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IMMEDIATE ATTENTION

CONFIDENTIAL

August 23, 1983

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

From: The Committee Secretary

Subject: Draft Minutes of Meeting 83/1

Attached are the draft minutes of the meeting of the Committee of the Whole on the Development Committee held on March 28, 1983. If no further revisions are proposed by the close of business on Tuesday, August 30, 1983, these draft minutes will be deemed approved on that date.

Att: (1)

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INTERNATIONAL MONETARY FUND

Committee of the Whole on the Development Committee

Meeting 83/1

6:45 p.m., March 28, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	w. B. Tshishimbi
J. Anson	
	L. E. J. Coene, Temporary
	A. Le Lorier
	J. Delgadillo, Temporary
R. D. Erb	C. Dallara
M. Finaish	
	I. R. Panday, Temporary
T. Hirao	T. Yamashita
R. K. Joyce	M. Casey
A. Kafka	
G. Laske	G. Grosche
	L. Barbone, Temporary
R. N. Malhotra	
Y. A. Nimatallah	
	T. de Vries
	K. G. Morrell
G. Salehkhou	
	E. I. M. Mtei
	J. L. Feito
J. Tvedt	
Zhang Z.	Wang E.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

H. E. Kastoft, Executive Secretary, Development Committee. M. M. Ahmad, D. R. Clarke, A. Shakow, IBRD. Exchange and Trade Relations Department: D. K. Palmer, Deputy Director; E. H. Brau, K. B. Dillon, H. Hino. Legal Department: J. G. Evans, Jr., Deputy General Counsel. Secretary's Department: A. P. Bhagwat. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, J. R. N. Almeida, M. A. Janjua. Assistants to Executive Directors: J. Bulloch, I. Fridriksson, J. Schuijer, P. Leeahtam, W. Moerke, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, J. K. Orleans-Lindsay, D. I. S. Shaw.

1. DEVELOPMENT COMMITTEE - ANNOTATED AGENDA

The Committee members considered a revised draft annotated agenda for the Development Committee meeting on April 28 and 29, 1983, reflecting the comments made by the Bank's Executive Directors at their Committee of the Whole meetings on March 23 and 24, 1983 (EB/CW/DC/83/1, Rev. 2, 3/25/83).

Also present were Mr. Kastoft, Executive Secretary, and Mr. Ahmad, Development Committee Secretariat; Mr. Clarke, Senior Advisor, International Relations Department, IBRD; and Mr. Shakow, Chief Economist, External Relations Department, IBRD.

Mr. Salehkhou, speaking first on procedural matters, recalled that he and his colleagues from the Group of Nine had discussed an earlier draft outline of the agenda and had agreed to a number of suggested amendments. In his capacity as Chairman of the Group of Nine for the current month, he had brought the suggested changes to the Managing Director and the Deputy Managing Director, both of whom had welcomed almost all of them. When he had attempted to convey the same proposals to the Executive Secretary of the Development Committee, he had been informed that the annotated agenda would be issued shortly and that no changes in it could be made before it was discussed by the Committees of the Whole of the World Bank and the Fund. However, on March 21, he had received a revised annotated agenda with a cover note indicating that the document "reflects comments made by the Bank's Executive Directors." After checking with his counterpart in the World Bank, he had been surprised to learn that the Committee of the Whole had not yet taken up the draft agenda and that the "comments" referred to had been made informally by some Executive Directors from industrial countries. In the circumstances, he would appreciate some explanation of the procedure that had been followed. The 11 Executive Directors on whose behalf he had attempted to present recommended changes to the annotated agenda had accepted the procedure set out by the Executive Secretary of the Development Committee and had waited until the meeting of the Committee of the Whole in the Bank to put forward those suggestions, all of which had at that point been turned down.

Clearly, Mr. Salehkhou continued, the Development Committee had thus far been nothing more than a forum for discussion. Since it was also clear that no operational decisions were taken by the Committee of the Whole, he wondered why even simple discussions of the agenda were not allowed as a way of clarifying a troublesome period in the world economy, particularly for the less developed countries (LDCs).

Turning to the draft annotated agenda itself, Mr. Salehkhou said that he wished to suggest some additions that were, in his view, relevant to the discussions of the Development Committee. First, an update of the World Economic Outlook should be provided that would take into consideration recent developments in the oil markets and would analyze the implications of those developments for various country groups. Second, the issues relevant to the Development Committee in the recently published Brandt

Commission Report (Common Crisis, North-South Cooperation for World Recovery) should be discussed. Third, while the work of the Task Force on Concessional Flows was not well advanced, the Executive Secretary of the Development Committee should nonetheless provide the Development Committee with a progress report on the work that had been done.

Mr. Laske, focusing on the section of the annotated agenda dealing with the external debt situation, said that his authorities were troubled that, even before substantive papers on the items had been discussed in the Executive Board, Directors were being asked to approve an annotated agenda suggesting that Ministers should comment on certain aspects of that item. His authorities would have preferred a procedure under which approval of the agenda was requested only after the substantive discussion had taken place in the Executive Board.

With respect to the first recommendation on page 7 of the revised agenda, Mr. Laske suggested adding the following words: "which had been triggered to a considerable extent by unfavorable external circumstances as well as by inadequate domestic economic management in many of the countries concerned." The language that he was suggesting had been taken from the bottom of page 3 of the same paper and should therefore cause no difficulty. In the first recommendation at the top of page 8, he suggested eliminating the words "both bilateral and multilateral," which did not seem to be necessary.

Mr. Dallara remarked that he also was concerned about the procedure for dealing with the annotated agenda. It might be useful in the circumstances to review the process and make any changes necessary to better serve the needs and requirements of Ministers.

He could support both Mr. Laske's proposed changes, Mr. Dallara continued. In addition, he would suggest one or two other changes so that the first recommendation on page 8 would read: "...emphasize the necessity, in the current difficult situation, of providing adequate financial flows to developing countries from all sources, including official sources, in support of appropriate adjustment efforts...."

Mr. Malhotra, commenting on the changes suggested by Mr. Dallara in the first recommendation on page 8, said that the focus of the recommendation would be weakened if financial flows to developing countries were tied to the matter of adjustment. Also, it was important that the words "both bilateral and multilateral" should be retained in order to ensure emphasis on multilateral flows; some problems had of late arisen with respect to such flows, particularly those from IDA.

Generally speaking, Mr. Malhotra continued, the approach to external debt in the staff papers was not sufficiently broad. It was less important to emphasize that technical assistance should be provided to member countries to help monitor external debt than it was to establish the means by which the external debt problems could be resolved. It was not sufficient to take a case-by-case approach. There should be a more comprehensive approach to providing finance for development and for balance of payments purposes and to designing adjustment programs that would enhance the productive potential of economies in a noninflationary way. It was better to adopt a package approach in which the debt burden of the developing countries could be restructured within a multilateral framework.

Mr. Anson considered that a further recommendation should be added to the section on external debt reading: "--welcome closer and more regular Fund surveillance over external debt." On another matter, it might be possible to meet the concerns of both Mr. Dallara and Mr. Malhotra if the first recommendation on page 8 were reworded to say, in part, "and increasing financial flows to developing countries from official sources and other nondebt creating flows or other direct investment flows."

Mr. Malhotra replied that, if Mr. Anson wished to place emphasis on investment and other flows, he would have no objection. However, the matter should probably not be dealt with in the context of debt problems. Flows of official assistance could be mentioned specifically in the context of the debt problem, which had been exacerbated as flows of official assistance had declined.

The Chairman observed that there was in fact a link between debt problems and investment and other flows, and it might be worth stressing the importance of higher direct investment in developing countries, perhaps in a separate recommendation.

Mr. Malhotra reiterated his view that direct investment was not a matter that needed to be stressed in connection with the debt problem. There were far more important ideas that should be considered, including the one about restructuring debt on a more uniform basis and in a multilateral context.

The Chairman said that he would have some difficulty incorporating such an idea into the annotated agenda for the Development Committee. The Development Committee operated under the aegis of the two Bretton Woods institutions--the Fund and the World Bank--and the language suggested by Mr. Malhotra might undermine the recent successful efforts of the Fund to avoid a drying up of some large flows of bank financing. The Fund was attempting to keep commercial banks actively involved with their country clients and to convince them that they should be associated with Fund programs for member countries. It would be unfortunate if, through the annotated agenda, the Fund were to send a signal to the banks that Ministers were discussing a scheme to transform debt accumulated by member countries against the banks into some type of longer-term official paper that would be transfered to intergovernmental organizations; the banks might then decide to stop associating themselves with Fund programs until the studies on such a scheme had been completed.

Mr. Malhotra said that he did not believe that his proposal would communicate incorrect signals to the commercial banks, which were cooperating with the Fund in providing certain types of rescheduling. The ad hoc arrangements being negotiated, mainly for middle-income countries, might not be the answer to the debt problems of all developing countries; hence, the need for a discussion of the proposal by the Development Committee. He would have no objection if the cautious approach to the matter adopted by UNCTAD in staff papers referred to by the Chairman could be incorporated into the annotated agenda for the Development Committee. A reference should also be made to one of the suggestions made at the recent Delhi conference of the nonaligned nations, namely, to fully implement Trade and Development Board Resolution 165, to which all countries had agreed.

Mr. Morrell stated that he wished to join his New Zealand authorities in supporting Mr. Malhotra's remarks on debt restructuring, for which his authorities saw some justification, particularly for the poorest countries.

Mr. Kafka proposed that, since the draft annotated agenda had in its present form been accepted by the World Bank Committee of the Whole, it should be agreed to as written.

Mr. Nimatallah, Mr. Finaish, Mr. de Vries, and Mr. Barbone supported the proposal by Mr. Kafka.

Miss Le Lorier said that she too could support Mr. Kafka's proposal; the Development Committee agenda was, after all, only indicative. Moreover, the conclusions that might be drawn from the April 6 Board discussion on external debt should provide Ministers with sufficient background to enable them to raise points for discussion not covered in the draft agenda.

Mr. Mtei remarked that it was one of the responsibilities of the Development Committee to discuss the issue of restructuring debt for the least developed countries. While he could go along with Mr. Kafka's proposal, he was uncertain that the Executive Directors would be fulfilling their own responsibility if they failed to include in the draft annotated agenda a reference to debt restructuring.

The Chairman responded that the matter raised by Mr. Mtei was a delicate one. The debt problem could be approached from two angles. On the one hand, it could be said that debt had reached such a level that it had become a development problem; however, such an approach had been strongly objected to by a number of creditors in the world. It was also somewhat inconsistent with Fund practice, which was based on the belief that financial contractual relations were crucial for the maintenance of confidence, which was at the heart of any new capital flows in the system. If the Fund were to state that it was officially looking into the development content of contractual obligations and suggesting a rescheduling of debt according to the development needs of members, the institution could easily damage its credibility. He would have no problem if, in the course of the Board discussion of debt problems scheduled for April 6, views were expressed on ways of addressing the problems of low-income countries, including some rescheduling or even wiping out of public debt as had been done in 1976/77. However, he was troubled by the proposal to recommend that Ministers at the Development Committee should discuss such matters because that recommendation by itself might reduce the success of the ad hoc approach followed by the Fund in recent months to secure financing on a country-by-country basis.

Following a further brief discussion, the members of the Committee agreed to Mr. Kafka's proposal to accept as written the section of the paper on external debt problems of developing countries.

The Chairman, responding to a point raised earlier by Mr. Salehkhou, agreed that an updated paper on the World Economic Outlook--containing new information on oil prices and the latest trends in the industrial countries--should be presented as part of the documentation for the Development Committee. A reference to the updated report could easily be made at the very beginning of the agenda in the section on "Elements of Global Economic Recovery Efforts."

The Committee accepted the proposal by the Chairman.

Mr. Kastoft, Executive Secretary, Development Committee, admitted that the procedures that had been followed in accepting proposed amendments to the draft annotated agenda had perhaps not been orthodox. A group of Executive Directors in the World Bank had approached the Bank management with suggested changes, and it had later been decided that it might be helpful for the discussion in the two Committees of the Whole to include those suggested amendments in the document. Because there had not been an equal opportunity for all Directors to suggest amendments to the agenda, that procedure would not be repeated. It would be better, once the annotated agenda had been prepared for discussion by the Committees of the Whole, if Executive Directors or groups of Directors wishing to make specific suggestions indicated their intention to do so, after which the Secretariat could circulate their recommendations in advance of the meetings of the Committees of the Whole to facilitate the discussions.

With respect to the work of the Task Force on Concessional Flows, Mr. Kastoft continued, he could provide a brief oral progress report to the Development Committee. A more formal report could be produced once the Task Force had gone further in its work.

The Chairman proposed that the Committee should avoid attempting to redraft passages in the agenda that related to IDA and other World Bank development flows mentioned in section 1(b)(iv) of the paper.

Mr. Laske stated that he would be happy to follow the Chairman's suggestion and avoid further debate on all the remaining sections of the draft. However, he noted that, within the recommendations outlined on page 10 of the draft annotated agenda, some wording remained in square brackets. Was it intended that those brackets should remain, or was the Committee of the Whole being asked to find language that would help to eliminate them?

Mr. Kastoft observed that square brackets appeared around two phrases in the fourth recommendation on page 10. The second phrase had been proposed by an Executive Director in the World Bank as an alternative to the first, and members of the Committee of the Whole in the World Bank had been unable to agree on which of the two phrases should be used.

The Deputy Director of the Exchange and Trade Relations Department remarked that, as far as the Fund was concerned, the effort was to encourage an "open trading system" rather than an "expanding world trading system."

Mr. Mtei proposed combining the two phrases to read "an open and expanding world trading system."

Mr. Dallara said that he could support Mr. Mtei's suggested compromise, especially since the words "open" and "expanding" comprehended the thrust of Fund activities in the area of trade. He would also suggest deleting the language between brackets in the second recommendation on page 10, which was in part a repetition of the point made in the first recommendation and, moreover, touched upon matters that should perhaps not be addressed in the section in question.

On another point, Mr. Dallara noted that the phrase "keeping in view the special needs of developing countries" in the fourth recommendation on page 10 had been inserted in the course of the discussion of the annotated agenda in the World Bank Committee of the Whole. At the same time, the words "the progress made by member governments in dismantling existing trade barriers" had been dropped from the end of the paragraph. His own preference was to delete the words "keeping in view the special needs of developing countries" and to retain, as a compromise, the words "the progress made by member governments in dismantling existing trade barriers." Finally, with regard to the fifth recommendation on page 10, he questioned the emphasis on urging industrial countries to refrain from "introducing restrictions or negotiating agreements which would limit their imports from developing countries." The Fund's efforts should be broadly directed toward discouraging the implementation or intensification of all restrictions, not just those directed by industrial countries against developing countries.

Mr. Malhotra proposed that, as had been done with the section on debt, it might be best not to redraft the language in the section on trade.

Mr. Kafka said that, while he could go along with Mr. Mtei's suggestion for combining the phrases in the two square brackets in item 1(4), he agreed with Mr. Malhotra that it might be best to refrain from changing the rest of the text, including the words in brackets in the second recommendation.

The Chairman observed that, since the Interim Committee had recently devoted a good deal of its time to the importance of a coordinated approach to sustained global recovery, it might be best to delete that reference in the second recommendation.

Miss Le Lorier considered that the Fund should not shy away from its drafting responsibilities in the section on trade. She could support a redrafting of the fourth recommendation on page 10 in a manner that would fully reflect Fund policy on trade.

Mr. Malhotra remarked that he failed to see the difficulty that some of his colleagues seemed to have in emphasizing "the importance of a coordinated approach to sustained global recovery."

The Chairman replied that the Fund must be careful of the signals that it sent. While the annotated agenda was only a guide for the Development Committee discussion, the language employed in the recommendation could be misinterpreted. Unfortunately, the words "coordinated approach to sustained global recovery" might be understood by some readers as the so-called "locomotive" theory of expansion, which was not what the proponents of the sentence wanted to suggest. Since the language was sensitive, and since the Interim Committee had fully covered the matter of the conditions for a global recovery, it might be better to delete the words in the second recommendation and to combine the language in the square brackets in the fourth recommendation along the lines suggested by Mr. Mtei.

Mr. Dallara said that he continued to be troubled that the Fund should defer to the views of the World Bank in the trade area. In the Bank, the principle of uniformity was different from the principle as employed by the Fund, and it was important for the Fund to address that distinction by recommending relevant changes in the fourth recommendation. The Fund and the Bank both should be urged to review the progress made by all member governments with regard to the dismantling of existing trade barriers.

The Chairman inquired whether the words "keeping in view the special needs of developing countries" created any legal problems with respect to the Articles.

The Deputy General Counsel replied that the drafters of the Articles had been careful to limit the distinctions to be made between countries to differences in their balance of payments positions and special balance of payments needs. The GATT, on the other hand, distinguished between contracting parties on the basis of whether they were considered "developed" or "less developed." Those distinctions were relevant in the application of Part IV of the GATT Articles on Trade and Development. If it was desired to retain the reference to "keeping in mind the special needs of developing countries," perhaps the phrase could be repositioned to refer more to the GATT rather than to the Fund or the World Bank.

Mr. Malhotra commented that the phrase in question was not inconsistent with any of the Articles of Agreement of the Fund or the World Bank. If any institution failed to recognize the special needs of the developing countries, it would be unmindful of reality; he could not accept a situation in which the developing world was subject to pressures that were totally one sided.

Mr. Laske indicated that recent remarks by his colleagues and the staff tended to make him more sympathetic to Mr. Dallara's concerns, and he could therefore support the proposals made by Mr. Dallara for amending the fourth recommendation on page 10.

Mr. Anson observed that a slight change in the language might meet the concerns of both Mr. Malhotra and Mr. Dallara. He would propose rewriting the fourth recommendation to read: "...welcome the intensified efforts of the Fund and Bank to encourage an expanding and open world trade system while remaining sensitive to the special needs of the developing countries, and urge the Bank and the Fund to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made in this field."

Mr. Malhotra said that he could go along with the proposal by Mr. Anson.

Mr. Dallara stated that he also could accept Mr. Anson's proposed change if it could be agreed to reinsert the reference at the end of the fourth recommendation to a "dismantling of existing trade barriers by member governments."

Mr. Malhotra replied that progress had to be made not only in dismantling existing trade barriers but also in encouraging an expanding and open world trade system. The words "in this field" were not nearly so limiting as was the phrase proposed by Mr. Dallara.

Mr. Morrell considered the expression "in this field" to be somewhat meaningless and preferred Mr. Dallara's addition, which provided more focus to what the institutions and member governments were being asked to do.

Following a further brief discussion, it was agreed that the fourth recommendation on page 10 of the paper would read: "...welcome the intensified efforts of the Bank and the Fund to encourage an expanding and open world trading system, while remaining sensitive to the special needs of developing countries, and urge the Bank and the Fund to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia in dismantling of trade barriers."

It was also agreed that the words in brackets in the second recommendation on page 10 would be deleted and that the following reference would be included immediately below the heading of agenda item 1:

> The general economic background for this item is provided in the Note by the Managing Director of the Fund on the World Economic Outlook submitted for the February meeting of the Interim Committee (DC/83-4, 3/10/83) and by an updated World Economic Outlook paper which is under preparation and which will be circulated before the meeting (DC/83-4, Supplement 1, 4/25/83).

The members of the Committee of the Whole agreed to accept the text of the annotated agenda as amended for submission to the Development Committee.

The Committee of the Whole then adjourned its meeting at 8:45 p.m.