

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole for the Development Committee

Meeting 90/1

11:55 a.m., January 17, 1990

M. Camdessus, Chairman

Executive Directors

Alternate Executive Directors

Dai Q.

S. Gurumurthi, Temporary

C. Enoch

G. C. Noonan

J. de Groot

M. E. Hansen, Temporary

W. K. Parmena, Temporary

S.-W. Kwon

P. O. Montórfano, Temporary

M. A. Fernández Ordóñez

L. Filardo

R. Filosa

N. Morshed, Temporary

M. Fogelholm

M. R. Ghasimi

O. Kabbaj

B. Goos

J. E. Ismael

J. R. N. Almeida, Temporary

J.-F. Cirelli

J.-P. Landau

Mwakani Samba

M. Al-Jasser

G. A. Posthumus

K. Yamazaki

S. Yoshikuni

J. W. Lang, Jr., Secretary

M. J. Miller, Assistant

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Also Present

Development Committee: Y. L. Fortin, Executive Secretary; D. R. Clarke.
IBRD: M. F. Carter, Policy, Research and External Affairs. Exchange and
Trade Relations Department: L. A. Whittome, Counsellor and Director;
T. Leddy, Deputy Director; M. Allen, J. P. Guzman, H. Hino, G. R. Kincaid,
J. M. Landell-Mills, K. M. Meesook, P. J. P. Szymczak, P. M. Thomsen. Legal
Department: T. M. C. Asser. Secretary's Department: R. S. Franklin.
Treasurer's Department: I.-S. Kim. Advisors to Executive Directors:
F. E. R. Alfiler, K.-H. Kleine, D. Powell, S. P. Shrestha. Assistants to
Executive Directors: B. A. Christiansen, S. K. Fayyad, L. Hubloue,
K. Uchikawa, C. J. Jarvis, P. Kapetanovic, R. Marino, J. C. Westerweel.

1. TENTATIVE PROVISIONAL AGENDA; OUTLINES FOR BACKGROUND PAPERS

The Executive Directors considered the tentative provisional agenda and outlines for background papers for the May 8, 1990 meeting of the Development Committee (EB/CW/DC/89/10, 11/17/89) and a report on procedures and memorandum on a related matter from the Executive Secretary of the Development Committee (EB/CW/DC/89/11, 12/12/89).

The Executive Secretary of the Development Committee stated that he was pleased that the Fund's management had scheduled the meeting for an early review of the draft tentative provisional agenda and the outlines for the papers for the Development Committee meeting. Given the ministerial character of the Committee, he and the Chairman attached the greatest importance to Directors' views, since they acted as informal representatives of the Committee members.

The summary of the main understandings which he had reached with World Bank Executive Directors on July 19, 1989 on the preparatory and follow-up procedures for the Development Committee meetings had been circulated, the Executive Secretary went on. The substance of those recommendations had been brought to the Board's attention at the last meeting of the Committee of the Whole for the Development Committee in August 1989. The understandings that had been reached with Bank Directors responded to the concerns that had often been raised about the Committee's general orientation, the elaboration of its work program, and the nature of the documentation. He had visited and spoken with many of the Governors and senior officials who participated in the Development Committee in the previous 12 months, and he had concluded that the perception of many participants was that the Committee suffered from a lack of concreteness and insufficient preparation. More careful preparation, with the active involvement of Executive Directors, would be essential to improve the Committee's policy orientation and to make the most efficient use of Ministers' time. Indeed, Ministers should be able to expect that their time would be used productively.

Those aims could be facilitated by giving Directors an early opportunity to review the outlines of papers that were to be prepared for Ministers, the Executive Secretary pointed out. Papers from the Fund and Bank should be relatively short--perhaps 10 to 12 pages--analytical, and issues oriented, to provide guidance and assist the Ministers in preparing their statements. Papers should also reflect the fact that the Committee had consultative and advisory, but not decision-making, functions. The preparatory process and the quality of the Committee's work would benefit from Directors' suggestions about the priority which should be attached to issues on the Committee's work program, which could be expected for any ministerial meeting; it should therefore apply to Development Committee meetings as well.

Understandings had been reached with the Bank's Executive Directors on the procedures for setting the draft provisional agenda and preparing background papers, the Executive Secretary continued. He hoped that the Fund's Directors could reach a similar understanding. It was however likely that, because the Development Committee had a development orientation which was more within the purview of the Bank, Bank Directors would take a greater interest in the procedural questions.

He and the Chairman of the Committee therefore hoped that efforts to improve the preparations for the meetings would bear fruit, the Executive Secretary went on. The Committee meetings would be come more focused and issue oriented. The Committee existed by the will of the Fund and Bank Governors, and the Governors deserved from the Fund and Bank an effective preparatory process.

The tentative draft provisional agenda for the May 8, 1990 meeting of the Development Committee had been based closely on the Committee's communiqué of September 1989, and reflected the views of the Committee members, the Executive Secretary concluded. An informal report had been circulated to Fund Directors summarizing the comments of Bank Directors on the outlines of the papers that Ministers had requested, which the Bank Executive Board had discussed on December 1, 1989. He would welcome Directors' suggestions about items that might be added to the Committee's work program in the future.

Mr. Noonan made the following statement:

This chair welcomes the relatively early consideration of the provisional agenda of the May Development Committee meeting, and the review of the draft outlines of the papers to be prepared for that meeting. The procedure that has been adopted is a useful one, in that it facilitates an input by Executive Directors, and suggestions for ongoing work by the Fund and the Bank relating to development issues. We are also pleased that our review of the outline papers is taking place more or less in tandem with the World Bank's consideration of Development Committee issues. However, we have not been convinced that a seminar, rather than discussion by the Committee of the Whole, is required for the review.

We support the views of the World Bank Directors that the background papers prepared by the staff should be succinct, and should focus on key issues of policy. It is suggested that this objective would be helped if the papers were analytical rather than descriptive, and if the analysis contained in the papers was limited to that relevant to the policy issues on which it is hoped the papers will focus. More detailed descriptive and factual material, which might be useful, could be contained in annexes to the papers.

We have no particular problems with the provisional agenda. The outlines for the three proposed papers strike us as being perhaps more comprehensive than necessary. We hope that the papers themselves will have more precise focus, which may be particularly pertinent in the case of the paper on the debt strategy. The proposed outline of the latter paper provides for a very broad coverage of recent developments and the major issues. Presumably, the debt strategy will also be discussed by the Interim Committee. We are concerned, therefore, about the risk of overlapping, and would wish the issues dealt with by the two Committees to be differentiated to avoid overlapping, or at least to reduce its extent. Preferably, the work of the two Committees should complement each other. In the case of the paper prepared for the Development Committee, we feel that it should focus on the impact of the heavy debt burden and the operation of the debt strategy on the economic prospects and the medium-term growth programs of the developing countries. In our view, all indebted countries should be included in the review, and, to the extent possible, the lessons to be drawn from the differing experiences of countries with heavy debt burdens should be highlighted. This could facilitate the preparation of issues for discussion by the Committee.

The question of private sector development, and the possible support of the Fund and Bank for this element in the development process, has come very much to the fore as a consequence of the recent changes in Eastern Europe. We would favor inclusion in the papers of relevant experience relating to East European countries and the problems faced by centrally planned economies in looking at the issue of private sector development. However, given that most of these countries have embarked only very recently on substantive efforts to move away from centrally planned economies and to encourage private sector development, it is almost certainly too early to draw many lessons. One policy issue on which we would expect the paper to focus is how developing countries in general can strengthen the responsiveness of their economies to appropriate economic signals through a strengthening of the private sector, and what might be the best ways for doing so. We would also feel that it is important for the paper to emphasize the role which foreign direct investment could play in expanding the private sector in those countries. Many of those countries will need to rely on foreign financial resources, as well as domestic resources, to achieve stronger, more viable, growth. With the reluctance of banks to lend on a significant scale, and the increased emphasis in many countries on the private sector as a source of growth, it would seem to make sense to increase efforts to provide an appropriate economic climate for private direct investment in those countries, and look at ways of encouraging such investment.

Mr. Al-Jasser made the following statement:

I welcome this opportunity to review the tentative provisional agenda and draft outlines for background papers, as well as the procedures concerning the review of the agenda by the Executive Directors.

On the procedures, it is not very helpful to present Executive Directors with an agenda and outlines that cannot be altered or influenced, as has been the practice in the past. It is important for Executive Directors in the Bank and the Fund to have an early input in the process of formulating the agenda of the Development Committee meeting. This should allow all Executive Directors to express their views on the topics that ought to be discussed by the Development Committee, at the earliest possible opportunity. The relevance and consistency of papers prepared by both institutions would thereby be enhanced.

I therefore support the proposal that the Board meet very early, in a meeting of the Committee of the Whole, to exchange views on the draft agenda and the draft outlines of the papers, as well as the future work program of the Committee. It may be desirable to consider an early meeting between the Secretaries of the Fund and the Bank, the Executive Secretary of the Committee, and interested Executive Directors from both institutions to explore international development issues that need to be addressed by the Development Committee in future meetings.

The private sector development study is a timely one that can contribute measurably to understanding the dynamics of development and underdevelopment. Fostering the enabling environment, in its global context, should be given special attention. Eliminating domestic distortions, especially in the areas of pricing, trade, exchange and interest rates, and the institutional environment, is critical to the efficiency of private sectors. It is, however, equally critical to ensure that the external environment is not adverse to private sectors in developing countries, especially through discrimination against their processed products. Access to international markets is the key to the viability of all fledgling private sectors around the world, and indeed to the health of the world economy at large.

The 1990s should be the decade for the integration of the developing countries into the world economy, which should help to expand world output and trade, and would effectively help in resolving the debt problem. It is therefore incumbent upon international organizations, such as the Fund and the Bank, to ensure that an environment conducive to such integration is developed.

The Development Committee is in a good position to enhance the progress of this process. I suspect that some industrial countries are reluctant to let this Committee address policy reform of both industrial and developing countries; they want it to address only developing countries' policies. It would be more appropriate to address global development problems even as they extend into the industrial countries' policies, and suggest reforms on both sides. Certainly this is fair, as both sides will benefit from reform.

Therefore, the major industrial countries and the staff of the Fund should be more forthcoming in making the Development Committee a more effective forum for accelerating structural reform in both developed and developing countries. It is with this in mind that I regret the absence from the agenda of an item on the technical follow-up on the improvement of the industrial policies of industrial countries, to make the impact of those policies helpful, instead of detrimental, to the process of integration. Discussions in previous Development Committee meetings have gone a long way in diagnosing the problem. We still have a long way to go in doing the technical work necessary for the structural policy reform and the coordination of such policies to minimize their costs and maximize their benefits. After all, the Committee has asked the Bank and the Fund, in its last communiqué, to keep under review the impact of industrial countries' trade, agricultural, and industrial policies on developing countries, as well as the results of adjustment programs that developing countries undertake. I therefore trust that the agenda for the fall meetings will resume that review, by addressing the modalities and all the technical work necessary for the treatment of structural rigidities in industrial countries.

The elements mentioned in the draft outline of the paper on the financing of the private sector are important. I would only add--and this is relevant to the paper on the long-term perspective for sub-Saharan Africa, incidentally--that there is a need for more innovative and bolder initiatives for financing private sector investment, as well as kick-starting these investments, when necessary. The World Bank, with its expertise and competent arms--the International Finance Corporation and the Multilateral Investment Guarantee Agency--has already embarked on some limited experiments in Africa. It may be time to start thinking in more global terms. This also may be an idea for future deliberations of the Committee.

Mr. Ghasimi made the following statement:

We attach importance to the work of the Development Committee, which, although not as policy oriented as the Interim Committee, is a useful gathering in which many policy issues are discussed in a less pressing way. We wish to emphasize the joint character of the Development Committee, which accommodates analysis of all aspects of the problems facing the world economy in a short-term as well as in a medium-term perspective. Our authorities are grateful to the management and staff of the two institutions, and to the Chairman and the Executive Secretary for the efficiency of the work of the Committee.

Against this background, it is of paramount importance that the Executive Boards of the two institutions be involved as much as possible in the preparation of the meetings of the Committee. An early input by Executive Directors, as suggested by the Executive Secretary, is fully warranted. The degree of involvement of the Executive Board depends of course very much on the actual choice of topics under review. Debt problems, for example, merit a close and intensive involvement of the two Boards. Issues concerning environment, as another example, seem to be handled more easily by the Bank's Executive Directors.

We have no strong views with regard to the procedural matters--whether the Board should meet in Committee of the Whole or in a seminar to discuss the work program of the Development Committee. We would like to hear comments on the procedural issues from the Executive Secretary or the Committee Secretary.

On the choice of papers to be prepared by the staff, we can certainly go along with the arrangements agreed with Bank Executive Directors. These arrangements imply that the papers would be short--10-12 pages--and would concentrate on analysis and on issues of policy significance. We wish to reiterate our position regarding the need to have background papers attached to these short papers. We can also go along with the preparation of a separate paper to assist members in their discussions of each of the main items of the agenda. We understand that, generally, these papers would be joint, but each institution should retain the possibility of expressing its particular point of view, in line with its mandate.

We have no difficulty in supporting the draft agenda. On the review of the joint debt strategy paper, the analysis should cover all indebted developing countries and emphasize the lessons to be drawn from the implementation of the debt strategy. Indeed, our authorities attach great importance to the needed adaptations of

the strategy. In this regard, we recall our long-standing position that two categories of indebted countries have not been sufficiently covered so far, and that they certainly merit the full attention of the international financial community. The first group is the heavily indebted developing countries that have striven very hard, despite enormous difficulties and an adverse international environment, to remain current in servicing their financial obligations. The second group is the low middle-income countries, which, by definition, are neither eligible for Toronto terms nor likely to benefit substantially from the Brady Plan.

We wish to add our voice to those Directors in the World Bank who feel that the joint paper dealing with private sector development should focus on the question of efficiency rather than ownership, and that the role of the public sector, and ways and means to enhance its efficiency, should also be explored.

We would prefer a joint paper on sub-Saharan Africa, but, since the Bank has just published a comprehensive report, we would be content with a separate Fund paper, together with a short joint policy paper.

We continue to favor further reviews and studies on the impact of regional trade arrangements on developing countries and progress in the Uruguay Round. More generally, this chair continues to attach great importance to the issues of trade and the economic impact of trade restrictions, and, in this regard, we would like to see a continuing interest by the Development Committee in the analysis of the effects of trade policies of industrial countries on developing countries.

Mr. Yamazaki made the following statement:

I welcome this opportunity to discuss the tentative provisional agenda and the outlines for the background papers for the Development Committee, as I hope that our discussion will provide important suggestions for the orientation of the Development Committee. I also join other Executive Directors in supporting the proposed procedure.

The draft provisional agenda and outlines are broadly appropriate. Some of the comments raised by the Bank Executive Directors will certainly help improve the quality of the background papers. That being said, I have several comments on the proposals raised in the Bank seminar on this issue.

I understand that the policy orientation of the background papers was generally stressed at the seminar. While I am not sure what exactly "policy orientation" means in each context, I wonder whether some topics in the papers might be somewhat premature for a policy-focused discussion. With respect to the paper on private sector development, I note the increasing importance attached to the development of the private sector and competitive markets in structural reform. However, I am concerned that too much emphasis is being placed on the roles of the Fund and the Bank, before the paper analyzes fully the desirable direction of private sector development in the context of structural adjustment. The paper should maintain its strong emphasis on macroeconomic adjustment in developing countries, as this is indeed the most important condition for enhancing private sector development.

I have serious reservations about the proposed policy orientation of the debt strategy paper. Consideration should be given to the Bank seminar's proposals on the coverage of indebted countries and the lessons obtained from implementation of the debt strategy. However, it would be premature, and probably too ambitious, to try to discuss wide-ranging policy issues at the seminar. I am concerned that a too ambitious widening of the paper's scope could lead to a deterioration in the quality of the paper. In this connection, we should avoid the overlapping of discussions in the Interim and Development Committees. I believe that forward-looking discussions of the debt strategy are more appropriately made in the Interim Committee, as they used to be, in view of the distinct roles of the two Committees. As the evolution of the debt strategy is significantly related to wide-ranging developments in the international payments system, the proposed policy issues may not be singled out appropriately from the development perspective alone, in the Development Committee.

I am open-minded on the question of the form of the paper on sub-Saharan Africa. However, I would appreciate the staff's comments on whether a joint paper would cause any substantial difficulty.

Mrs. Hansen stated that her authorities supported the revised procedures to provide the Board with an opportunity to provide earlier and more substantive input into the agenda and papers for the Development Committee. Accordingly, they supported the staff's suggestion that Executive Directors continue to meet as the Committee of the Whole, but at an earlier stage to parallel the reviews of the agenda, outlines and papers which take place at the World Bank. The papers themselves should be short and direct the attention of Committee members to the policy questions which emerge, and which are within the Committee's purview.

The paper on the private sector's contribution to development should downplay the theoretical, and concentrate on specific actions which member countries and the Fund and Bank can take to enhance the private sector's contribution to development, Mrs. Hansen added. In the view of her authorities, there was already a broad consensus that the private sector could make a positive contribution to development; the paper should therefore focus on what interested parties could do to make this contribution as effective as possible.

The paper on the review of the debt strategy should be a progress report on the implementation of the debt strategy, and the current outline provided an adequate framework for such a paper, Mrs. Hansen considered. However, her authorities understood that the focus on severely indebted countries identified by a set of objective criteria indicated in section 2 of the outline in no way contradicted the accepted case-by-case approach of the debt strategy. They would not expect to see, for example, any implications drawn from the scope or form of any possible debt relief.

Mr. Enoch made the following statement:

As the report on procedures notes, there is at present a notable asymmetry in the process through which papers for the Development Committee are considered by the Fund and Bank Executive Directors. The World Bank Directors undertake a substantive discussion of the agenda and outlines of background papers at the outset of preparations for the papers. In the normal course of events, the Fund Board would not undertake such a discussion until the background papers are fully fleshed out. Today's meeting is something of an exception to this rule, and the Directors are asked to consider whether the Fund Board should also have a preliminary discussion, along the lines of that in the World Bank.

The question is particularly important, as there also seems to be an asymmetry of views between the two Boards. For example, on the one hand--according to the informal report on the Bank seminar--Bank Directors made a number of suggestions on ways in which the papers should be expanded and made more issues oriented. Today, on the other hand, Directors have stressed that Development Committee papers should be primarily factual and explanatory; I am thinking in particular of the outline on developments in the debt strategy. This obviously makes life difficult for the staff.

Of course, if there is a disparity of views between the Fund and Bank Executive Directors, the responsibility really lies with member countries and the Directors themselves. But one way in which coordination between the two institutions could be made much easier would be if Fund and Bank Directors participated in a

seminar together. A joint seminar might also be a useful compromise between, at one extreme, the Fund having no role in the early part of the process of producing Development Committee papers, and, on the other extreme, simply duplicating the seminar already held by World Bank Directors.

The debt outline seems to strike just about the right note. Consideration of modifications in the debt strategy is primarily a task for the Interim Committee. However, if the paper follows the course set out in the outline, it would provide just the kind of detailed background information which Governors need in order to have a meaningful discussion of the debt problem.

I hope that the paper on private sector development will give prominence to the particular role which the Fund and the World Bank have in fostering private sector development. Apart from this, the outline seems to me to be generally good. One minor point: the outline talks about the importance of governments providing incentives for the development of an efficient private sector which can respond flexibly and quickly to changing market signals. Perhaps the emphasis should be slightly different; what is generally needed is not so much for governments to provide incentives, but rather to remove impediments to private sector development.

On the outline on the long-term perspective for sub-Saharan Africa, it was not quite clear to me why the Fund and the Bank will be producing separate papers for the Development Committee. Perhaps the staff could explain why.

Mr. Kwon made the following statement:

Like previous speakers, we can support the procedural issues as agreed upon at the Bank Executive Board Seminar.

This chair has no difficulty with the draft provisional agenda. On the draft of the debt paper, I note that the main body of the paper concentrates on Bank and Fund experiences. Nowhere in the outline is it indicated that the role of the other major players--i.e., commercial banks and governments of creditor countries--in the debt strategy will be assessed. I recall that in Fund Board discussions on debt, the roles and contributions of banks and creditor governments to the debt strategy are usually touched upon as well.

It may be that the broader discussion on the overall debt strategy involving all participants is reserved for the Interim

Committee sessions, while Development Committee sessions would focus more on specific country experiences. Nevertheless, it may still be a good idea to include, as a brief background in the Development Committee debt paper, the interrelationships of the borrowing countries, multilateral institutions, creditor governments, and commercial banks in the strategy, and a summary assessment of how these interrelationships have helped--or delayed--the realization of the objectives of the debt strategy. The background paper can also state that a wider treatment of the interrelationships will be contained in the Interim Committee's paper on debt.

I do not have any major comment on the other two draft outlines. They both appear to indicate a comprehensive treatment of their topics. With regard to the paper on private sector development, I am in full agreement with the paragraph saying that privatization can be an important tool of restructuring, but experience shows that the process should be transparent and that deals should be structured to support the goals of efficiency and competition. I must confess, however, that we tend to overlook the limited capacity of the private sector in low-income developing countries, which in turn impinges on the authorities' effort to carry out privatization more effectively. To take over the large public enterprises, the private sector would require huge initial amounts of capital, which should be financed either through its own savings, or channeled through efficient financial intermediaries. Developing countries, especially low-income developing countries, tend to lack both of these. Moreover, privatization also requires sophisticated entrepreneurial and managerial skills, which cannot be attained in a short period of time. I therefore hope that the paper on this issue will properly address the problem as well.

Mr. Posthumus stated that the procedures that had been suggested for preparing the Development Committee's documents and agenda had originated on the World Bank side mainly because the subjects were prepared differently in the Bank and the Fund, reflecting the fact that the two institutions worked differently from an organizational perspective. The Fund's Board discussed the subjects which later came to the Interim Committee's agenda for a long time, and thoroughly; from the Fund's point of view, therefore, there was not much need for separate discussions to prepare a thorough agenda and supporting documents. However, if such an approach would be of help to Bank Directors, he would of course cooperate with it. Seminars on the Development Committee's agenda, or on subjects on the agenda, were not really necessary, in his view, but if the Bank wished to have them he would not object.

Nevertheless, Mr. Posthumus went on, a seminar was too loose a format for preparing a subject adequately, or for deciding the priorities of matters which should be dealt with during the Development Committee meeting. That looseness was clearly evident in the results of the World Bank seminar on the debt strategy paper, in particular. The outline of the paper on the debt strategy was basically a progress report, which, at the present juncture, was probably all that the Development Committee--and perhaps the Interim Committee as well--needed. There was no consensus at present that the debt strategy would have to be changed or begun anew. The report of the discussion, in presenting the diverse views of various groups of speakers without attempting a synthesis, showed clearly that lack of consensus. The seminar also did not provide the basis for determining what the paper's content should be, because the opinions in it had not been weighed. Furthermore, there were many subjects relating to the debt strategy which would not be easy to discuss or to resolve in either the Development or the Interim Committee at present; the issues of the fungibility of the Fund's resources and of tax and regulatory regimes in industrial countries came to mind, in particular.

That being said, he wondered whether the seminar format would necessarily be a good way to proceed, Mr. Posthumus concluded. A joint seminar was not really needed either, in his view. Perhaps seminars between individual Directors of the same constituency on the Fund and Bank sides would be useful, however, because it had been his impression that there might be some differences of opinion even within the same constituency.

Mr. Dai observed that the forthcoming meeting of the Development Committee would be the first one of the new decade, and was therefore important. Looking back on the decade of the 1980s, it could be seen that, except for a small number of countries, the developing world had experienced unpropitious economic phenomena. The gap between rich and poor nations was widening. The discussions in the Development Committee on the review of past experience should therefore focus from the 1980s, in order to determine the efforts that should be made in the 1990s for the transfer of real resources to promote world development. That, indeed, was the Development Committee's central mandate.

The question of which topic should be accorded the highest priority on the Committee's agenda remained unresolved, Mr. Dai concluded. He was not certain whether the first item presented on the draft tentative agenda should be seen as the highest priority. Perhaps the application of some imagination and fresh ideas would help to identify the item of highest priority for the Committee's discussions in the 1990s.

Mr. Cirelli stated that he had no preference as to whether the Board's discussions should take place in a seminar or in the Committee of the Whole. Even though the Bank had changed its procedures in that regard, it was important that the different procedures yield parallel results, especially

with respect to the rate of progress the Directors of each institution made on the items that needed to be discussed. Like previous speakers, he concurred with the idea of having an early meeting for the preparation of the Development Committee's agenda.

He understood the specificity in the approaches of the two institutions in the paper on long-term perspectives for sub-Saharan Africa, Mr. Cirelli commented. Mr. Landau had already said that the two institutions should collaborate on a common paper; he hoped that joint background papers could be prepared.

The debt strategy was clearly within the purview of the Development Committee, but it was essential that a repetition of the debt discussion in the Interim and Development Committees be avoided; otherwise, two different approaches to debt might emerge. However, he was confident in the possibility of reaching an agreement on the exact items to be handled by each Committee. The Interim Committee clearly had a special responsibility for specific aspects of the debt strategy, whereas the Development Committee needed to focus on the impact of the strategy on development, and to assess the consequences for resource flows to developing countries.

Mr. Fernández Ordóñez said that he supported Mr. Kwon's comments on the importance of devoting some attention to the players in the debt strategy in the paper for the Development Committee. The most important players were clearly the indebted countries--featured adequately in the draft outline--but the other players--the multilateral institutions, the Fund and the Bank, the official creditors, members of the Paris Club, and the bilateral donors--also needed to be borne in mind. The importance of the macro-economic policies of industrial countries and their effect on the debt strategy and on developing countries should not be overlooked. In that connection, he agreed with Mr. Al-Jasser's remarks. The impact of monetary and fiscal policy and interest rates in the industrial countries on the debt strategy needed to be investigated, as well as the role of the banks in the debt strategy; no important player should be overlooked. Discussions in the Interim and Development Committees should not overlap.

Mr. Goos commented that he agreed with the procedures that had been suggested and with the format of the papers. He did not attach particular importance to whether the discussions should take place in a seminar or the Committee of the Whole. The Board took up the issues for discussion by the Development Committee on the occasion of the discussion of the work program, but perhaps the reference to the papers that would be prepared was not complete enough to initiate the kind of broad discussion that would be needed to determine the Development Committee's direction. Perhaps, then, the three references to the papers that would be prepared for the Development Committee's agenda could be elaborated further in an attachment, and taken up on the occasion of the Board's discussion of the work program.

The papers should be short, to the point, and focus the discussion of the Ministers on the issues, Mr. Goos continued. He attached particular importance to the need for joint staff papers. That notwithstanding, the specific perspectives of the two institutions on certain issues should not be painted over in an inappropriate effort to present a streamlined set of papers.

He agreed that the draft outlines for the background papers should ensure that a duplication of effort, and of discussion in the Committees, was avoided, Mr. Goos went on. The description given in the agenda item itself on the review of the impact of the strategy on development prospects--and not the proposed outline of the paper on that issue--reflected more accurately what the Development Committee should be requested to discuss, in his view. To go further in the direction of considering possible changes to the existing debt strategy in the Development Committee would not be in keeping with the Committee's area of competence. The matter of the evolution and possible reform of the debt strategy should be left to the Interim Committee. There was a clear risk that conflicting signals might emerge if the same issues were discussed in two different bodies. The question of using the time of the Ministers and of the staff most efficiently also arose in that connection.

He had taken note of the proposal by some World Bank Directors to include issues confronting Eastern European countries in the paper on private sector development, Mr. Goos concluded. Perhaps those issues could be explored in a separate paper; he had noted that Mr. Noonan had made a similar observation. The information available at present on those issues was insufficient to allow the preparation of an adequate paper, in his view. Perhaps the topic could be taken up in a future agenda, accordingly, when more information was available.

Mr. de Groote commented that, like their Ministers, Directors needed to ask themselves whether or not attending the Development Committee meeting would be worthwhile, and whether or not the Development Committee's activities were different from those of the Fund or of the Interim Committee.

It was important to design agenda items that would encourage Committee members to attend the meetings, Mr. de Groote went on. The topic of private sector development and investment would undoubtedly elicit an interesting discussion, as the experiences of some East European and Far Eastern countries would be brought up, and would likely encourage participation. Distinguishing the market mechanism from private ownership per se might be an intriguing point of departure in the discussion.

Industrial policy held encouraging prospects for an interesting discussion as well, as Mr. Al-Jasser had pointed out, Mr. de Groote continued. In the World Bank, he had proposed that the impact of the policies of industrial countries on developing countries be discussed, because it would

be impossible for industrial countries--or the Bank or the Fund, for that matter--to advise developing countries on the reorganization of their macroeconomic policies unless--once in a while--industrial countries were also given similar advice. The staff might analyze the effect of the policies of industrial countries--including stabilization, inflation, and commodity price policies--on the debt strategy, and in particular, the effect on those countries most closely concerned with the debt strategy. Those issues were within the purview of the Interim Committee as well, of course.

Mr. Posthumus had made an interesting observation in comparing the working methods and functioning of the Fund and the Bank, Mr. de Groote went on, which related to how the Development Committee's work could be integrated with the activities of the Interim Committee and the Fund. There had never been any problem agreeing to a suitable agenda for the Interim Committee, because the Committee gave the Fund's political authorities the opportunity to reflect on the Fund's work and what it should do in the future; the Interim Committee's agenda flowed naturally from the Fund's own activities. In the World Bank, however, there was no direct relationship between the bulk of the Bank's activities and the topics on the Development Committee's agenda. The Development Committee might be encouraged in the future to do what it had been intended to do from the beginning, namely, to provide the Bank's political authorities with an opportunity to reflect on all issues related to the Bank's activities--and, more specifically at present, the intervention of the Bank in the issue of debt. That basic purpose had been lost, because while the Interim Committee was a Fund Committee, the Development Committee was a joint one, creating the impression that the same topics should be discussed--which had not been the original intention. Rather, the principle had been the creation of one political body to reflect on the Fund's activities, and another to reflect on the Bank's. Since many of the general topics affected the Fund directly, it had been thought advisable to include the Fund in the Development Committee, but the real purpose of that involvement was so that it could provide information and expertise on issues with which it was most closely concerned, such as the effect of exchange rate policy on development.

The fact that the Development Committee's purpose had been forgotten expressed itself first in the fact that the Bank management did not ask the Executive Secretary to attend all Board meetings, which was indeed regrettable, Mr. de Groote commented. Because the Executive Secretary did not attend, he did not have the opportunity to relate what was happening, at a very general level, in the Bank's discussions, to the Bank's political authorities. Because Bank management did not assist in the preparation of the Development Committee agenda, it could not assist Ministers to reflect on the Bank's options which may have shown themselves over the preceding few months. Progress could be made in those areas.

He supported those Executive Directors who had pointed out that it was the responsibility of the Executive Board to review the documents that would be submitted to the Ministers, Mr. de Groote stated. It was odd that the issue of the World Bank's capital increase had not been discussed thoroughly in the Development Committee, although some of the Ministers had chosen to intervene on that point. Also, the Development Committee had never discussed seriously countries' development strategies, or the industrial strategy of industrial countries. Such topics might serve to focus the attention of Ministers more closely on the issues which really mattered.

Mr. Fogelholm commented that Mr. de Groote had raised a number of fundamental and basic issues. In that respect, he would not object to returning to the Committee's basic reasons for existence. However, there might be some resentment on the part of the World Bank were it to be seen that, through the Development Committee's deliberations, the Fund was directing the Bank's work. It might be useful to consider the issues Mr. de Groote had raised in a special meeting.

The meetings of the Development Committee should be structured in a way to ensure that a duplication of the discussion in the Interim Committee was avoided, Mr. Fogelholm said. The policy issues that might be raised in the Development Committee should not be of a general character, which should rather be dealt with by the Interim Committee. The Board should at an early date review the outcome of the latest Development Committee meeting in order to achieve such a division of labor. He agreed with Mr. Goos that that review could take place in conjunction with the Board's discussion of the work program. At the same time, the outcome of the Interim Committee meeting could be reflected upon, and the work of the two Committees thus coordinated more effectively. The Fund was in a better position than the Bank to make such a recommendation, and should take the first step in that regard, because it had full charge of the Interim Committee, whereas the World Bank was only half in charge of the Development Committee.

He had no problems with the other procedural proposals that had been put forward by the Executive Secretary, Mr. Fogelholm concluded. He agreed with the tentative provisional agenda, on the understanding that the discussion on the debt strategy would not involve policy considerations. He had no substantive comments on the draft outlines of the papers. However, he would prefer in principle that joint papers be produced--while retaining the flexibility in particular cases to have two--the paper on long-term perspectives on sub-Saharan Africa being such a case.

Mr. Montórfano stated that it would be useful to have the draft tentative provisional agenda for the Development Committee for consideration as early as possible, because it would allow Directors to express their views in consultation with their authorities, and consolidate the various ideas which had come forward as a result.

The debt strategy and its impact on the development prospects of severely indebted countries should be placed first on the agenda, not second, Mr. Montórfano continued. The key issue was to arrive at solutions to ensure the successful conclusion of the debt problem.

It was clear that, for the debt problem to be solved, countries would have to pursue free and competitive markets in order to sustain economic growth, Mr. Montorfano pointed out. Governments would need to take the necessary steps to encourage investment, and many countries had already embarked on programs of privatization of public enterprises. It needed to be borne in mind, however, that privatization was not a panacea, because private investment in public enterprises would not, in and of itself, ensure the profitability of those enterprises. Furthermore, it needed to be assured that private sector investment would contribute to economic development.

He joined other Directors in supporting the proposed outlines for the background papers, and the proposed agenda, Mr. Montórfano concluded.

The Executive Directors agreed to continue their discussion in the afternoon.

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