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79050 - 000/1 VPD - DIRECTOR,
DEVELOPMENT POLICY

Development Committee Meeting April 1978

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ROUTING SLIP		DATE	May 25, 1978
NAME		ROOM NO.	
Mr. D. R. Clarke		E-833	
	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE
REMARKS			
<p style="text-align: center;">Development Committee Meeting Mexico</p> <hr/> <p>As per our conversation, I attach herewith copy memo from Mr. Stern to Mr. McNamara, dated May 1.</p>			
FROM	A. Karaosmanoglu	ROOM NO.	EXTENSION

WORLD BANK GROUP

ROUTING SLIP		DATE May 25, 1978	
NAME		ROOM NO.	
Mr. Krieger		A-907	
	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE
REMARKS			
<p>I understand that, during your recent visit to Mexico, you have been asked about our reactions to the Mexican proposal. Attached herewith is a copy of the text on the Mexican proposal and the memo on the meeting which I thought you might be interested in seeing. We are at present preparing draft response to be sent to the Development Committee.</p>			
FROM	A. Karaosmanoglu	ROOM NO.	EXTENSION
		E-1243	7-5451

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7 m v o x =

Please send copies
to DPS Director for
information.

send (1) Jack Clark
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Mr. Robert S. McNamara

May 1, 1978

Ernest Stern, Vice President

Development Committee

The meeting of Senior Officials of the Development Committee met on April 28, in Mexico City. The following points are worth noting.

1. Multilateral Development Institutions. Although there is little in this paper which would seem to be of relevance to Finance Ministers, and nothing which requires their immediate attention, a number of speakers stressed its great value and urged its submission to the September Ministerial meeting. In addition, the U.S., Canada, and Australia stressed the need for further work in the Committee on the evaluation of the work of the institutions, geographic distribution of resources, comparative advantage and of resources available for the institutions for future replenishments.
2. Capital Market Access. There continues to be a very mixed attitude to the work of the Committee in this area. The first IMF review of restrictions on access to capital markets was welcomed. The IMF has begun to include the question of capital market access in their regular annual reviews, for the relevant countries, and will report on developments in this area annually to the Committee. There was general endorsement of the seminars the Secretariat proposes to hold to bring together members of the financial community and officials of interested "threshold countries" to explore impediments to their market access. There was much less enthusiasm for continued work on private investment, though there was strong support from Australia.
3. Export Earnings Stabilization. Mr. Polak (IMF) gave a status report along the lines of his report to the Fund Board. He specifically referred to the conclusion that to deal more effectively with medium-term export earning shortfalls, the Fund and the Bank should collaborate more closely. The IMF could utilize the Extended Fund Facility and the Bank program lending to assist members. There were no initial adverse reactions, even from those delegations which had urged caution on program lending while commenting on the multilateral institutions paper. Next to the World Development Report, this is seen as the most significant item on the Ministerial agenda.
4. World Development Report. I presented a brief summary of our approach. I noted that the specific numbers of the medium-term projections were not important - the focus was on magnitudes, trends and those policies which threatened to alter these trends significantly. We sought to assess policy issues affecting both the international environment and domestic development strategies in individual groups of countries; the interactions between these two sets of policies; and the achievement of the twin objectives of accelerating growth

and alleviating poverty in this setting. The report was not prescriptive; it was intended to illuminate major policy issues on which decisions would be made in a wide variety of forums, including domestic ones. The Bank had a unique view of the development experience and the impact of international actions on domestic development efforts. Sharing this knowledge more broadly will, we hope, enable members to deal more effectively with the many adjustment problems which lie ahead. There was a very positive reaction to the presentation. There obviously is strong interest in the WDR and in having it discussed at the Ministerial level. Indeed, there may be an excessive expectation about the specific "decisions" the WDR will elicit in September.

5. Mexican Proposal. Mexico tabled a proposal both in the Group of 24 and the Development Committee. It calls for a large fund, to be administered by the Bank and to be supplied by capital-surplus countries. Its purpose would be (a) to stimulate the engineering industries in OECD countries, and (b) to place a larger portion of the lending to the developing countries on a longer term basis. A copy of the proposal is attached. It was agreed that the matter would be studied by the Secretariat in conjunction with the Bank staff.
6. Review of the Committee. In form, the Secretariat's proposal was adopted - i.e. the Secretariat will prepare a paper and submit it to the two Boards. However, in fact the members stressed that the Boards should undertake a serious review of operations when considering the Secretariat paper. It also was agreed that the Senior Officials would want to review the conclusions before they came to Ministers.

Many of the developed country delegates suggested that another review be recommended in two years. Although there was general agreement about the potential importance of the Committee as a political forum, virtually all delegations were critical about the work done thus far. The general thrust of the criticism was that the Secretariat should shift from its "technical-academic" approach to more politically relevant issues of operational significance. In the corridors there was considerable talk about eliminating the Secretariat while retaining the Committee.

7. Ministerial Meeting. There was general opposition to a split meeting - Saturday afternoon before the Annual Meeting and Wednesday afternoon during the Annual Meeting. Instead it was agreed to hold the Development Committee on the Saturday before the Annual Meeting. This obviously creates problems in the handling of the WDR.

Attachment

cc: Messrs. Knapp
Cargill o/r
Chenery
W. Clark

ESTern/AKarasmanoglu:ls

PROPOSAL FOR A LONG TERM RECYCLING FACILITY TO FINANCE PURCHASES
OF CAPITAL GOODS BY DEVELOPING COUNTRIES

I. BACKGROUND

The international financial community, through the IMF and its Interim Committee and Executive Board has display imagination and political will to design and implement efficient short to medium term recycling facilities to deal with the balance of payments adjustment problems that have affected the international economy during the recent years. These recycling facilities have essentially operated with loans obtained at market interest rates from countries in strong balance of payments position to finance countries that met specific conditions in amounts related to their quotas.

Unfortunately the international community has not yet succeeded in establishing a recycling mechanism to provide long term finance.

We believe that the world economic outlook warrants such an approach, and that Interim Committee and the Development Committee and the World Bank should study the problem and take prompt action to design an appropriate long term recycling fund. This will be an important step to achieve the aims for which these institutions were created.

II. ECONOMIC FRAMEWORK: The need for a long term recycling mechanism.

Developing and developed countries have largely demonstrated their capacity to achieve the short term adjustment of their economies in the face of severe balance of payments difficulties caused by a combination of recession, inflation, and changes in the relative price structure. This adjustment has been possible mainly because of their own policy actions but there has been a reasonably efficient support by the international banking system (operating mostly in the short to medium term) and adequate balance of payments support by the IMF. On the other hand the international financial community has not adequately faced the long term structural problems that affect developing and developed countries, a problem that might well become more serious in the coming years.

1) There is every indication that, for a variety of reasons, there will be low long term rates of growth in the industrial countries over the coming years. This leads to a slowdown in world trade and fosters the growth of protectionism.

2) The slow growth of economic activity leads to

sluggish demand for the capital goods industries of industrial countries.

3) On the other hand developing countries have potential demand for capital goods which is not made effective for lack of financing.

4) There is ample liquidity in capital markets of industrial countries.

Although the banking system has provided LDC's with substantial financial resources, this rate of financing will not be sustainable in the future, as it has been recognized by the various documents of the Development Committee, and the World Bank. Indeed the international banking system has already shown signs of strain that will prevent it from continuing to play the same role, quite apart from recent restrictive trends of regulatory agencies. The World Bank and the Development Committee have clearly stated that the structure of the debt of developing countries is concentrated towards medium and shorter term loans and that the developing countries cannot continue financing development with bank credit. Even if this were feasible their foreign earnings are increasingly being channeled to meet service payments rather than to finance capital goods purchases.

There is a second argument. It is not a sound banking principle to finance long-term capital investment needs, with medium term resources. It is not sound for the banks and it is not sound for the countries. The World Bank and the regional banks have made enormous efforts to increase their lending programs but their lending has fallen, in relative terms within the overall financial flows. There is now an inadequacy of their resources in relation to needs. Capital increases are falling behind schedule and requirements.

While contributions to the IBRD and other regional development banks are one-way contributions for which there is no repayment, the long term recycling facility is an investment at market rates which make the operation attractive to lenders. Therefore this facility would not compete with flows of official development assistance but rather would absorb funds from capital markets.

III. BROAD FEATURES OF THE LONG TERM RECYCLING FACILITY TO FINANCE PURCHASES OF CAPITAL GOODS.

1. Amount

a) We would propose the creation of a long-term recycling fund with an amount of 15 billion dollars, perhaps divided into three borrowing operations involving three tranches

of 5 billion each which can be phased over time.

2. Administration of the fund.

The fund would be managed by the World Bank

3. Main characteristics

a) The recycling facility would issue debt instruments (bonds, notes or certificates) to the lenders for a 15 year term with a rate of interest. The notes would be denominated in SDRs.

b) These loans would be completely separate from normal borrowing operations of the World Bank.

c) A secondary market would be developed to give liquidity to these instruments.

d) Loans could be guaranteed by the borrowing countries, the technical expertise of World Bank Staff in approving only profitable loans; by the guarantee of the purchased capital goods themselves and by guarantees project or sectoral loans; by the guarantee of the purchased capital goods themselves and by guarantees of these industrial countries that as explained below would extend such guarantee.

4. Sources of Funds

a) Since loans would be an attractive investment, loans could come basically from governments of countries with strong balance of payments and financial position. Surplus countries could find this investment outlet attractive, since it provides market rates, good guarantees of liquidity and against exchange risk.

b) Governments who may not be in a position to contribute direct loans, might guarantee the loans granted by the facility. Purchase of capital goods from developed countries financed by this facility would be limited to countries granted loans or guarantees.

c) Long term notes may also be promoted with the institutional investors, a feature which would guarantee additionality of resources since the institutional investors market has hardly been tapped by developing countries.

5) Uses of the funds.

a) Resources would be channeled to finance the acquisition of capital goods from contributing industrial countries, and developing countries. These capital goods could be purchased both in connection with specific projects and with sector programs.

b) Since a possible initial bottleneck might be an insufficient capacity to generate projects by the public sectors, this financing would be also extended to private national firms operating in developing countries, perhaps with the approval or guarantee of the government or a public financial institution.

6) Beneficiaries.

a) Countries that would have access to this fund would be all developing countries. These countries have important long term capital needs and would add demand, thereby contributing to stimulate the capital goods sectors of industrial countries.

b) It is important to note that the aggregate demand for capital goods by the developing countries has reached very significant amounts. Demand from developing countries substantially contributed to moderate the recession of 1974-75 and could make a contribution to the recovery of the world economy.

This facility will attempt to close the gap that looms heavily over the world economy, since it will be used to:

1. Provide an adequate stimulus to the capital goods' producing sectors of industrialized countries that have suffered from inadequate demand.

Industrial countries would have the possibility to reallocate resources from sectors in which they have lost comparative advantage to capital goods sectors where they have it.

2. Provide the necessary long term resources for developing countries to enable them to finance their unmet demands for capital goods required for development. A sustainable pattern of finance would emerge for developing countries.

3. It would provide an additional investment outlet to surplus countries and help to introduce a better structure in the assets and liabilities of the financial markets.

Above of all we should like to impress that this is a truly cooperative project which does not involve outright grants. It is a proposal to benefit all parts concerned: For the industrial countries, it means generation of employment and stimulus to a lagging sector; for the financial markets and for surplus countries an attractive investment outlet; for many developing countries the restoration of sound growth and financing patterns.

Press Communique of the Interim Committee of
the Board of Governors of the
International Monetary System

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its tenth meeting in Mexico City on April 29-30, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. Arsenis, Director of Money, Finance and Development, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. François-Xavier Ortoli, Vice President of the Commission, CEC; Mr. Gardner Patterson, Deputy Director General, Trade Policy, GATT; Mr. Cyrus Sassanpour, Market Research Analyst, OPEC; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee noted with satisfaction the recent entry into force of the Second Amendment of the Fund's Articles, which has brought about a modernization of the Articles and will improve the operation of the Fund in current conditions and permit its adjustment to future conditions as they develop. The Committee also welcomed the consents by the overwhelming majority of the Fund's members to the increases in their quotas as proposed under the Sixth General Review of Quotas and expressed the hope that the rest of the members will consent in the near future.

3. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized certain favorable developments. Notable among these were the progress made by a number of countries in achieving stabilization and growth objectives, a marked reduction in the surplus of the oil exporting countries, and improved access, over the last few years, by the non-oil developing countries as a group to sources of finance for their current account deficits, even though the combined current account deficit of these countries is expected to show an increase from 1977 to 1978.

Nevertheless, the Committee noted, world economic developments over the past year or so were unsatisfactory in some important respects. In particular, the Committee expressed concern with the slow and uneven pace of recovery from the severe 1974-75 recession, the prevalence of historically high levels of unemployment, the slow growth of world trade, the continuation of high rates of inflation in many countries, and the maldistribution of current account balances with attendant instability of exchange rates among the industrial countries. The Committee felt that a reorientation of policy aims was needed to assure better economic performances, especially in the industrial countries, and an improved environment for the adjustment of external trade and payments positions.

The Committee noted with concern the risk of increasing resort to protectionist action of all kinds in the wake of slow growth, low capacity utilization, and high unemployment. It was agreed that determined and broadly conceived national and international efforts, directed at the underlying causes as well as at specific protectionist measures, were urgently needed to arrest this drift toward protectionism. The successful completion of the multilateral trade negotiations that are now well under way would do much to stop this development.

Considerable attention was given by the Committee to the special problems of the developing countries. The vulnerability of their economies to slow growth of markets in the industrial world or to reduced access to such markets was a source of widespread concern, and the Committee stressed the desirability of measures on the part of the developed countries to assure continued expansion of the flow of real resources to developing countries.

In the course of the Committee's discussion, a consensus was reached on the general outlines of a coordinated strategy, containing mutually supportive and reinforcing elements, designed to promote noninflationary growth of the world economy and a reduction of imbalances in international payments. The Committee emphasized that the implementation of this strategy--geared to the medium-term, through 1980--should take due account of the wide differences in current positions of individual countries. It suggested that, among countries in the industrial world, targets for economic growth should be related to the success achieved in reducing inflation, the strength of the external position, and the degree of current and prospective economic slack.

In view of the continuing risk of reviving inflationary pressures, the Committee visualized a generally cautious approach for the industrial countries in the establishment of growth targets, which would not only relate the scale of action to the degree of inflationary risk in each country, but would be linked with specific measures to contain inflationary pressures. The Committee noted the potential utility of appropriate incomes policies in this context, particularly in light of the predominance of cost-push factors in the current inflation. The Committee also suggested that fiscal stimulus provided through tax reductions would generally tend to be more consistent with containment of costs than equivalent stimulus applied through increases in government spending.

The Committee was convinced that the general strategy envisioned would yield a more satisfactory rate of economic expansion for the industrial countries and the world economy generally, within a pattern of differentiated growth rates among countries that would reduce external payments imbalances. The improvement in basic underlying conditions would in this way contribute to greater stability of exchange markets. It was also observed that achievement of greater stability of exchange markets would help to achieve the higher growth rates desired.

4. The Second Amendment has brought into effect the provisions of a new Article IV which stresses the objective of a "continuing development of the orderly underlying conditions that are necessary for financial and economic stability" and makes it an obligation of each member "to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." The principles and procedures for surveillance over exchange rate policies endorsed by the Interim Committee and approved by the Executive Board in April 1977 have gone into operation under the Second Amendment. The Committee noted with approval that the Fund has recently adapted its consultation procedures and practices to take account of surveillance, and that particular attention will be focused on those cases in which there are questions as to whether the exchange rate policies of members are consistent with the agreed exchange rate principles. The Fund has always concerned itself with situations in which currencies are overvalued or undervalued, or where disorderly conditions exist in exchange markets. The Committee noted that the Fund now has both the obligation and the means through surveillance to make a greater contribution than before to the effective working of the exchange rate system. In this context, some members asked that the Executive Board should consider whether bringing the Council into being under the Second Amendment as a decision-making organ would strengthen surveillance by the Fund. The Committee received suggestions for the strengthening of surveillance, including the provision of more information on exchange rate policies by both surplus and deficit countries.

5. The Committee noted the report of the Executive Board on improving the characteristics and broadening the uses of the SDR under the powers of the Second Amendment and on the question of an allocation of SDRs.

The Committee agreed that the interest rate on the SDR should be increased from the present level of 60 per cent up to 80 per cent of the weighted average of short-term interest rates in five member countries, and asked the Executive Board to agree on a satisfactory formula for the rate of remuneration on this basis. Some members could support this approach only on the condition that an allocation of SDRs would be made.

The Committee requested the Executive Board to pursue its work with regard to additional types of uses of SDRs that might be permitted by the Fund in accordance with the provisions of the amended Articles, and to report to the Interim Committee on these matters at its next meeting. It also requested the Executive Board to review the rules for designation and reconstitution under the amended Articles.

A large number of members supported an allocation of SDRs. The Committee considered the suggestion of the Managing Director that an allocation of SDRs could be combined with a reduction in the amount of reserve currency outstanding through a Substitution Account administered by the Fund. The Committee agreed that this suggestion of the Managing Director should be considered further. The Executive Board was requested to study a suggestion that a proportion of quota increases should be paid by members from a new allocation of SDRs. The Committee agreed to request the Executive Board to pursue its work on all aspects of an allocation of SDRs and to submit concrete proposals for consideration by the Committee at its next meeting.

6. The Committee noted the report of the Executive Board on the Seventh General Review of Quotas and considered the issues involved. It reaffirmed its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years and that would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment. Most members of the Committee were of the view that an increase of the order of at least 50 per cent of the quotas approved under the Sixth General Review would be appropriate in view of the present and prospective circumstances of the international economy. The Committee agreed that the Seventh Review should be mainly equiproportional, with at most a small number of selective quota increases, provided that the quota share of no developing country would be decreased except for one or two members whose quotas would remain unchanged.

The Committee asked the Executive Board to give priority to this matter in its work in the coming months and to submit to the Board of Governors appropriate proposals, together with draft recommendations, for its consideration of the Interim Committee at the time of the next annual meeting of the Board of Governors. It was agreed that the criteria for quota increases should be reconsidered after the Seventh General Review.

7. The Committee expressed its concern at the long delay in bringing into operation the Supplementary Financing Facility, the establishment of which was decided upon more than six months ago. In view of the need of a number of members for prompt financial assistance on the scale envisaged by the Supplementary Financing Facility, the Committee urged that all necessary steps be taken for bringing the Facility into operation at the earliest possible date. In this connection, Committee members from developing countries asked the Executive Board to review the conditionality attaching to the Facility and called again for an examination, as early as possible, of the establishment of a subsidy related to the rates of charges that would be payable by low income countries. The Committee welcomed the intention of Nigeria and Guatemala to contribute to the financing of the Facility SDR 220 million and SDR 30 million respectively, and the intention of Venezuela to increase its contribution from SDR 450 million to SDR 500 million. As a result, the total commitments to financing the Facility will be approximately SDR 8.75 billion (about US\$ 11 billion).

8. The members of the Committee, noting that Mr. Witteveen is about to relinquish his position as Managing Director of the Fund, expressed on their own behalf and on behalf of their constituencies their deep appreciation and gratitude for the superb manner in which he has discharged the responsibilities of his office in difficult circumstances. The members of the Committee also took the opportunity to congratulate Mr. Jacques de Larosière on his selection as Mr. Witteveen's successor and wished him success in his important and difficult task in the years ahead.

9. The Committee agreed to hold its next meeting in Washington, D.C. on September 24, 1978.

April 28, 1978

G 24 - Ministers.

Items 1 - 8 - Report to Ministers

- Brazil.

- Yugoslavia.

para 6 &

Recognizing the genuine economic interdependence between dev. and developing countries the ministers underscored the need for an active participation of the developing countries in the process of international adjustment.

Venezuela

"Economic and trade policies --
to keeping in mind singular and
unique position of the

Brazil - items six and ~~seven~~ eight
should be combined

if developed countries reviewed the
effects of rapid

April 28
1978
P.M.

Development Committee

400

Comments on the statement on the World Development Report:

Sydney Zaman: What exactly is the role of the Dev. Committee in this respect.

What further analysis the Dev. Committee will take and what it will do "to formulate development strategies".

Sesulveda

Distribute background document mentioned by Polak & Stein -

Germany

- Next time we will have the reports themselves.

- cannot be dealt with in one session.

Canada

This committee is not a place where a world development strategy could be developed.

- brief and founding summary -
- essential that it be reviewed by the senior officials before it goes to the ministers.
- pleased to note that the made issue and desirability of avoidance of protection.

El Naggar -

- difficult how the Dev. Committee will handle WDR.
- used other reports in preparation
- Brandt Commission Report.
- North South Dialog.

Chairman

- Brandt Comm. Report will not be out before July 1979.

Thabane -

- Dev. Committee is a useful forum. ministers can exchange views.
- senior officials should study and isolate the issues to be discussed by the ministers.

Danmarks

- difficult to decide today what to do with the WDR.

(3)

Chairman - ^{there} will be a record of the statements by Palak and Stein.
Decision could be made on the basis of these

Cermany

getting more and more into item 3.e. (future work of the committee).
- Need to separate substance and procedural issues.

Narasimhan

- waiting for Brandt comm. report will unnecessarily delay the discussion of an important issue. The fact discussion here may shed light on the work of the Brandt commission

Cuyana

(Martinez Montec) - main objective is to deepen ~~the~~ understanding of the development process

(4)

- It seems there is an asymmetric in the report - How will the developed countries policies be discussed - will they be discussed

Stern

- First answer to Apante - In what framework does precisely what is asked -

- Background papers - partially digested materials -
- objective of the report is not to be prescriptive -

- not as an individual product but an ongoing process.

Mexico -

- Long term Development Financing
- Mexican proposal -
 - Possible establishment of faculty (without staff or Administrative structure).
- Document is not a formal proposal

Chairman

- Together with institutions have a first look and bring conclusions to the senior officers for a decision whether more needs to be done, (if so what-how)

Italy

useful to study in depth.

VIC

- See ^{not in a short paper as implied by the chairman but in} ~~value~~ a study by the staff of the World Bank and I and when necessary in association with the Fund.

El Naggat

seems to be a duplication of the effort by the WB to increase its capital.

- Support the chairman's proposals.
- To get the reactions of the Bank and the Fund. Then an in depth study may be undertaken.

Koeros - support chairman.

Mulayama - willing to study the substance - join the U K proposal.

Belgium - in favor of the chairman's proposal.

Anyana - support. A preliminary review.

- two tests -
- Additionality
- Effectiveness.

Germany - support El-Maggar's proposal.

Nakasimhan - El Maggar proposal.

Thakane - Chairman's proposal

Swazer - There is not a great difference between the two proposals. First the A.S has to take an in depth view.

- A preliminary report could be made at the next meeting of the Committee

V.S.
(Machmanoff) - Mexican delay reconsider
the proposal very nicely

Chairman - Will do it in close
cooperation with the
staff of the Bank.

3.0

Includedness

Transmittal - Further action
France - No more work here.

UNCTAD has reached
a conclusion.

Canada - Since UNCTAD reached
a conclusion -
pull back for some
time see the results
of UNCTAD conclusions

Beal - Agree with the French

Mulayama - Agrees with Beal.

~~CD~~ Denmark - Same.

3.2 Review

- Germany - should take review and work program seriously
- getting lost in technical and minor issues -
 - there are no political issues ~~on the~~ for the ministers.
 - Review and Review report for the ministers.
 - View of the Boards of Directors is also necessary.

Substance

- Stabilization of Export Earnings
 - WOK.
 - Brandt Comm. Report.
- These are going ~~before~~ beyond a two year cycle - If this is accepted next review should come later than ^{five years}

- Cannot have permanent working group meetings

Canada - Support much of what
Joyce German D. has said.

- Differ on the question of the Work Program and the Mandate -

- Work prog. distinction is necessary between indicating the ministers general avenues through which this comm. should go about its work.

There is another exercise need to be done in Sept. about the ^{annual} work program by the senior officials

- ministers are not certain that the committee is living up to their expectations. They may wish the committee

at a short lead.

Two options - give a general blessing on ^{general} avenues of future work.

or -

Identify areas of consent with a view of a review in two years time

Netherlands.

- Agrees with the Canadian rep.

- shouldn't be happy with what this comm. has done so far.

- Not convinced that in future ~~years~~ with better results.

- Would prefer an option involving another review in two years.

- should try to get it done before political stage

France

Thakane - Agrees with the caution rep. in identifying clearly the issues the Committee should address.

- There is a role for the Comm. beyond September

- To what extent the W.G. are effective are there alternatives to it.

- Shouldn't be a tinkering process but a rather serious process.

Mulayam

- important to avoid duplication - quite premature to decide whether Brandt comm. report should be discussed

Denmark - Dev. Com. has raison d'être today and beyond September. But solution

To look beyond a two year horizon.

Sarjani
(India) - A good measure scepticism about the performance of the Committee.

France Wish it return to its basic original idea bring together ministers to discuss political topics - for political and ministerial decisions and ^{Commitment} strayed from this original idea creating a structure such as there is now.

The work of the Dev. Com with Interim Comm.

The interim Comm. is based on IMF Ex. Board and staff of IMF.

France always maintained
to the Exec. Board and
Staff of IMF + IBRD

- What is the role of the
Sec.

As there are two
organizations involved
a small high level
Secretariat to keep
the staff works in
harmony on subjects to be
presented to the ministers.

- Cannot accept paras
7 and 8.

Brandt comm. is a private
body. Their decisions
are absolutely out of
the picture.

- The Comm. in no way
can become an instrument
to implement Brandt
Comm. Definition. Same
applies to para 8.

Koeros - TOR of the Dev. Comm.
Dev. Comm. ^{should} continue
without a time limit
unless the members
change its TOR.

(4.ii) reflects a fatalistic
attitude. There are
issues they are being discussed

Guyana - In agreement with
Koeros.

- Committee needs to have
a longer time perspective
to look issues ~~more~~ in
depth.

- Political orientation
makes it necessary to
identify politically important
issues.

Canada - Talking about three years
was not talking about the
life of the Comm. But to
a further review

U.S.

- Dev. Com. has the potential to play an imp. role.
- However has not been effective as it should.
- Review is imp.
 - more policy relevant
 - more linked to decisions
 - ministry could make
- Widespread of the issues would help.
- Work procedures require more attention than given in the paper.

A revised paper should be sent to the Boards of the Bank and the Fund.

Chairman

- Generally agreed that the procedure is acceptable.

It: Sept. meetings

- A whole day meeting previous saturday
- Two half day meetings on saturday and wednesday.

Senior ~~officials~~ -

Sep. 6 - 7 in Washington

G-24 -

Chairman -

World economic situation

- slow growth

- Contradictory shifts in DC's
- Contrary monetary policies
- Slow down in the growth of the world trade

- LDC's exports fell

current account deficit went down.

At what cost?

- Prospects not cheerful.

• current account deficit is increasing

- Adjustment has not been easy for LDC's

• more ODA -

• Better access to export markets

• Better access to capital markets

• IMF has not played that big a role which LDC's expected it to play

(202) 4775451

(2)

— only "Role of the Development
Committee" will be added to the
^{provisional} agenda of the republics as item 5
and the rest will be eliminated.

Phillips ⇒ IMF presented ^{a paper on} protectionism

- serious structural problems difficult to resolve through traditional economic policies
- Role of LDC's in international process.

many LDC's adopted policies successful although painful for adjustment.

- Existence of unsatisfied demand in LDC's.
- Proliferation of financial restrictions in addition to the trade protection

Smur
epulveda

- Interesting discussion in other bodies.

LDC's can contribute to the recovery process.

74-75 recession would have been more serious.

Smur Committee - ^{will propose to study} - with the cooperation of the Dev. Comm - and Mr. McN. ~~will propose~~

~~to establish study~~
the establishment of a new facility.

- major deficit continue to be financed by the medium term banking resources -

- Bad for LDC's - Banks everywhere.

- Recycling process need to be encouraged to reach a stability

4

- Tentative suggestions
which could be discussed
in interim and Dev. committees

- \$15 billion
in three tranches of
\$5b. each
- Administered by the
IBRD.

- market rates (15 year
maturity)

- Denominated in SDR.

- Attractive investment
(direct recourse through
the market)

- Finance projects
both in public and
private sector.

- LDC's main beneficiaries
DC's will also benefit
through trade.

- industrialized countries who do not contribute will not benefit.
- Will not compete with the financing of other international organizations
- chronic lack of capital
- good way of complementing
- Not to burden further the capital of the IBRD.
- As first mentioned name - should be discussed in detail - Could be presented to Interim Committee - to be considered by the IBRD and the Development committee.

EE

El Naggar -

Feel hesitant to take up any point - appreciate very much if there is a piece of paper - difficult to discuss such an important proposal on the basis of an oral presentation

Brasil (Barbosa)

Same position as the position of El Naggar.

Zaire -

Support the position of the Egyptian delegate - need time to consider carefully would not want to have a duplication with existing institutions

Yugoslavia

- Annotated agenda - well done.
- Interesting ideas developed in Mexican proposal -
- A paper is essential idea is of interest to Yugoslavia
- World Economic Outlook
- Procedural subject - Press Release -

Venezuela

- Listened with great interest - should be reflected in the discussion today.
- worthy of support concrete, well thought out proposal.
- would be useful to hear initial reactions for ministers to study this proposal.

Chairman - understand that
even the initial reactions
are difficult -

- whether time is really
ripe to take it to interim
of Development Committee

Argentina

- Mexican Delegation is
putting forward a
general idea - when
we have a written proposal
will discuss what seems
to be an imaginative
proposal.

Algeria

- Precise Mex. Proposal
general proposal -

a 24 was against floating
exchange rates when it was
first discussed.

- 9
- group should at least express that it is not pleased what is going on.

Iran - WSO -

- Fate of JFF is far from certain
- a new imbalace with possible impact on world liquidity will increase confusion

Colombia

on Mex. proposal -
share the remarks regarding the timeliness of it? want to see more about it.

~~Wary Coast.~~

Wary Coast -

Find it difficult
to make any comments
on the Mex. proposal.

Mexico -

2 comments.

- written text request
justified - will circulate
this morning & discuss
it this afternoon
- will take weeks + months
to refine a proposal.
- want to see whether
this idea merits the
support of this group.
- Idea was
welcomed by one of the
W.G. of the Dev. Committee

Kafka -

SDR's ← Further allocation
 ← improvements in the characteristics
 of SDR's.

Purpose of allocation

- To keep the SDR alive.
 small allocation would be
 sufficient.
- Larger allocation - for improving
 composition
- Raising global liquidity

P. m

(12)

Supplementary F.F. & Conditionality

- Kufka.
- Yugoslavia -
conditionality

Mexican Proposal:

Suarez -

- Endorse in principle the need.
- Interim Committee ~~and ask~~
- Ask IBRD to do a study -
operative content to proposal
- Report to the Development
Committee for final
political guidance.

EL Nayar.

- Appreciation of the initiative
- Understand motivation.
- Difference between the Fund and
the Bank. structures are

totally different - Wattermen facility does not in itself justify a parallel facility in the Bank.

- Title
- Calling it a Recycling facility is wrong - There is no longer an issue of recycling - should drop the title immediately

- Timing
- Examining the increase in the capital of the world Bank, some suggest \$35b - our constituents suggest \$50b.

- Mexicans may wish to hold this until IBRD cap. increase and IDA replenishment is behind us.

- Substance
- quickly put together need further consideration.

- What advantages exist in ~~not~~ increasing WB capital by this amount -

- LDC's demand for capital goods 15-20% of total demand for capital goods - (Not legitimate to establish an entity to increase the demand for the industries in the D.C.S.).

- Who is going to be the borrower. If the WB is to be the borrower it will be limited by its borrowing limitations. If a new legal entity to be established

- Sources of the funds - How appropriate it is to talk just about surplus countries. US has a deficit

Possible forms of action

- one possibility to send it to the Bank or the Development Committee
- to keep it in G. 25 for the time being -
- Idea is not sufficiently clear

- to send it to the W.B.
- To establish a working group between Mexican Delegation and Executive Director of the Bank and the Fund.

Chairman - Timing question is important.

- Phillips - It takes a long time usually to work such a proposal.
- Proposal will not ~~lose~~^{impair} the effects of Bank capital increase.
 - Bank has 5000 staff work on this will not effect the efforts ~~to increase~~ for capital increase.
 - Complementary not competitive
 - Increasing interdependence
 - Questions of a legal nature -
It can have a separate balance sheet.

Not asking for any decision from the G-24.

"Be considered and studied by the World Bank"

Philippines

- intention and ideas are good

- not sure that the suggested facility is good.

- some preoccupations preempted by El Maggar.

- if such a facility is formed it should be additional

- legal entity to borrow.

Some inconsistencies

- ^{Are we bringing in the} tied aid through the credit deal

Yugoslavia

- interested in genuine expansion of development funds -

- motivation is real and justified

- there could be an element of additionality.
- may not require ~~additional~~ a new legal entity
- modest proposal to the ministers to ask for a study should be supported.

Iran

- incomplete in design.
- Title inappropriate
- End results not to the benefit of the developing countries
- many proposals rejected in the annals of the Development Committee with no results.
- Not appropriate at this time to include another suggestion.
- This is A-24 we are here to defend the interest of the LDC's.

- Phillips indicated that this was a hasty proposal here that they have not been impetuous in falling for this proposal.

Peter

- Agree many of the concerns expressed by G-Wagat.

- Distinction between a need to find new formulas and any facility suggested.

- This should not be an alternative ~~of~~ in competition. But there is no competition.

- A working group within the G-24 could be set up.

M.M. Ahmed - haven't had the opportunity to study

- W.G. discussions did not find any strong support.

Guatemala -

Algeria

- El Haggai's intervention raised three groups of questions Economic, technical and legal nature
- Ask the ministers to set a group within G-24 to study (by IBRD-IMF executive director) to study A long term supplementary Facility

Argentina -

- intention is to present a working paper. This debate may enrich Mexican view.
- should leave the door open - give a chance for the ministers to review the matter.
- in favor of the suggestion.

~~India~~

India - Philippines summarized the need very well. Before discussing mex. proposal - possibility of increasing ODA or further increase the Bank capital. Why it has not happen until now? why it should happen now?

If the consequence of this proposal is to only provide additional resources to middle income countries. therefore additionality is important. Even a cursory reading raises doubts - a-24 should try answer the most elementary doubts before it goes to the Bank.

Chairman -

Brazil - It deserve further study - Support study by the world Bank or any other forums the ministers

El Waggai - supports Algeria's proposal.

2-DRD 2-IMF Ex. doc. 1 Rep. from ~~each~~ from Rambold Fund still Dev. Comm. Mexican Govt.

Mexico - Consideration should
Snared - be given a long term
 Supplementary financing
 Facility with due
 regard to additionality
 and to its not being
 competitive with capital
 increase of the W-Bank.

By the W.B. staff

Chairman

Agreement on two points

- There is a genuine problem
- Proposal is not in a form to be sent either to the WB or any other forum.
- Where the study should take place -
 Two proposals
 Mex - By the world bank
 El Salvador - within the group
- Chairman - should develop self reliance

• Could be put to Res. Committee - Working Group.

• In -

there is not unanimous support -

maxima - W.B. staff listened to the discussions - they can prepare a paper

1 MF Executive Director (Working)

- Not appropriate to send to the World Bank before further study -

- Technical working group is necessary.

1 Plan ~~to~~ the ~~the~~ -

- Summary was good
- Res. Committee has established for this

(24)

purpose - matter should
be referred to the Dev.
Committee.

Phillips - Should go
along with the suggestion
of the Namian delegate.
His suggestion may be a viable
alternative.

M. M. Ahmad -

Chairman - invitation for a free
discussion of all
items as well as suggestions
concerning the future
of the Development
Committee.

India

- Would be useful to ~~discuss~~ future of the Dev. Committee.
- Political will to make use of this instrument.
- How the work program should be reorganized to make Committee more useful.
- orientation of the papers prepared in the studies are not relevant to the requirements of the LDC's.

Yugoslavia

- wish to emphasize - the MDI's are well suited to large absolute capacity of low income countries - increased MDI funds will help correct imbalances in the bilateral area.
- MDI's share ~~increase~~ increase

- Future role of the Committee.
- What kind of useful operative decisions could be expected for the September meeting.

El Naggan - Not in a position to recommend to ministers anything on future role of the Dev. Committee cannot say anything on the substance of this matter.

Mexico
(September) - Future work of the Dev. Committee on Direct Investment should be limited to a discussion of guidelines.

Ghana - Future role of the Dev. Committee
- Without the committee will lose an important

instrument

- inability to date is a result of the attitudes of the developed countries.
- should issue strong support for the continuation of committee

Vice Chairman (Nigeria) - Support the continuation of the committee.

Chairman - Support Dev. Comm.

Members

Country studies of adjustment

- Brazil
- India
- Indonesia
- W. Africa
- Jamaica
- Kenya
- Rep. of Korea

- Peru
- Philippines
- Sri Lanka
- Tanzania
- Uruguay
- Zambia

PROGRAM FOR ONE DAY VISIT TO YUCATAN FOR MINISTERS,
GOVERNORS AND PRESIDENT OF INTERNATIONAL ORGANIZATIONS

MONDAY, MAY 1st., 1978

TIME

- 7:05 a.m. Departure from Hotel Camino Real to Hotel
Presidente by minibus.
- 7:15 a.m. Departure from Hotel Presidente to Bank of
Mexico Hangar by bus.
- 8:00 a.m. Departure from Mexico city to Mérida in
a Bank of Mexico DC-9; breakfast will be
serve on board.
- 9:15 a.m. Arrival to Mérida.
- 9.30 a.m. Departure to Chichen-itza by bus.

NOTE:

It is recommended to take light clothing,
walking shoes, bathing suit and a light
sweater.

Please confirm participation at Hotel Pre
sidente Chapultepec. PH 250-77-00 Ext. -
4201-4217

- 13.30 P.m. Lunch at Hotel Mayaland
- 15:00 p.m. Free afternoon
- 16.30 p m. Departure from Chichen-itza to Mérida -
airport by bus.
- 18:00 p.m. Departure from Mérida to Mexico city in
the Bank of Mexico DC - 9
- 19.30 p m. Arrival to Mexico city. Passangers will
transported to Hotel Presidente Chapulte-
pec by bus.
- 20:10 p.m. Transportation from Hotel Presidente Cha-
pultepec to Hotel Camino Real by bus for
passangers staying in the latter Hotel.

INTERIM AND DEVELOPMENT COMMITTEESTELEPHONE INFORMATION(For Internal Office Use Only)

DECLASSIFIED

JUL 26 2023

WBG ARCHIVES

	<u>OFFICE ROOM AND TELEPHONE EXT.</u>	<u>DIRECT TELEPHONE No.</u>
<u>CHAIRMAN, BOARDS OF GOVERNORS</u>		
Tengku Razaleigh Hamzah	3017	
<u>CHAIRMAN, INTERIM COMMITTEE</u>		
Denis Healey	4026	254-17-24
<u>CHAIRMAN, DEVELOPMENT COMMITTEE</u>		
C. E. A. Virata	4004	254-17-99
<u>EXECUTIVE DIRECTORS</u>		
IMF	3917	
IBRD	3915	
<u>IMF - MANAGING DIRECTOR AND OTHER OFFICERS</u>		
H. J. Witteveen, Managing Director	4024	254-17-02
R. Ware, Personal Assistant to Managing Director	4024	254-17-02
W. Dale, Deputy Managing Director	4018	
J. Gold, The General Counsel	4016	
J. Polak, The Economic Counsellor	4016	
L. Van Houtven, The Secretary	4015	254-16-88
<u>IMF - DEPARTMENT HEADS</u>		
A. Guetta	3923	
W. Habermeier	4025	
W. Robichek	4025	
E. Sture	4025	
L. Whittome	4025	
<u>IMF - STAFF</u>		
J. Baldet	3923	
J. Kay	3924	
J. Lang	4011	
G. Nicoletopoulos	4025	
J. Reid, Director of Information (Press)	Press Room	254-2480
C. Schwartz	4025	
D. Williams	4025	
J. Young	4025	

Cont'd...

OFFICE ROOM AND TELEPHONE EXT. DIRECT TELEPHONE No.

IBRD - SENIOR STAFF

E. Stern, Vice President	4001	
A. Karaosmanoglu, Director, Development Policy	4001	
D. R. Clarke, Senior Advisor	4001	

DEVELOPMENT COMMITTEE SECRETARIAT

Sir Richard King, Executive Secretary	4004	254-24-81
M. Ahmad, Deputy Executive Secretary	4004	
L. Escobar	4004	
J. Everts	4004	
B. Norwood	4004	

G-24

K. Gyasi-Twum	3925	
J. Kay	3924	

JOINT SECRETARIAT

L. Van Houtven, The Secretary	4015	254-16-88
J. Lang, Deputy Secretary	4011	254-16-88
D. E. Brantley, Deputy Secretary for Meetings	4010	254-13-55
R. S. Callis	4010	254-13-55
E. Shinn	4011	254-16-88

Hotel Accommodation

J. E. Humphries	4010	254-13-55
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Finance

W. Powers	4005	
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Documents Preparation

G. Djeddaoui	5169	
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Documents Distribution

M. Thompson	5177	
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Language Services

J. Merry	3911	
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International Transportation

E. Klimonda	Ballroom Level	254-19-50
R. Collier	Ballroom Level	254-24-82

Registration

E. Shinn	Salon Del Castillo	254-16-94
	5086	254-16-96
	5087	254-17-46
		254-19-59

OFFICE ROOM AND
TELEPHONE EXT.

DIRECT
TELEPHONE NO.

REGISTRATION - DEVELOPMENT COMMITTEE
SENIOR OFFICIALS

Salon Del
Castillo
5179

MEETING ROOM RESERVATIONS

E. Shinn

Registration
Desk
5086
5087

254-16-94
254-16-96
254-17-46
254-19-59

PRESS ROOM

J. Reid
D. Armour
R. Azocar
H. Hartmann

Press Room
5082
5083
5088

254-24-80
254-23-70

OFFICE AND MEETING ROOM ARRANGEMENTS

C. Wirz
J. Wharen
G. Kyritsopoulos

Registration
Desk
5086
5087

254-16-94
254-16-96
254-17-46
254-19-59

BANK OF MEXICO

A. Basurto
A. Martinez

4009
4009

SECURITY

4007

For changes or additions please call:
Joint Secretariat, Room 4010.

Corrected: April 25, 1978

April 27, 1978

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR
ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-FIFTH MEETING OF DEPUTIES

REPORT TO MINISTERS

1. The Deputies of the Group of Twenty-Four on International Monetary Affairs held their twenty-fifth meeting in Mexico City, on April 27, 1978. Mr. K. Gyasi-Twum, Ghana, opened the meeting and handed over the Chairmanship to Mr. Ziauddin Ahmad, Pakistan. Mr. A. Phillips O., Mexico and Mr. F. B. Falegan, Nigeria, were Vice-Chairmen. The meeting was attended by Mr. M. M. Ahmad, Joint Bank/Fund Development Committee Secretariat, Mr. E. Sturc, International Monetary Fund, and Mr. G. D. Arsenis, United Nations Conference on Trade and Development.
2. The Deputies of the Group of Twenty-Four discussed the general economic situation and took note of a number of developments during 1977 which had led to increased difficulties for the developing countries. The marked decline in the growth rate of industrial countries, slowing down in the growth of the volume of world trade, deterioration in the terms of trade of non-oil developing countries in the second half of 1977, the lack of progress in respect of the access of developing countries to capital markets, and increased recourse to protectionist measures exercised an adverse influence on the growth performance of developing countries.
3. The Deputies noted that the current account balance of payments of non-oil developing countries had shown some improvement in 1977, but this was largely due to the measures taken by them to limit imports which adversely affected their investment levels.
4. In discussing the prospects for the world economy in 1978, the Deputies expressed their concern about the projected deterioration of the current account deficit of the non-oil developing countries from \$22 billion in 1977 to \$30 billion in 1978.
5. On account of inadequate flows of Official Development Assistance, a number of low-income developing countries were not able to meet their external financial requirements, while others had to take recourse to sizable borrowings from commercial banks.

6. Deputies underlined the need for greater coordination in the economic policies being pursued by industrial countries, which would result in an expansion of world economic activity and world trade, to the benefit of the entire international community.

7. Deputies stressed the need for a substantial increase in the flow of ODA and for an appreciable increase in the contribution of multilateral development institutions to the financing needs of the developing countries.

8. Deputies strongly urged developed countries to avoid import restrictive measures that jeopardize the export growth prospects of developing countries in those areas which have achieved comparative advantage and gradually to dismantle existing protectionist measures.

9. On the basis of their discussions, the Deputies arrived at the following conclusions:

(i) There is need for a new allocation of SDRs in order to meet the liquidity requirements of the member countries, especially of countries with low reserves, and to make SDRs the principal reserve asset in the international monetary system;

(ii) The Deputies took note of the recent proposal which would combine the allocation of SDRs with a reduction in the amount of outstanding reserve currencies and expressed the view that the proposal had a number of implications which required further study;

(iii) The Deputies were of the view that further consideration of the substitution proposal should not stand in the way of a new allocation of SDRs, and that the proposal should bring about additionality;

(iv) The Deputies favored measures to increase the attractiveness of the SDR as a reserve asset, and in this context they supported increasing the interest rate on the SDR to 80 per cent of the weighted market rate;

(v) Deputies were agreed that the reconstitution obligation in respect of SDRs should be abrogated;

(vi) The Deputies considered the question of the Seventh General Review of Quotas and favored (an increase in the range of 50-75 per cent) (an increase of at least 50 per cent). On the question of the distribution of quotas Deputies could not reach an agreement;

(vii) The Deputies urged that the IMF should re-examine the criteria on which quota allocations are based with the aim of rationalizing them and making them relevant to the economic position of the developing countries;

(viii) The Deputies were of the view that the supplementary financing facility should be made operational as early as possible. Means should also be found to relieve the least developed members of the Fund of part of the cost of borrowing from this facility;

(ix) Deputies considered that the strict conditionality attached to drawings in the upper credit tranches and in the Extended Fund Facility should be modified, keeping in mind the fact that at present very limited use was being made of these facilities by the developing countries;

(x) Deputies took note of a proposal to set up a long-term financing facility for developing countries. Some Deputies supported this proposal and the general consensus was to entrust this study to the Development Committee;

(xi) The Deputies noted that Multilateral Development Institutions had played and should continue to play a vital role in the transfer of resources to the developing countries, and in order to enable them to continue performing this important function the capital of these institutions should be substantially augmented;

(xii) The Deputies took note of a report by the International Monetary Fund on the developing countries' access to capital markets. They were concerned that not much progress had been made in the implementation of the recommendations on the subject by the Development Committee. They appreciated that a review by the IMF would become a regular feature;

(xiii) The Deputies underlined the importance of the role of the Development Committee as a high-level political forum for actions designed to increase the transfer of resources to the developing countries.