution of the debt problem. This is especially true in the case of the poorest debtors. Only since 1987 have creditors begun to recognize that, since the creditworthiness of those countries has not improved, a different approach has to be followed.

The members of the Development Committee at their meeting in April of this year "reiterated their commitment to support the low-income countries in their development and adjustment efforts." They stressed the need for large concessional flows together with additional measures by these countries to improve their capacity to serve their debts and undertake growth-oriented programs. To this end, the Bank and Fund were asked to make proposals for the forthcoming Committee meeting to address the problems of countries facing exceptional difficulties. Since then, we have discussed the Managing Director's recommendation for enhancing the structural adjustment facility, and there was also a joint exploratory meeting sponsored by the Bank and Fund in which the Bank also made a specific proposal to increase assistance to debt-distressed countries.

For today's discussion the staffs of both institutions have presented to us two papers: a joint proposal, and a set of appendices prepared by the World Bank that will form the basis for our respective Boards to make specific recommendations to our Governors.

Even though the papers describe steps to be followed by donors and recipients that are in the right direction, they reflect an overly optimistic assessment related to the real contribution made so far by the international community in this respect. The proposal stresses that low-income countries have made great progress in the implementation of adjustment programs, to which the international community has reacted favorably. We, on the contrary, are under the impression that such response has not materialized, and that it has been an arduous process to convince some donors of the serious economic situation faced by these countries. As far as we can see, except for the special facility for sub-Saharan Africa created in 1985, IDA and the Trust Fund or structural adjustment facility have been the traditional mechanisms for assistance to low-income countries; the only difference is that their conditionality has increased. The Bank's earlier report on "Financing Adjustment and Growth in sub-Saharan Africa 1986-1990" mentions that the effectiveness of growth-oriented programs was threatened by inadequate financial resources and indicated that those countries would require \$2.5 billion in additional concessional funds a year during the period 1986-90.

It was only recently that the IDA-8 replenishment was approved, and it will not become fully effective until the commitments have been made. Therefore, it seems that the real additionality of resources could only come from enhanced bilateral and multilateral official development assistance and concessional debt relief. In our authorities' view, great emphasis should thus be placed on reaching agreement among industrial nations--notwithstanding their budgetary constraints--aimed at obtaining sufficient financial assistance in a timely manner, given the distressed economic situation of low-income countries.

In what follows I will concentrate my remarks on the economic framework of these countries; the model utilized to estimate the financial requirements; and the different proposals.

It has become a reality that the highly indebted, low-income countries will not be able to service their debt and reduce their burden to a reasonable level, except through economic growth. Austerity measures alone cannot be an acceptable solution, either economically, socially, or politically, especially when their stage of development is at the poverty level. There is no doubt that there are significant differences among low-income countries and that the African region is the most affected one, but we also should consider the difficulties that other low-income countries in Asia and Latin America are facing, those that are not eligible for IDA resources and are not considered creditworthy.

Turning now to the economic situation of these countries, it is unfortunate to observe that they have suffered a dramatic decline in per capita GDP since 1980, a trend that for some of them started in the 1970s. Exports have decreased in volume and price due to the failure to diversify the export base away from primary commodities. Furthermore, aid flows in relative terms for these debt-distressed countries have decreased, notwithstanding the fact that they have embarked on very impressive reform programs. It is not surprising that, against this adverse external environment, countries have reversed their adjustment, are accumulating arrears, and lack the political will to persist with far-reaching reform programs.

In reference to the model used to estimate the financial requirements to assist low-income countries facing exceptional difficulties, we consider it rather simplistic and the assumptions too optimistic, especially regarding export projections. For instance, as the World Bank staff stresses, except for the rescheduling options, the model makes no assumption about the relationship between debt and debt service, savings, consumption, and growth, and it assumes no changes in international reserves. Against this approach, it is convenient to recall that these countries' exports stagnated during the 1970s, falling 2.7 percent a year in volume terms from 1980 to 1985, and 10 percent annually in terms of price for the same period. In spite of such negative results and the adverse prospects for these countries reflected in the World Economic Outlook, estimates are for export volume to grow at a rate of 1.7 percent a year through 1990, and at 2.3 percent a year through the next decade. Export prices are projected to grow at 2.8 percent a year through 1990, and at 4.4 percent through the following decade.

In view of the poor economic performance and export base, declining primary commodity prices, the pessimistic outlook for the world economy, and uncertainty in the flow of assistance and debt relief, it would seem that the estimates of additional external resources required to support strong growth/adjustment programs are too low, and that it will be necessary for creditors to contemplate debt forgiveness.

The paper recommends several steps to increase financial flows to low-income countries facing exceptional difficulties. These can be classified in six groups: deepening policy reforms, an enhanced structural adjustment facility, the World Bank proposal to assist debt-distressed countries, additional ODA flows, official and commercial debt relief, and the possible utilization of policy framework papers to coordinate exceptional financial assistance. In our last discussion of the structural adjustment facility we commented on several of these points, and we are not going to repeat them here. We have noted that serious problems have emerged in reaching agreement on enhancing the facility and hope that these problems can be overcome. In our authorities' view the industrial nations should make greater efforts to support this financial package in a sufficient and timely manner. By the same token, debt relief by official and commercial bank creditors is a fundamental element in the new debt strategy for low-income countries. In this regard, we agree with the staff paper that it is crucial and critical to conclude the structural adjustment facility negotiations, to make IDA-8 fully effective as soon as possible, to complete the replenishment of the regional banks to increase bilateral assistance, and to approve the World Bank proposal. Commercial banks should also accept the idea of possible debt forgiveness. In addition, we should be cautious with respect to aid coordination and the use of policy framework papers. Excessive conditionality could hinder the ultimate purpose of the whole strategy, namely, to alleviate the economic situation of these countries and to restore sustainable growth.

If the full package is not agreed to in a timely manner, the consequences would be dramatic: a deepening adjustment by the force of circumstances, continuous arrears accumulation, and lack of creditworthiness.

Therefore, we should encourage our Governors to make all possible efforts not only to support the various solutions proposed by both institutions but in envisaging a comprehensive and lasting solution to the problems of low-income, highly indebted countries.

Mr. Nimatallah made the following statement:

We agree with, and support, the intentions behind the meeting today to search for more financing to assist small, low-income countries with financing difficulties. The reason why I do not repeat the title of the paper is because I do not like the expression "exceptional difficulties." Its use can lead to ideas like the ones mentioned by Mr. Ismael on rescheduling by the Fund. I prefer the way Mr. Abdallah describes these countries, as "the poorest highly indebted countries."

Anyway, Saudi Arabia has been, and will continue to be, very helpful to these poorest, low-income countries. Our record speaks for itself when it comes to the volume and the means that we have been employing in sending Saudi Arabia's aid to all needy countries, but particularly these small, low-income ones. I can list these means, which range from the direct, bilateral to the indirect through multilateral, regional, and national institutions. Very briefly, they include: the SFF Subsidy Account, to which Saudi Arabia contributed the lion's share; the enlarged access policy that everybody knows about and that is still operating; the old Trust Fund and the present structural adjustment facility; lending to the World Bank; a large contribution to every IDA replenishment; the Special Facility for Sub-Saharan Africa; the Saudi Fund for Development, which, with more than $7 billion in capital resources, engages in cofinancing with the IBRD and IDA besides its own direct lending. On top of all of this, there is the direct bilateral aid, from the Government's budget, which sometimes also extends debt relief in the form of rescheduling, normally in parallel with the Paris Club reschedulings.

On the enhancement of the structural adjustment facility, as the Managing Director has heard directly from my authorities, Saudi Arabia will be very happy to contribute by utilizing the resources available through the Saudi Fund for Development. However, due to present current account difficulties, budgetary contributions may not be feasible at this stage. But it is important to know that the Saudi Fund for Development has a significant portion of its capital waiting to be effectively used by countries eligible to use the resources of the structural adjustment facility. The Saudi Fund for Development and the Fund are now trying to work out a mechanism on how to use these resources under the facility.

Although my authorities wholeheartedly support any additional finance for these needy countries, we believe that lack of finance is not the whole problem. There is a need for better economic management by the concerned recipient governments preparing medium-term programs of reform and growth-oriented adjustment to permit more effective use of financing. Within such programs, there have to be detailed project feasibility studies that can benefit from the available financing. There is scope for improving the policy framework papers. As I once said, these papers should be as elaborate as possible, to give clear indications to creditors on how they can help.

For example, I hear from time to time from the Saudi Fund for Development that countries are delayed in taking advantage of available resources owing to the lack of prepared studies on projects. The Saudi Fund itself has had to prepare feasibility studies for small countries to enable them to benefit from its resources. I think that the Fund and the Bank can be helpful in that regard in addition to their efforts in helping to prepare policy framework papers for that purpose.

Another very important factor needed to enhance the benefits from available resources is to improve coordination among donors to assign the available resources more productively to well-defined priorities. I also think that the IMF and the World Bank can contribute in improving coordination by being a clearinghouse for such coordination.

Another observation concerns the quality of aid. Time and again, a great deal of aid comes in the form of surplus exports by donors. Unable to sell those exports, donors dump them on recipient countries--not exactly the form of assistance they need, and nor is its timing usually right, coming either too late or too early. Saudi Arabia has given its aid in hard currencies, and it would be helpful if all donor countries improved the quality of their aid.

Finally, and very importantly, my authorities and I believe that the industrial countries' efforts in keeping their markets open for the exports of these and other developing countries will be of great help. These countries need more trade than aid; this is not a new expression, but it remains very pertinent. It would be even more helpful if the whole international economic environment becomes more favorable, as the industrial countries accelerate their efforts on the structural adjustment front to enhance economic growth. For that I urge the Fund and the Bank to take a more vigorous role in urging the industrial countries to remove unnecessary subsidies that prevent structural adjustment. The Bank and the Fund can begin by issuing the joint paper they are supposed to prepare on the impact of the industrial policies of developed countries on developing countries.

The Chairman assured Mr. Nimatallah that both the World Bank and the Fund would make every effort to produce promptly an acceptable paper on the impact of the industrial policies of developed countries on developing countries as the paper under discussion apparently was.

Mr. Lim stated at the outset that he could endorse the general thrust of the paper and agreed particularly with the emphasis placed on the need for stronger adjustment efforts and the additionality of concessional resources. It was essential in his view that any special program of assistance for low-income, debt-distressed countries incorporate a strong commitment by recipients to sustained, thoroughgoing adjustment. It would be important also to ensure that, in providing short-term debt relief and quick-disbursing balance of payments assistance, the need to remove institutional constraints was not ignored. As the paper acknowledged, long-term growth will require increased investment in infrastructure and human resource development.

He fully supported the objective of improved aid effectiveness and enhanced aid coordination, particularly as significant, quick-disbursing, policy-related assistance was envisaged, Mr. Lim went on. The proposed use of policy framework papers appears appropriate.

While agreeing with the three conditions for a successful solution of the debt strategy indicated by Mr. de Groote, his Australian authorities had reservations about the application of concessional interest rates to Paris Club rescheduling of trade-related debt, Mr. Lim stated. Unless interest rates on rescheduled trade credits continued to reflect the commercial nature of that type of lending, there could be an adverse impact on the willingness of export credit agencies to maintain or resume cover. Where commercial rates could prolong serious balance of payments difficulties, equivalent measures--such as increased bilateral grant assistance--should be considered.

Finally, Mr. Lim emphasized that the increase in planned IDA-8 commitments should be commensurate with the absorptive capacity of countries, including their capacity to implement adjustment programs, and should take into account the continued requirements of other low-income countries including those in Asia.

Mr. Salehkhou made the following statement:

Since I am in broad agreement with the thrust of the reports before us, and having reiterated the views of this chair on a related subject last week, I can afford to be rather brief. Low-income countries, especially in sub-Saharan Africa, continue to face economic difficulties and severe financial constraints. The proposals made by the staff, although recapitulating the assessments already made, constitute only the minimum necessary to be provided by the international community by way of enhancing assistance to low-income countries. It is to be hoped that discussions on the matter will be held and concluded expeditiously so as to allow for an effective and urgent implementation of the proposals.

The staff rightly points out that considerable progress has been achieved by a number of countries in the implementation of austerity-oriented policies geared to adjustment. In sub-Saharan Africa these policies led, in particular, to a sharp depreciation of exchange rates together with the introduction of further liberalization of exchange and external trade regimes. Measures were simultaneously introduced to reduce fiscal deficits by an increase of revenue and expenditure reductions, particularly in the sensitive area of civil service wages and salaries. However, economic and social performances were rather poor, resulting in continued declines in GDP per capita while indebtedness reached unsustainable levels, given the very limited debt-servicing capacity of these countries. Perhaps the most disquieting issue facing low-income countries remains on the export side, which constitutes the main potential engine of growth as long as domestic demand is depressed. In this area much could be done in order to restore a reasonable level of exports.

Since low-income countries are facing exceptional difficulties, industrial countries should provide exceptional trade facilities. In this regard, some industrial countries, like Sweden, have implemented several measures so as to facilitate trade with low-income countries. Such measures included duty-free access for a number of commodity exports of these countries. Other industrial countries could follow such exemplary policies without any noticeably adverse consequences; by way of example, combined imports from all African countries account for only 3.2 percent of total imports of industrial countries. Furthermore, such trade facilities would at best compensate only in part for the substantial terms of trade losses sustained by this group of developing countries. Special emphasis should also be put on the revival and extension of the generalized system of preferences in order to alleviate the negative impact of growing protectionism.

In his remarks to the ECOSOC, the Managing Director expressed deep concern about the prospects for growth in low-income developing countries. He specifically mentioned--if I may take the liberty of quoting--that: "I have been struck not only by the efforts that many of these countries have been seeking to make to adjust their economies, but also by the truly daunting task that they face. Deeply depressed prices for their exports and the slow rate of growth in their external markets are now leading governments in these countries to doubt the possibility of reversing negative trends and making them increasingly reluctant to embark on forceful adjustment programs oriented toward growth." In this regard, I believe that only massive and effective financial support could possibly reverse this doubt. The enhancement of the structural adjustment facility, together with the replenishment of IDA-8, should constitute the cornerstone of this financial support. The agreements already reached are welcome, but for this support to materialize, further steps are urgently required to make these facilities effective.

As for bilateral donors, although members of the Development Assistance Committee (DAC) claim to be facing overall budget constraints, they should not use them as an excuse for the declining trend in ODA to all developing countries, especially in the low-income group. It should be emphasized that ODA flows to low-income countries, even if total aid were to increase to the UN target of 0.7 percent of GDP, would represent an insignificant percentage of the GDP and total budget expenditures of industrial countries. Moreover, it should be kept in mind that low-income countries do not have any access to commercial financing. Along with a substantial increase in net ODA, official creditors should acknowledge that converting all or part of the remaining outstanding ODA loans to grants, outright gifts, or, at least, reducing interest rates on existing debt are a few realistic alternatives that might alleviate the debt service burden of low-income countries. This approach should be combined with generous long-term reschedulings and/or similar arrangements.

Commercial banks that have a limited share in total outstanding debt to low-income countries and that are not likely to increase their exposure in these countries in the near future should also consider such pragmatic actions as concessional forms of rescheduling or repurchase of loans at a discount. In this respect, I agree with Mr. Foot's contention in his very concise statement that such solutions are, I would say, definitely in the best long-term interest of commercial banks.

Enhancing assistance to low-income countries facing exceptional difficulties is a responsibility that must be shared by all. These countries have already assumed their share by bearing the brunt of adjustment programs, often at high social costs. The international community, which has now hopefully begun to recognize the need to support these countries' adjustment efforts, should not delay actions to this effect. In this regard, we believe that the Bank and the Fund must play a preponderant role in enhancing support to low-income countries facing exceptional difficulties, as indeed evidenced by the high quality papers prepared by the staff of the two institutions.

Mr. Massé began by thanking the staff for a useful joint review of options to further increase assistance to the low-income, heavily indebted countries. In general, his authorities agreed with the conclusions of the paper. In their view, a most important factor in successfully improving the state of the economies of those countries was the implementation of appropriate economic policies. They recognized the extent to which many of the poorest countries had already begun to implement adjustment efforts, and they also recognized the political and social costs involved. But despite the short-term dislocations that might result from those efforts, they believed that there was no alternative way to achieve long-term sustainable growth. Perhaps the proposal for helping low-income countries that might have the most significant effect was to be found in the World Economic Outlook. That proposal concerned the policies of the industrial countries in terms of enhancing growth through the coordination, among the main countries, of correct policies. Such policy coordination would not only increase world growth but would increase the demand for commodity and other exports of low-income countries, and thereby help their balance of payments as much or more than many of the other means that were being mentioned.

Certainly, additional financing was urgently required to alleviate the foreign exchange constraints placed by the low-income countries and to support their adjustment programs, as well as to minimize adjustment fatigue, Mr. Massé noted. Like Mr. Foot, he considered that it would not only be generous of commercial banks but in their own best interest to look at ways to minimize the debt burden on their clients in that category of countries. It was also in the best interest of donor countries to increase their transfers to those countries. The adjustment path in scenario C-4 in a World Economic Outlook paper (SM/87/221, 8/21/87) in which, instead of financing the imbalances in various countries, the imbalances were reduced through an increase in transfers from the rich countries to the poor countries, seemed to be the most efficient means available to the industrial countries to resolve the problems of growth and overall adjustment, including adjustment in the balance of payments of the industrial countries themselves. Of course, that path of adjustment was subject to the premises in the model. Yet it could be argued along those lines that it was in the interest of the industrial countries to try to solve the problems of low-income, heavily indebted countries by increasing the financing available to them in support of adjustment programs.

In that connection, Mr. Massé continued, his authorities believed that the enhanced structural adjustment facility should play an important role in making finance available, and that the policy framework paper provided an important and useful starting point for maximizing the effectiveness of financial assistance. On the enhancement of the facility, he had of course been quite interested in Mr. Ismael's point on the rescheduling of Fund and World Bank loans. His Canadian authorities continued to have considerable objections to that idea for the fundamental reason that, since the role of the Fund was based on the recycling of its resources--in a way, as a lender of last resort--rescheduling by the Fund both removed its leverage and took away from its special role as an institution. However, the need underlined by Mr. Ismael did exist, and the best way to meet it seemed to him to be through an enhanced structural adjustment facility. If the Fund were able to lend its resources through an enhanced facility, it would in fact be rescheduling indirectly by replacing short-term, high interest money repaid to it by the low-income countries with ten-year money at 1/2 of 1 percent interest.

As for the policy framework paper, his chair had mentioned in past discussions a need to explore the possibility of greater use of the policy framework paper in conjunction with the consultative groups, thus going to the heart of the question of coordination, Mr. Massé commented. There was no doubt that the bilateral lending agencies would not want to adopt as theirs the policy framework paper because they lent for somewhat different reasons than those of the multilateral development agencies and they needed a little more flexibility and freedom. At the same time, to involve the bilateral agencies through the consultative groups in discussing the policy framework paper would permit them to have an understanding of the needs over a period of time of the developing countries that resembled the understanding of the Fund and the Bank. The general direction of lending of bilateral agencies would thus be coordinated without creating too inflexible a framework. His chair would certainly encourage the Bank and the Fund to look at the possibility of using consultative groups in that much more meaningful fashion.

The question that would arise, as had been mentioned by a number of Directors, was that of conditionality, Mr. Massé went on. There was no doubt that if the type of program being proposed became more common, a number of conditions would appear necessary to the various donors, both bilateral and multilateral. However, the policy framework paper should be discussed in the consultative group in order to avoid creating that straitjacket and permit the bilateral donors to retain a choice with respect to the conditions they wished to place on the transfer of their own resources.

The next question that would arise, especially if there was greater coordination between donors, bilateral and multilateral, was that of the much greater influence, to say the least, that would be exerted on the design of Fund- and Bank-supported programs, Mr. Massé observed. The design of the programs would have to be looked at in much greater depth so that the conditions indicated therein corresponded to the needs of both the debtor countries and the creditor countries. A major effort would be needed, given the traditional criticism of the design of Fund programs, for instance, by the Group of Twenty-Four. The World Bank would no longer be able to escape such criticism as it moved from project and sectoral into more macroeconomic examinations of economies through the policy framework paper; and the Bank might well have to face more criticism from developing countries about what they called interference in their own policies.

In sum, Mr. Massé agreed that the commitment to adjustment and the provision of enhanced assistance should go hand in hand, a point that had been underlined by Mr. Abdallah. Also, while the financing requirements detailed in the paper were considerable, it was clear that the various measures outlined, if properly and wholeheartedly pursued, could provide the means for achieving important progress. At the same time, he had no doubt that, if the problems of the least developed and the most heavily indebted, low-income countries were to be dealt with properly, measures would have to be adopted--beyond the enhancement of the structural adjustment facility, which was essential--incorporating steps such as those mentioned by Chancellor Lawson concerning interest rates through the Paris Club. In addition, the measures mentioned by the World Bank relating to IDA and special IDA transfers to low-income countries would have to come into play. The commercial banks themselves would have to make special efforts. Although perhaps not in terms of precise synchronization, those various measures, together with additional financing, would quite clearly become necessary in order to deal with the problems of the debt-distressed, low-income countries, and to deal with them reasonably soon.

Mr. Jiang stated that more concessional and innovative approaches to the exceptional difficulties faced by the debt-distressed, low-income countries were warranted. The staff, in putting forth its proposals, had rightly placed emphasis on strong adjustment efforts supported by additional, quick-disbursing concessional assistance accompanied by appropriate restructuring arrangements based on a realistic assessment of the debtors' financial situation. Fortunately, the international community had now recognized the requirements of the situation.

Undoubtedly, Mr. Jiang added, the quick disbursement of concessional financing assistance was of paramount importance in the case of sub-Saharan Africa, where there had been signs of impediments to adjustment efforts in the form of either slow or delayed disbursements.

Regarding the proposals for reducing interest rates on existing debt and for converting by steps, if not immediately, all remaining outstanding ODA loans to grants, Mr. Jiang considered that those proposals deserved full support. The staff arguments in that respect were quite convincing. Repeated reschedulings closed external financing gaps only temporarily, while at the same time they contributed to a rapid growth in the overall level of indebtedness and future debt service. It was appalling to note that, during 1979-85, capitalized interest added about $1 billion to Zaïre's debt, an amount equal to about 20 percent of its total debt at end-1985. It was simply unimaginable to expect debt-distressed, low-income countries to bear such an increasing debt burden.

One crucial point that remained to be tackled was how to coordinate the various proposals put forward by the staff, Mr. Jiang commented. More emphasis should be focused on ways to reduce the excessive burden of repeated negotiations and additional conditionalities and performance requirements. He looked forward to meaningful suggestions from the staff in that respect.

Another point warranting attention was the situation of a certain number of low-income developing countries that had managed their economies relatively better, and, in so doing, had avoided any crisis, Mr. Jiang concluded. It would be most unfortunate if those countries, which also had problems and needed the assistance of the international community, were penalized, by not being given the attention due to them precisely because they had done relatively better. Of course, he wished in no way to minimize either the importance or the urgency of the issues being tackled.

Mr. Posthumus considered that the staff paper was useful for purposes of the forthcoming discussions in the Development Committee, although the length of the title, which detracted from that usefulness, should perhaps be abbreviated along the lines of Mr. Abdallah's suggestion. The paper was eliciting a number of interesting thoughts, many of them from Mr. Massé, but care should be taken not to expect one idea--the policy framework paper--to carry too much of the burden, and certainly not until the difficult load that it was already carrying for the World Bank and the Fund had been lightened. As the staff paper indicated, numerous types of programs were being directed to different groups of countries--eligible for support by IDA or the structural adjustment facility, and countries in sub-Saharan Africa--and their gradual coordination over the longer term might be a useful exercise for the World Bank to engage in.

It was not clear to him how the estimate of the financing requirement to support strong growth-oriented adjustment programs in low-income countries had been made, Mr. Posthumus added. More specifically, he would be interested to know on what basis the estimate of SDR 20 billion had been calculated. He recognized that that estimate was not intended to be precise but it might be useful to know the main lines on which it was leased.

As for some of the proposals that had been discussed in the staff paper, Mr. Posthumus said that he agreed with Mrs. Ploix that it was not so easy to change loans into grants. Even official creditors could sometimes have financing problems. As for debt relief by banks, he agreed with Mr. Foot's remark. Finally, it appeared as if Mr. Ismael's provocative suggestion on rescheduling of debts to the Fund might already have been taken up, even to the extent that future debts of the Fund were already being considered for rescheduling. On the last page of Supplement 1 to EB/CW/DC/87/6, in an appendix prepared by the staff of the World Bank, it was stated that "at some stage it may be necessary to consider measures to facilitate repayment of drawings from the enhanced structural adjustment facility."

The Chairman remarked that the statement to which Mr. Posthumus had referred had no doubt been included by oversight.

Mr. Goos said that he agreed that the staff paper would provide a useful basis for the forthcoming discussions of the relevant issues by the Development Committee. Unfortunately, he was not yet in a position to offer definitive views on those issues, which were still under active consideration by his authorities with a view to formulating a coherent, overall policy response. In general, however, his authorities had sympathy with the many low-income countries that were facing exceptional difficulties. They were certainly prepared to contribute to constructive solutions, solutions which of course would have to be matched by credible adjustment efforts on the part of the recipient countries.

The basic approach of his authorities to the issues discussed in the staff paper was exemplified by the emphasis given to low-income countries in the context of Germany's overseas development assistance as well as by its recent move toward adjustment-related assistance, as mentioned on page 11 of EB/CW/DC/87/6, Mr. Goos continued. Moreover, with respect to the proposed conversion of outstanding ODA loans to grants, he recalled that in response to UNCTAD Resolution 165, his Government had waived most of the debt service claims on low-income developing countries. Germany's share in all such debt conversions amounted to more than 50 percent, or more than DM 4 billion. New development assistance to those countries was generally being provided in the form of grants. Thus, he was confident that his authorities would have no difficulties in supporting the proposals made in that connection.

On a more personal level, he shared the difficulties of Mr. Posthumus in comprehending the calculations underlying the financing requirements shown in the staff paper, Mr. Goos said. It might have been more appropriate--and indeed more conducive to the intended mobilization of additional funds and debt relief--if those financing requirements had been related more explicitly and in a more detailed manner to the specific adjustment requirements of the countries in question and also to the prospective results, notably for their external payments position.

He wished to caution against drawing premature conclusions from the Bolivian debt buy-back scheme, Mr. Goos commented. First of all, it remained to be seen whether that scheme would be workable; and second, he did not feel that the scheme lent itself to a generalized application.

Finally, Mr. Goos said that he shared Mr. Massé's views on the possibility of rescheduling by the Fund. Such an approach would be bound to undermine the role of the Fund as a lender of last resort. The enhanced structural adjustment facility would provide a more appropriate way to help eligible members meet their repayment obligations to the Fund.

Mr. Hospedales made the following statement:

> The mobilization of adequate development financing to sustain adjustment and help reverse the increasingly significant economic decline in low-income countries facing exceptional difficulties led us to establish--for the time being, at least--the modestly funded structural adjustment facility. Nevertheless, based on purely technical considerations as delineated in the Fund/Bank staff paper, the size of that facility falls far short of the minimum external resource requirements to achieve two key objectives: maintaining debt service within manageable levels and increasing imports to restore reasonable per capita income growth.
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> If the long-established consensus that the promotion of development brings needed net positive benefits to all countries--developed and developing--still holds, then appropriate action by the international financial and donor community is becoming increasingly urgent. The comprehensive program now being advanced for consideration by the Development Committee for enhancing assistance to low-income countries facing exceptional difficulties is, therefore, welcome. To this end, recent action to initiate the process of tripling the resources of the structural adjustment facility on highly concessional terms is, therefore, appropriate and timely, the more so in view of the recent weakening in adjustment efforts stemming from adverse external developments and inadequate financial support. The early conclusion of the discussion under way, so that the operations of the enhanced facility can begin by January 1, 1988, is critical; otherwise, growth in these low-income countries will remain elusive and fragile. The proposal of the World Bank to establish a special program of assistance for low-income, debt-stressed countries will be highly complementary. We note, however, that the proposal envisages a greater degree of donor involvement in the implementation, a process, in our view, which could conceivably restrain the speed of resource use because of more stringent conditionality--both developments being inconsistent with the need to make resources quickly available to eligible countries; of course, these two initiatives must ensure genuine additionality to have any chance of success.
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> The proposal to enhance the structural adjustment facility in conjunction with new and existing ODA commitments and reschedulings on terms similar to those in the past is expected to mobilize a substantial part of the financial requirements. Yet, the staff

paper views the residual gap-filling exercise, which in some cases may be several multiples of IMF quotas over the three-year period, as critical if low-income countries, especially those facing exceptional difficulties and with severe debt problems, are to increase their growth rates, improve their capacity for sustained development, and move toward medium-term balance of payments viability--a process which will become increasingly difficult and intractable if an unexpected worsening of the international economic environment materializes. The staff's suggestions of a broad range of financing options to provide special assistance to these countries merits due consideration.

On a general level, we believe that the international donor community should make every effort to translate internationally stated commitments into concrete action. To this end, we should insist on substantial progress toward achievement of the 0.7 percent of GDP target recently reaffirmed at the Venice Summit meeting. Early commitment authority for IDA-8 and replenishment of regional development banks should be accorded a high priority. Simultaneously, a substantial increase in the share of quick-disbursing assistance in bilateral aid programs, especially through cofinancing with multilateral institutions based on a well-structured and consistent policy framework, should be undertaken. In our view, the policy framework papers are well suited for this process.

Yet, under present circumstances of moderate growth in industrial countries, continuous deterioration in low-income countries' terms of trade, and still high international interest rates, full debt service is unbearable for the most heavily indebted, low-income countries. A departure from recent approaches--namely, repeated rescheduling--is, therefore, essential if the debt burden is to be reduced to more manageable proportions and a more effective and sustainable solution put in place. The recent trend in the Paris Club to provide more concessional rescheduling by extending maturities and grace periods should be further generalized. But, if long-term external viability is to be achieved, cancellation of official debt to industrial countries and conversion of part of debt into grants will be unavoidable; and so will be the Venice Summit recommendation for a 50 percent reduction in interest rates on rescheduled nonconcessional debt, for which greater scope exists.

Apart from these core options, the staff paper advances several innovative and practical ideas, such as lengthening debt consolidation periods and advancing the contract cut-off date although the latter initiative should not exclude the maintenance of cover. In addition, banks' reschedulings along the lines of the Paris Club concessions, including the lowering of interest rates on rescheduled debt, will be important and realistic instruments in the process of debt rescheduling. I agree with Mr. Foot that the banks should take this opportunity to restructure their relations with these low-income countries, putting them on a sounder footing. To this end, the buy-back of existing debt should be continually explored, especially in the case of those low-income countries whose debt is trading at a steep discount in the secondary market and where donor funds are available. Mr. Ismael's proposal for flexibility by multilateral institutions in rearranging repayment schedules for low-income, debt-distressed countries merits due consideration.

Mr. Fernando made the following statement:

We support the general thrust of the staff paper and are encouraged to think that the discussions in the Development Committee would provide further guidance and impetus to the efforts being made by the international community to see the low-income countries through the current phase of exceptional difficulties.

Many low-income countries have recognized the importance of undertaking policies aimed at addressing the basic economic and developmental problems. It is also well realized that in order to have sustained growth, there must be continued commitment to the strong implementation of policies.

It is evident that any credible program that would help the countries which are in difficulties onto the path leading toward sustained growth will necessarily and rightly be constructed in cooperation with the Fund or Bank or both. In this context, the role of policy framework papers has been stressed by the staff, although at present these papers are formulated only where the use of structural adjustment facility resources is envisaged. We believe that the use of policy framework papers should remain limited to this purpose only and not be extended to use of other resources. In other words, countries eligible to use the facility but not willing to avail themselves of its resources should not be required to formulate policy framework papers for use of other concessional resources. Mr. Abdallah has therefore rightly cautioned against the danger of making policy framework papers the focal point of all financial assistance and creating situations in which all resource flows to low-income countries could become highly conditional and tied to Fund and Bank arrangements. Besides, as we had noted during the discussion on the review of the structural adjustment facility, the involvement of countries in the preparation of policy framework papers has been so far minimal. Moreover, delays in preparing those papers, as well as in putting the programs in place, were the result of undue emphasis on Fund-Bank collaboration and of going into greater detail than required or even originally envisaged under the facility.

Regarding the preparation of credible programs, we would once again stress that growth objectives be made an integral part of programs: without them an orderly and sustained adjustment cannot take place. We hope that there will be occasions to incorporate inputs in this respect from the G-24 Report after it is deliberated upon in the Board.

We agree with the observation in the staff paper that commercial banks' involvement in concessional financing has so far been extremely limited. The staff seems to suggest that debt buy-back schemes of the Bolivian type could usefully be extended to other countries in exceptional difficulties. We are not certain whether what is regarded as useful in the one case is necessarily useful in all other similar cases. It is in this light that we agree with Mr. Foot. We would like to note that in cases where there is a high incidence of bank debt, countries may not envisage restoring their market access in the immediate context, largely in order to safeguard growth prospects. If such countries are assisted to turn the corner and record good growth performance, they would, of course, be potential customers for the banks in the longer term. Hence, we hope that banks will take a longer view. An important related point is that meaningful debt relief will also improve the efficiency of the financing package. To the extent that the claims of debt servicing and debt amortization in the critical adjustment period are low enough to make possible a larger net resource inflow, stronger growth can be supported.

We also welcome the new initiatives taken in the form of Paris Club reschedulings with extended maturities and grace periods, as well as the retroactive terms of adjustment and other measures such as interest rate reductions on existing debt being proposed by official donors. The World Bank has also done its best to alleviate to an extent the plight of the debt-distressed countries. In this context, we would stress the urgent need to strengthen the Bank's capital base so that its assistance is not constrained by inadequacy of financial resources to meet the policy objectives. We urge that the fifth replenishment of the African Development Bank be substantial and that it be concluded at an early date.

Two further general points are in order. The first point is that we find no mention in the paper about the improvements required in the external environment for countries facing internal and external imbalances. The policies of industrial countries should be conducive to an expansion of world trade to facilitate rapid progress by low-income countries in their adjustment effort and development strategy. While it is useful to set up mechanisms for aid coordination, it is equally important that trade policies be formulated in a way that provides larger access to countries in exceptional difficulties.

A second point is that the paper does not mention any proposals for increasing use of Fund resources other than by the enhancement of the structural adjustment facility. Yet effective access limits on Fund resources are becoming lower, and the time span of stand-by arrangements has acted as a constraint to the resolution of major disequilibria. The extended Fund facility needs to be reviewed; there is a case for extending the repayment period in respect of compensatory financing purchases for low-income countries; and conditionality in general needs to be reviewed so as to bring it more in line with realities. Early decisions with respect to SDR allocations and quotas are other issues which would make additional resources available to these countries. More importantly, such decisions will send positive signals to the international community to provide larger financial support. We will revert to these matters in the coming weeks.

Finally, on a point of clarification, it is said on page 9 of EB/CW/DC/87/6 that "it is the intention that at leat $3.0-3.5 billion of IDA-8 resources will be used in support of adjustment programs in conjunction with the IMF's SAF." We would like a further explanation of what form this support will take. It may be recalled that when the structural adjustment facility was reviewed in June, this chair made the point that arrangements under the facility and IDA lending must not be linked. We also suggested that the facility must not be used to introduce conditionality to IDA credit, on top of the recent tightening of terms and conditions.

Mr. Yamazaki made the following statement:

It has been well recognized in the international community that a number of low-income countries are suffering from sluggish economies, deteriorating external positions, and high debt burdens. Further and more cooperative efforts by the international financial community--developed countries, as well as developing indebted countries--are essential to meet this challenge. In this respect, I welcome the opportunity of exploring proposals to increase assistance to low-income countries that are now facing extremely difficult conditions.

It goes without saying that the efforts by the Fund as well as the Bank are the key to helping address the economic and financial problems of developing countries. My authorities also recognize the urgent need to enhance assistance to these low-income countries. In this context, Japan has recently embarked on a recycling program to developing countries totaling $30 billion. It is under this scheme that Japan has made budgetary contributions to IDA-8, the World Bank, and other international financial institutions.

Turning to specific issues raised by the staff paper, first, on the issue of deepening policy reforms, we should reaffirm that the fundamental basis of the debt strategy is the strong commitment to an effective adjustment policy by developing countries themselves. Therefore, strengthened efforts by developing countries should be the prerequisite for further assistance to these countries. In this context, I endorse the important role of the policy framework paper as discussed in the staff paper.

Second, the staff projects that large financial requirements remain unsatisfied in countries eligible to use the structural adjustment facility. This projection reminds us of the urgent need to tackle this issue, although one may discount the projection insofar as it is based on such assumptions as the pursuit of adjustment programs by all eligible countries.

Third, pending the imminent discussion of the proposal for the enhancement of the structural adjustment facility, I will make only a brief comment. My authorities expect the Fund to play a pivotal role in supporting the pursuit by developing countries of a growth-oriented adjustment program. In this context, my authorities sincerely hope that, with further discussion among those concerned, the scheme for enhancing the structural adjustment facility will be tailored carefully enough to accommodate all the requirements of the potential contributors.

In essence, the Fund should meet the financing requirements of developing countries through the quota increase. For this purpose, the prompt conclusion of the work on the Ninth Quota Review is urged.

On the issues of official development assistance, alleviation of the external debt service burden, and the World Bank proposal to increase assistance, I will refrain from comment but wish only that due consideration be paid to these important proposals.

Finally, on the issue of mechanisms to coordinate assistance, increased collaboration among international financial institutions and donor countries should be an essential element in enforcing assistance to developing countries. I associate myself with the staff's view that the active use of policy framework papers will be of great value in coordinating assistance, although further improvement of these papers should be sought.

Mr. Finaish made the following statement:

I welcome this discussion by the Board on enhancing assistance to low-income countries facing exceptional difficulties because of the urgency as well as the enormity of the problem.

Although attention in this regard has been mainly focused on sub-Saharan Africa, the three criteria of eligibility laid down for enhanced assistance--namely, low income, heavy indebtedness, and adequate adjustment effort--clearly apply to other countries as well. Many of these countries have experienced declining per capita incomes for a number of years, and it appears that the reversal of this trend, wherever it has occurred, may not be self-sustaining. One of the main limiting factors is the inadequacy of external finance, both in volume as well as in terms and conditions, to support the domestic adjustment effort. Hence, the discontinuation of an adjustment program owing to this factor in some of these countries should be a serious cause for concern on the part of the international community.

Undoubtedly, there is no easy solution to the problem of global poverty in the short run, especially in the countries under discussion. Therefore, the reference in the staff paper to a lasting solution has been confined to the debt-servicing difficulties of these countries. In this connection, the conversion of official debt into grants has often been suggested in order to enable the low-income countries to make a fresh start. Unfortunately, however, in view of the institutional and other difficulties that prevent outright conversion, the prospects for this ideal solution may not, at least in some cases, be encouraging in the present aid climate. Indeed, up till now, the problem of existing debt has been dealt with through reschedulings only. But a continuous process of rescheduling along the lines of, and on terms similar to, those applied so far imposes a heavy burden on these countries whose outstanding debt and debt-servicing liabilities continue to rise.

The staff paper represents a realistic and pragmatic approach to ease the problem, in the hope that the growth rate of GDP in these countries will pick up sufficiently over time to provide a solution. However, the envisaged scenario under the proposed program will also result in the foreseeable future in only a meager improvement in production and consumption levels. Second, longer repayment periods through new reschedulings without retroactive easing of the terms of existing loans will provide little relief during 1988-90. Hence, the staff proposal to reduce interest rates on existing debt deserves serious consideration.

The increasing importance being given to policy framework papers is a move in the right direction, but it must have the proper input of the countries concerned. Uniformity must give way to innovation, with the adjustment burden being related in each case to the country's capacity to forgo present consumption, and its administrative and technical resources. Similarly, deviations from the criteria laid down should be analyzed more thoroughly, and genuine sociopolitical constraints should be given proper weight in reviews of programs.

While supporting the proposed strategy, I wish to emphasize, as the staff illustrates on p. 24 of its paper, that the aggregate estimates of the external financing requirements for the debt-distressed countries mask considerable diversity among these countries. It may even be that, in some cases, the 25 percent debt service ratio could turn out to be rather high. I also wish to point out that in the drive for enhanced assistance, in addition to tripling the resources of the structural adjustment facility, the Fund could also contribute, through a further allocation of SDRs and an increase in quotas, to adjustment with growth. I also endorse the staff's plea for early finalization of arrangements for enhancing the resources of the structural adjustment facility: making IDA-8 fully effective expeditiously; and a substantial fifth replenishment of the African Development Bank. In this connection, the consensus between the developed and developing countries on resource flows, debt, and related matters reached in the recent UNCTAD VII is particularly welcome.

However, to evaluate the prospects of the attainment of the targets in the staff paper, it would have been helpful to have an idea of the present flow of bilateral as well as multilateral concessional assistance from various sources and regions.

Finally, let me reiterate this chair's support for the current drive to enhance the flow of external assistance to the low-income countries. I also would like to express appreciation for the leading role which the Managing Director is playing in marshalling such assistance in a climate that is admittedly not very conducive to the provision of external aid. As you know, donor countries from my constituency have been active in supporting the group of low-income countries, both bilaterally and through regional development institutions which they have set up for that purpose. They will of course continue to do their part, but they also expect other countries, particularly those whose external aid relative to GDP is quite low, to redouble their efforts in the concerted drive to help the poorest segment of the international community.

Ms. Bush said that her authorities welcomed the focus on the problems of the very low-income countries, and the attention that the Development Committee would give to that issue. The seriousness of the problems confronting such countries called, of course, for the attention of the international community more generally. And the implementation of growth-oriented policies by low-income countries themselves was most important. Some progress had been made in addressing the economic difficulties of these countries and in laying the foundations for overcoming them. In addition to improved policies in low-income countries, the world economy had been growing, although at a more modest rate at present, strains on the international financial and monetary systems had been reduced, and the concessional funds of the World Bank were in the process of being replenished. Bilateral assistance was becoming increasingly focused on low-income countries, and debt relief on exceptional terms had been provided in some cases.

While increased flows to low-income countries would help to overcome their difficulties, the effectiveness with which the financing was put to use was crucial, Ms. Bush continued. Such effectiveness was heavily contingent on continued growth-oriented policy implementation, and on investment programs that embodied the most efficient use of financing, that fit the priority needs of a particular economy, and that were therefore supportive of the growth objective. She agreed with Mr. Abdallah that many low-income countries in sub-Saharan Africa were in fact implementing comprehensive adjustment programs and that important progress had been made, and she encouraged the continuation of that process.

With respect more specifically to the issues raised in the staff paper, Ms. Bush said that she welcomed the emphasis placed on the role of policy framework papers. She strongly endorsed the view that the policy framework paper should be the basic coordinating mechanism to help countries establish credible medium-term adjustment programs and that it should be widely used by donors in planning their assistance. The tone of the staff paper left a positive impression with respect to the emphasis that the World Bank, as well as the Fund, intended to accord to policy framework papers. She looked forward to the closer integration of the Bank's lending programs and its policy priorities in the policy framework that promised to be forthcoming.

Monitoring and structural adjustment benchmarks might take on added importance, given the apparent new emphasis on the policy framework approach, Ms. Bush remarked. The staff paper mentioned the attractiveness to bilateral donors of associating their project assistance with policy framework papers. She endorsed that observation and moreover encouraged the World Bank to associate its investment plans and project assistance with the policy framework papers because such plans should be supportive of the general medium-term policy framework approach. She also endorsed Mr. Massé's remarks on the use of the policy framework paper in consultative groups.

With respect to the World Bank's proposal for the poorest, highly indebted countries, her authorities had supported a higher share of IDA-8 for sub-Saharan Africa, and also supported the reprogramming of allocations within Africa's share of the replenishment, Ms. Bush observed. In addition, they continued to support the provision by IDA-8 of more financing in the form of policy-based, quick-disbursing loans as well as increased cofinancing by bilateral donors with the World Bank.

More generally, the proposal in the staff paper for special assistance seemed to place greater importance on financing than on policy reform, Ms. Bush commented. For example, it was calculated in the staff paper that the external financing requirement for 14 sub-Saharan African countries beyond the expected level of aid disbursements and debt relief on conventional terms would average about $1.5 billion annually during 1988 to 1990. She recognized that financing was important but wished to revert to the earlier thought that growth-oriented adjustment through appropriate policy implementation and efficient projects was extremely important, a thought that had also been put forth earlier by Mr. Nimatallah.

As for the financing techniques that have been proposed, and more specifically those for official creditors, her authorities had been somewhat concerned about a tendency in the staff paper to treat rescheduling as another form of development assistance, Ms. Bush remarked. If the distinction between debt rescheduling and new aid was blurred, the flexibility of Paris Club operations could be seriously hampered. The staff paper had suggested several steps that official creditors might take to provide debt relief in support of African countries' adjustment efforts. Some of those steps, such as giving concessional interest rates upon the rescheduling of nonconcessional debt and retroactive terms adjustment, including debt forgiveness, caused serious difficulties for the U.S. Government in that they created policy and budgetary problems, possibly leading to the need to seek additional appropriations. In view of the budgetary implications, those suggested steps had the potential for leading to offsetting reductions in development assistance. However, it could certainly be useful for very low income countries facing protracted difficulties if other creditor countries were able to embrace those proposals. The U.S. authorities themselves were interested in exploring ways to further the efforts of such countries, but they felt that they would be better able to focus their attention on acceptable methods if they did not have to give continued attention to convincing others that granting concessional terms upon rescheduling of nonconcessional debt was not feasible for the United States. Nevertheless, her authorities fully supported lengthened grace and repayment periods in Paris Club debt relief arrangements with low-income countries on a case-by-case basis.

As other Directors had mentioned, Ms. Bush added, rescheduling by the Fund could create serious financial problems for the institution as well as further aggravate the financing difficulties of debtor countries. Thus, she could not agree that that was an option that should be looked into.

Further, on the financing requirements of countries eligible to use the resources of the structural adjustment facility and IDA, aid resources would continue to have the greatest impact when they were directed to those countries that could use them most effectively, Ms. Bush commented. That was an especially important point, given the budgetary constraints in many donor countries. The structural adjustment facility was the most appropriate channel for additional financing to low-income countries experiencing balance of payments difficulties, and her authorities placed particular importance on collaboration between the Bank and the Fund in negotiating policy frameworks with countries eligible to use the facility.

The United States supported the objective of increasing the resources of the structural adjustment facility but continued to believe that the focus for contributions should be on surplus countries. With respect to IDA-8, the U.S. authorities accorded very high priority to completing the budget process necessary to provide the full U.S. contribution to the replenishment. As for the other multilateral development institutions, the United States intended to participate in the fifth replenishment of the African Development Fund, the principal beneficiaries of which would be the least developed African countries. She understood that up to 20 percent of the replenishment was intended for policy-based lending, an important feature. She understood that the African Development Fund intended to associate much of its policy-based lending with policy frameworks whenever possible. She hoped that other regional development banks would do likewise. Her authorities also endorsed the suggestion that bilateral aid agencies focus on policy-based lending for low-income countries under policy frameworks. Bilateral assistance from the United States had been moving in that direction.

The involvement of the commercial banks with low-income countries was certainly very important, Ms. Bush concluded. Voluntary, imaginative mechanisms, or a menu of options, were as important for the low-income as for the middle-income debtors, as long as they were applied to problems on a case-by-case basis, and as long as the solutions fell within the parameters set by the longer-term interest of both the creditor commercial banks and the debtor countries, which in the long run would continue to need the cooperation and involvement of commercial banks.

Mr. Zecchini said that he had carefully reviewed the papers prepared jointly by the Fund and the World Bank for the forthcoming meeting of the Development Committee and had found them to be comprehensive and well focused. The papers pointed rightly to the large magnitude of the financing gap of the low-income countries facing particular difficulties, and they covered a wide range of options to fill those gaps. He understood that the list of countries under consideration was not of the closed-end type.

He broadly endorsed the basic thrust of many of the proposals mentioned in the papers, Mr. Zecchini added. Since he had already commented in other Board meetings on several of the points that those proposals raised, he had no additional comments to make at the present meeting. He wished only to know what was the range of variation around the point estimates for the financing gaps shown on page 5 of EB/CW/DC/87/6. Furthermore, he would be interested in knowing the amount of resources to be available under the existing structural adjustment facility after the disbursements that were taking place in the current year.

The Director of the Exchange and Trade Relations Department said that there was no intention on the part of the staff to close the door on mutually negotiated schemes to buy back debt. But the more closely the subject had been examined, the more the staff realized the risk inherent in the very thin markets for that debt. There had therefore to be wide uncertainty about the potential amounts of resources that might be required for a buy-back on a large scale. More fundamental was the basic question whether buy-back schemes were necessarily the optimal use for the scarce resources that were available.

The staff had long felt the need to associate bilateral donors more closely with the work of both the Bank and the Fund, and consideration was being given to inviting their representatives to Washington in the last quarter of 1987 for an explanation of the initiatives proposed and the role of the policy framework paper, the Director of the Exchange and Trade Relations Department stated.

The staff paper on recent developments and issues concerning trade policies (SM/87/191, 8/4/87), which was scheduled for discussion on the following day, made some reference to the impact of the industrial policies of the developed countries on developing countries, the Director noted. The most easily available information on the issue was to be found in a series of papers issued mainly by the World Bank. The additional information that Mr. Nimatallah was seeking, and which the staff would attempt to provide, would of course call for the collection and compilation of a considerable amount of material, which would then have to be analyzed.

As he understood it, financing for structural adjustment loans by the World Bank was often provided by IDA, in conjunction with the World Bank's own resources, the Director said. The statement of intention in the staff paper with respect to the use of at least $3-3.5 million under IDA-8 in support of adjustment programs had been under consideration for approximately one year. The details regarding its implementation had not been worked out, pending the coming into effect of IDA-8.

The comments that had been made on EB/CW/DC/87/6 could be taken into account without requiring a major revision of the paper, the Director of the Exchange and Trade Relations Department concluded. Of course, the misleading reference in the annex, to which Mr. Posthumus had referred, would be deleted.

The staff representative from the Exchange and Trade Relations Department noted that a point estimate only had been made of the gross financing needs of countries eligible to use the resources of the structural adjustment facility over the period 1988-90. The estimate was for financing of about $25 billion a year. The data would be provided to Mr. Zecchini.

The Chairman, in response to Mr. Zecchini's question on the amount of resources that would remain available after the current year's disbursements under the structural adjustment facility, suggested that the staff provide the relevant figures for the benefit of all Executive Directors.

The Director of the Exchange and Trade Relations Department, in response to a further question from Mr. Nimatallah, explained that the information needed to prepare the joint staff paper on the impact of industrial countries' policies on developing countries could only be obtained through bilateral discussions with various countries, and with their agreement. A plan had yet to be mapped out for the most effective division of labor between the World Bank and the Fund in order to obtain that information. The preparation of the paper itself would thus take some and perhaps many months.

Mr. Nimatallah responded that what was important was the commitment on the part of the Fund, in cooperation with the World Bank, to move forward on an issue that was gathering momentum worldwide because of its importance in terms of the impact on adjustment policies in developing countries as well as on the growth potential in industrial countries themselves. He looked forward to having a firmer commitment, whenever that became possible, with respect to the availability of a paper for discussion by the Boards of the two institutions.

The Chairman assured Mr. Nimatallah that the work would proceed and that Directors would be kept informed of its progress. It was the nature and the complexity of the issue, which touched on unfamiliar territory for the two institutions, that made it difficult to anticipate the type of information that might be needed and problems that might be encountered in obtaining it.

The Executive Secretary observed that both thorough preparation and sufficient time for discussion by the Development Committee were essential whenever a complex subject was placed on the agenda. It was also important to avoid overloading the agenda by earmarking too many major topics for discussion.

The Chairman bade farewell to Mr. Fischer upon the completion of his term of office as Executive Secretary of the Development Committee.