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To: Members of the Executive Board

From: The Secretary

Subject: Statement by the Managing Director to the Development Committee

There is attached for the information of Executive Directors the statement by the Managing Director to the Development Committee. This statement will also be issued as a Development Committee document.

Att: (1)

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Department Heads

Statement by the Managing Director of the International Monetary Fund to the Development Committee

Washington, D.C.

April 15, 1988

I will focus my remarks on the first topic on the agenda for this meeting, the adequacy of resource transfers to developing countries. In particular, I will address the issue of how the international community can cooperate to ensure both that sufficient financing is made available to developing countries and that it is put to efficient use.

The past six months have witnessed considerable progress toward ensuring a flow of adequate financial resources to countries undertaking strong growth-oriented adjustment programs. I am pleased to report that last December the Executive Board of the Fund established the Enhanced Structural Adjustment Facility (ESAF), effectively tripling the amount of concessional resources that the Fund can provide to support strong macroeconomic and structural adjustment programs in our poorest member countries. We have now concluded financial arrangements with a sufficient number of contributors to enable the new facility to begin operations, and I expect that additional arrangements with other contributors will be finalized in the very near future. I am most appreciative of the generous support that the facility has received, but would emphasize that we will need to rely on the further generosity of contributors to ensure that the objectives of this enhancement can be met in full. It is now up to the countries eligible for ESAF loans to develop economic programs that make effective use of these additional concessional resources.

There also have been a number of positive developments in other areas. The World Bank has received substantial support from donors for its special program of action to assist the low-income debt-distressed countries of Africa, the eighth replenishment of IDA is ready for disbursement, and the proposed general capital increase has been submitted to the Bank's Board of Governors. Some of the regional development banks have also substantially augmented the resources at their disposal through capital increases and replenishment of concessional windows. The continued willingness of official creditors to provide longer terms in Paris Club reschedulings for heavily-indebted low-income countries pursuing strong adjustment programs and ongoing efforts to find further appropriate ways to help ease their debt burden are important as well.

Although considerable progress has been achieved with regard to official resource flows, the availability of private flows has been at best mixed. We have seen a number of innovative steps to deal with commercial bank debt, such as the Mexican debt exchange and the Bolivian debt buy-back; although their impact has been limited, these steps are positive and merit our support. Nevertheless, commercial banks have, for a variety of reasons, been reluctant to increase their exposure to developing countries, particularly in the form of medium-term credits. Even when concerted action has been agreed among creditors, protracted delays in assembling financing packages have occurred. It is true that a few countries have managed to make substantial net repayments to banks, while maintaining growth and strengthening the basis for sustaining it. But, in a number of other countries the lack of adequate bank flows may have impeded perseverance with the very policies that would lay the basis for renewed sustainable growth, strengthen their ability to service external debt, and thereby restore creditworthiness.

It is now incumbent on us to build upon the progress that has been made in recent months to ensure adequate financial flows to countries that are prepared to implement policies that warrant the support of the international community. An essential component of further progress must be the willingness of all parties concerned to fulfill their respective responsibilities. Let me elaborate briefly on how some of the major parties can contribute to this end.

The Fund

We are working in a number of major directions to strengthen the Fund's capacity to provide effective support for the implementation of sound policies.

The Fund will continue to play a central role in assisting members address their economic difficulties including the external debt problems of a number of countries. For strong efforts in the implementation of sound economic programs by these countries, Fund support would also be strong. The extended Fund facility could play a useful role in this context. We have been exploring ways of enhancing the effectiveness of this facility in supporting structural reform. In this connection, a number of modifications to the facility have been proposed, as well as use, on a case-by-case basis, of the latitude provided within the current access limits. There is also broad acceptance of the general principle that to help maintain the momentum of adjustment in the face of adverse external shocks, contingent Fund financing should be made available to countries implementing programs. This type of financing mechanism will serve to strengthen the extended arrangements and stand-bys as financing instruments.

We will continue to play a catalytic role in assuring that vigorous adjustment efforts are adequately funded through appropriate contributions by commercial banks and other creditors on a timely basis. We will assist members in designing and putting into place both economic and financing programs that would achieve adequate cash flow consistent with their medium-term prospects for exports and growth. Reduction in the stock of debt can be an important complement to the provisions of new financing. Thus, I welcome further market initiatives that work to reduce debt where this can be voluntarily agreed between debtors and creditors. The Fund can assist countries in developing financing plans that are consistent with medium-term prospects for exports and growth.

In this connection, the increase in countries' indebtedness can be moderated by blending, as appropriate, additional financing with mechanisms that reduce outstanding debt. In addition, we are also working with the World Bank to strengthen coordination of financial assistance to low-income countries generally. Further, we stand ready to facilitate, on a case-by-case basis, market-related approaches to easing these countries' debt problems as we did in the recent Bolivian debt buy-back scheme.

Finally, it is essential that the Fund has at its disposal sufficient resources to meet the needs of all its members, and, in my view, this calls for a substantial increase in quotas, which would also help phase out borrowing by the Fund. The Board of Governors is in the process of voting to continue the work on the Ninth General Review of Quotas and to submit proposals not later than April 30, 1989. I hope that our work on the quota review can be completed well ahead of that deadline.

Commercial banks

Commercial banks continue to have a critical role to play at the current juncture. It is important that the banks respond positively with timely and adequate financial support for those countries that are implementing strong policies, so that the adjustment efforts of these countries are not subject to the deleterious effects on adjustment programs of protracted delays in assembling financing packages. In many cases, financing packages may need to be combined with recent and further innovative approaches, such as debt-equity conversion and other forms of debt exchange that allow for a reduction in countries' indebtedness. Market initiatives are evolving on a case-by-case basis, recognizing the different economic circumstances of borrowing countries and groups or individual creditors. This surely is right.

The international community

An international economic environment based on healthy growth and financial stability is critical for allowing developing countries to grow out of their debt problems. Developed as well as developing countries need to adopt domestic policies that promote such an environment in a setting of open trading systems. Protectionist pressures must be resisted because of their negative effects on growth and resource allocation. Such pressures undermine political support for the trade liberalization that is such an important element in the efforts of many developing countries to improve the performance of their economies. The Uruguay Round of multilateral trade negotiations offers an opportunity to achieve substantial progress toward such liberalization. It must not be missed.

Official creditors and donors

There are several areas in which I believe official creditors and donors can make further progress. Despite the recent initiatives, there will remain some heavily-indebted, low-income countries who, even with the maximum feasible policy effort, will continue to have debt obligations so heavy that rescheduling and new financing on conventional terms would likely lead to nonserviceable obligations in future periods. I would urge all creditors to provide exceptional assistance to these countries to help them reduce their outstanding debt (for example, by conversion of loans to grants), provide new resources in the form of grants and highly concessional loans, and extend debt rescheduling with appropriately long grace and maturity periods. In this context, I welcome the ongoing efforts of Paris Club creditors to find ways to reduce the interest cost on debt rescheduling for such countries or to provide equivalent relief. Additional quick-disbursing aid programs can also help by increasing the amount of resources allocated to the support of adjustment programs.

There is also a need for more effective coordination among all parties concerned to ensure the timely availability of the financing necessary for successful implementation of adjustment programs. I believe that the policy framework process can play an important role in this regard and we intend, together with the World Bank, to develop it further in ways that will enhance its operational role.

Developing countries

There is no doubt that resource transfers are essential to promote growth and development. However, it is also clear that the amount of resource flows depends importantly on the kinds of economic policies that countries pursue and the uses to which resources are put. In order to receive support from the international community, countries must adopt programs of macroeconomic and structural reform. If such programs are to receive the requisite broad-based political support, the adjustment burden must be spread equitably and they must be seen to bear fruit. This means that they must both be adapted to changing circumstances and implemented consistently.

A great deal has been accomplished in recent months toward ensuring that adequate financial resources can be made available to countries that are willing to undertake strong and bold policy reforms. Clearly, more remains to be done, and I trust that further progress will continue to be made by all parties. I would urge those countries that have already embarked upon adjustment programs to continue to persevere with these efforts. It is also essential that other countries come forward with the kinds of economic policy reforms that will enable them to take full advantage of this opportunity.