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Liaison Files - Commonwealth Secretariat - Correspondence - Volume 1

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# Commonwealth News Release

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## MEETING OF COMMONWEALTH FINANCE MINISTERS

ST. LUCIA, 24-25 SEPTEMBER 1986

### COMMUNIQUE

Commonwealth Finance Ministers met in St Lucia on 24-25 September under the chairmanship of the Rt. Hon. John Compton, Prime Minister and Minister of Finance of St Lucia. Ministers found their wide-ranging discussions of exceptional value in pointing up both the opportunities and the dangers of the present world economic situation, as it affects individuals in their ordinary lives, particularly in the hard-hit developing countries. Strenuous adjustment efforts have a high cost in human and material terms. It is the more discouraging to bear that cost when the results are disappointing because of factors beyond the control of the governments and peoples of the developing countries concerned. Commodity prices have fallen sharply. The flow of resources, vital to the making of those adjustment efforts, is not only inadequate but is even declining. Ministers were very conscious of the uncertainties which still persist in the world economy. But there were signs of hope. The improved international co-operation now in prospect could help release the potential for greatly increased production and welfare worldwide. Above all, Ministers expressed relief that the agreement reached at Punta del Este for a new round of trade negotiations reduced the dire threat of a trade war and opened up new possibilities for increased trade and prosperity. They promised that their governments will put their full weight behind these efforts.

- The following paragraphs record Ministers' deliberations in greater detail.

#### World Economic Situation

2. Ministers expressed grave concern that, since their last meeting, there has been a marked slow-down in economic activity in major industrial countries. This slow-down and its global implications are most unwelcome at a time when living standards are already declining in many developing countries and unemployment in the industrial countries is still at abnormally high levels. They stressed the need for a greater sense of urgency to achieve more balanced, sustained and faster growth, in the light of the opportunities that are presented by low and falling inflation in industrial countries.

3. Ministers were concerned that the current slow-down and large external imbalances among major industrial countries could encourage further protectionism. Protectionist practices are extensive and already represent a serious threat to world trade, particularly to the exports of developing countries. Ministers expressed great satisfaction at the successful conclusion of the GATT Ministerial-level meeting held recently in Punta del Este, Uruguay, relating to trade in goods and services. They hoped this first step would lead to a period in which protectionist barriers would be rapidly dismantled and a stimulus, thereby, given to the world economy. They emphasised the importance of such liberalisation for the exports of developing countries in as much as it assists them to service debt and to diversify out of their current over-dependence on commodities. They stressed, further, the link between agricultural protectionism in major industrial countries and the weakness in many commodity markets. They called for radical adjustment measures by these countries to remove such distortions. They noted, in particular, the specific inclusion of agriculture in the agreement reached at Punta del Este.

4. Ministers welcomed the developments that had taken place over the past year aimed at improved policy co-ordination among major industrial countries: the realignment of major currencies; and the agreement to convene a new Group of Seven Finance Ministers to further economic co-operation. But they expressed great dissatisfaction about the persistence of large financial imbalances among major countries, continuing high real interest rates and the failure to secure adequate expansion. They called for enhanced international co-ordination leading to forceful action to remedy these deficiencies.

5. Ministers noted with grave concern that a majority of developing countries had actually suffered a decline in per capita incomes in the last few years. There were continuing severe strains in heavily indebted countries caused by the requirement to give priority to debt service payments. A prolonged depression in commodity prices had adversely affected a large number of primary producing, including oil exporting, countries. In the light of the faltering recovery, Ministers reaffirmed their earlier belief in the need for increased flexibility in debt-servicing arrangements and for additional financing to support growth-oriented adjustment in developing countries. They emphasised the urgency of reversing the sharp decline in net financial flows to developing countries.

6. Ministers noted that, while the emergency food situation in sub-Saharan African countries had eased somewhat, there was little evidence of any significant improvement in the economic prospects of these countries despite their far-reaching adjustment efforts. They welcomed the outcome of the Special Session of the UN General Assembly on the Critical Economic

Situation in Africa and urged the international community to provide the fullest possible external support for the implementation of the programme on Africa's economic recovery and development adopted on that occasion.

7. Ministers considered that there was need for establishing a sustained dialogue on monetary and financial issues. They noted that, at the Heads of Government meeting in Nassau, a Commonwealth Consultative Group was set up to consider the Group of Ten and the Group of Twenty-Four reports on the functioning of the international monetary system and that the Group's statement accompanying a Secretariat paper was presented at the Interim and Development Committee Spring 1986 meetings. While they found the discussions at these meetings useful, they believed that there was a need for a further and more detailed discussion.

#### Development Finance

8. Ministers noted with concern both the decline and the discouraging outlook for external financial flows to developing countries, and the implications for their efforts to achieve reasonable growth. They warned that, without greater external financing, current adjustment efforts in most developing countries would be jeopardized. They welcomed the constructive approaches to tackle the problem of external indebtedness, following the Baker initiative at Seoul last year, but noted the difficulties of attracting net flows from commercial banks by debtor countries. They stressed the importance, therefore, of the international community taking all possible measures to facilitate adequate financial flows to developing countries, both from official and private sources, including aid and export credit agencies as well as private banks and non-bank financial institutions and foreign investors. In particular, they called upon surplus industrial countries to play a larger role in channelling resources to capital-deficient developing countries. They also emphasized the need to secure increased official development assistance for the least developed and other low-income countries, particularly in sub-Saharan Africa.

9. Ministers expressed disappointment at current levels of aid flows, the poor prospect for aid expansion, and the lack of progress in the achievement of the internationally agreed targets for official development assistance to developing countries, both generally and for the least developed countries in particular. They urged donors to make more determined efforts to reach these targets. They also called upon donors to provide aid in fast-disbursing form and to make greater efforts to ease burdensome debt service payments by low-income countries. They further stressed the importance of improving aid coordination and underscored the need to make effective use of aid. Ministers reiterated the importance of donors channelling concessional resources as far as possible through multilateral agencies.

## Multilateral Development Banks

10. Ministers emphasised the urgency of reaching a decision on the eighth replenishment of IDA to provide a substantial increase in resources. They were concerned that a replenishment of \$12 billion would be inadequate in the light of the needs of all low-income countries. They also stressed that the needs of sub-Saharan Africa should not be met at the expense of other low-income countries. Ministers reiterated the need to preserve the essential character of IDA as the principal channel of multilateral concessional flows.

11. Ministers supported the case for treating the IBRD lending programme of \$50 billion over FY 1986 - 1988 as the desirable target. This was necessary if the World Bank was to play the larger role now being required of it, particularly in relation to heavily indebted countries. They also called upon the World Bank to give priority to the financial requirements of smaller middle-income debtor countries and to those countries with access to both the Bank and IDA, and, to this end, to make an assessment of their combined needs. They also urged flexibility in the use of the Bank's lending instruments to speed up disbursements. They supported the case for some relaxation in repayment terms to poorer borrowers. Ministers noted the mounting volume of debt service on Bank loans and emphasised that, in order to increase net lending into the 1990s and to fulfil the heavy obligations now falling to the Bank, a substantial General Capital Increase (GCI) was urgently required. They urged agreement on the design aspects of the GCI at the forthcoming Development Committee Meeting and emphasised that any adjustment in the Bank's shareholding with a capital increase should not reduce the role of developing country members in decision-making.

12. Ministers welcomed the Baker initiative envisaging an enhanced role for the World Bank in fostering growth-oriented adjustment in the indebted countries. They also pointed to the need for the Bank to ensure that adequate financing is available from other sources in support of country programmes through the leverage of its own funding. They urged the Bank to examine, in addition to existing co-financing techniques, new ways to generate additional flows from private and official channels to

support adjustment, and specifically to facilitate additional concessional financial support from other donors for sub-Saharan African countries.

13. Ministers discussed the role of the World Bank Group in promoting foreign direct and portfolio equity investment. They urged early ratification by signatory countries of the convention establishing the Multilateral Investment Guarantee Agency so that it can become operational in 1987. They were also pleased to note the recent new initiatives by the International Finance Corporation (IFC) to encourage private investment in developing countries. They noted that IFC's full capital increase had not yet been ratified and urged those signatories which had not yet ratified speedily to do so, in order not to affect the Corporation's five year investment programme.

14. Ministers emphasised the value of regional development banks as a valuable, independent, source of multilateral lending for sound development projects. They urged timely action to ensure adequate financing of the banks' concessional lending facilities.

#### International Monetary Fund

15. Ministers welcomed the recognition given at the Tokyo Summit to the importance of effective IMF surveillance of major industrial countries to facilitate a more orderly and symmetrical adjustment process. In order to ensure that the interests of the rest of the world are taken into account, they stressed the importance of the role of the IMF in the Group of Five and Group of Seven policy coordination discussions, particularly by assisting in the formulation of a common set of objective indicators. They expressed the hope that effective IMF surveillance of these economies would contribute to international efforts to achieve substantial and sustainable growth in the world economy.

16. Ministers urged the Fund to review constantly its conditionality guidelines with the aim of ensuring greater growth-orientation in programmes. In this context, they welcomed the advances made in the IMF's recent negotiation with a major debtor in the direction of adjustment policies which are growth-oriented, flexible, responsive to changing external conditions and well supported by external finance. They called upon the IMF to extend this approach in other cases, based on the needs of individual countries, and to provide stronger financial support for necessary adjustment.



17. In current and prospective circumstances of large, unmet, financing needs facing a substantial number of countries, Ministers agreed on the need to maintain the current access limits under the enlarged access policy. Furthermore, the depressed state of commodity prices affecting many producing countries underlined the urgency of the call made by Heads of Government in Nassau for improved access to the IMF's Compensatory Financing Facility to offset export earnings instability. In this context they emphasised the desirability of the earliest possible international agreement to secure greater and more effective financial compensation for temporary export shortfalls.

18. Ministers were deeply concerned about the emergence in current circumstances of negative net disbursements overall by the Fund. They noted that a number of countries faced large debt service payments to the Fund over the next few years. They called upon the Fund to help such countries, especially the least developed and other low-income countries, in overcoming their repayment problems and in dealing with arrears. In this connection, Ministers welcomed the establishment of the new Structural Adjustment Facility for low-income countries financed from Trust Fund reflows. Ministers urged donors to provide additional resources to the Facility in order to increase its effectiveness.

19. Ministers considered that the current world economic situation, with severe liquidity problems experienced by many countries, provided a context in which an SDR allocation merited serious consideration at the forthcoming meeting of the Interim Committee.

#### Cross-Conditionality

20. Ministers recalled the concern expressed at their meeting last year in the Maldives about cross-conditionality in the lending decisions of the Fund, the Bank and other lenders. They also recalled the agreement at the meetings of the Interim and Development Committees on the need for the Fund and the Bank to avoid cross-conditionality. They welcomed the Secretariat's study which had highlighted the degree of apprehension in developing countries about spreading cross-conditionality of an informal kind resulting from overall resource scarcity. They noted its conclusions that, while co-operation over structural adjustment lending between international financial institutions was desirable, the distinct character and independence of international financial institutions should not be compromised. Recognising the contribution of the study to a current important international issue, they invited the Secretary-General to arrange wider distribution and to continue to monitor the problem.

## Commonwealth Functional Co-operation

21. Ministers noted with satisfaction the continuing support for the Commonwealth Fund for Technical Co-operation (CFTC), confirmed at the Thirty Fourth Meeting of the Board of Representatives held on 23 September. In order to guarantee commitments at the reduced level of £27.2 million, Ministers supported the decision of the Board to contemplate exceptional recourse to the CFTC Operation Reserve Fund. Ministers agreed that any further reduction of CFTC activities would have harmful effects.

22. Ministers welcomed the wide ranging services the Secretariat is continuing to provide member countries to assist them in their efforts to mobilise financial resources and to use them more effectively, particularly in relation to capital markets and private foreign investment. Ministers were appreciative of the further development of the Secretariat's financial advisory services and in particular the implementation of the Commonwealth Secretariat Debt Recording and Management System (CSDRMS).

23. Ministers noted the large economic costs being borne by SADCC states as a consequence of aggressive measures against them by South Africa. They expressed solidarity with these states and stressed the importance of international assistance to them in their current plight. In particular, they recommended that the Secretariat's functional co-operation activities in support of SADCC states be strengthened to take account, in all appropriate ways, of the growing needs of the region, having regard to the priority areas determined by SADCC in the context of the evolving situation in South Africa.

24. Ministers welcomed the particular attention that the Secretariat was paying to the needs of small states following the consideration by the Heads of Government in Nassau of the report on the vulnerability of these states. They urged speedy follow-up of the recommendations in the report and Commonwealth support for these states in their dealings with financial institutions.

25. Ministers reiterated the importance of women in the development process and took note of the programme of activity within the Secretariat as a result of decisions taken by Heads of Government in Nassau. They encouraged donors to pay particular attention to this aspect of development co-operation.

26. Ministers noted with appreciation the activities of the Commonwealth Association of Tax Administrators which was set up following the decision by Finance Ministers in 1977. They urged all Commonwealth countries which are not yet members to join the association as soon as possible.

Appreciation

27. Ministers expressed their appreciation for the excellent facilities provided for the meeting by the Government and people of St. Lucia and the warm hospitality which they had enjoyed during their stay.

Castries, St. Lucia  
25 September, 1986