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THE WORLD BANK

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Clausen's: Development Committee - April 28-29, 1985

2

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Development Committee Files - Correspondence 02

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OPENING REMARKS BY A. W. CLAUSEN, PRESIDENT OF THE WORLD BANK,
TO THE DEVELOPMENT COMMITTEE
WASHINGTON, D.C.

April 28, 1983

When the Committee last met, the global economy was in a critical state, and the Committee expressed its deep concern that the development prospects for the international community had worsened over the past year. The need for concerted action to restore the momentum of development was recognized by all participants.

There was also evident at that meeting a growing feeling that the Development Committee's potential as a viable mechanism for concerted action on urgent development issues could be more fully exploited. The World Bank and the International Monetary Fund's ^{MANAGEMENTS OF THE} ~~MANAGEMENTS~~ share that feeling.

The Committee's size, composition, mandate and links to the concerned international institutions are all factors

which favor its evolution into a forum where consensus on important development issues can be reached. Moreover, the Committee can develop a continuity in its deliberations, building up a work program spanning successive sessions. In this manner the Committee would be giving due recognition to the fact that the issues on our agenda need continuing, not occasional, attention.

It is a significant departure that the Committee should, for the first time, have a comprehensive agenda before it. In the past the Committee has pursued its deliberations on an issue-by-issue basis. But today, the recognition of the linkages between issues is clearer than it has ever been. And that surely summons us to adopt a complementary comprehensive approach to their discussion. Debt and trade are now on our agenda. Their inclusion is surely essential to the work of this unique group, aiming at the formulation of a coordinated program of action in support of development. Recognizing in our discussions the important linkages between trade, debt and capital flows should add greatly to the value of the Committee's work.

*as the
development
has noted
DEVELOPMENT*

At the Committee's meeting in Toronto, the negative impact of the global recession on the economies of the developing countries was a matter of central concern.

Since then, some signs of economic recovery have begun to appear in the United States. The situation in some parts of Europe may also begin to improve soon. We can but hope that these modest and scattered indications of a turnaround will eventually translate into sustained recovery on a broad front.

As the signals are still mixed, it would be premature to conclude at this stage that global recovery in the industrial countries has really begun. We should also recognize that economic recovery in the industrial world will not, of itself, dramatically reverse the negative trends in the developing world. Important as that recovery will be to the growth prospects of the developing countries, the damage already inflicted by the recession has been substantial. Last year, for example, thirty developing countries had negative growth rates.

It will take time, resources and skillful economic management by the developing countries themselves to make up for the slowdown in investment in those countries. Commodity prices cannot be expected to post rapid gains to earlier high levels. Moreover, the severe contraction in the industrial

economies may be found to have brought about structural changes in international trading relations, disadvantageous to the developing countries, which will not easily be corrected. And we must be alert to the danger that the still deepening recession in the developing nations could retard the rate of economic recovery in the industrialized world.

Pause

The different factors which have combined to create the present economic crisis facing the developing countries are interrelated. The drawn-out slowdown in the industrial world's economic activity; the sharp decline in commodity terms of trade; the still too high real rates of interest; the significant reductions in non-concessional and concessional financial flows; and protectionist trade policies; all these have combined and interacted with domestic policy difficulties to bring the development process to a halt in many poor countries. And only a combination of actions can get it going again.

That is why the international community must search for a framework within which various proposals for action can be developed in a coordinated manner. And that search can be given a strong push forward right here in the Development Committee.

The critical importance of increasing the flow of external resources on appropriate terms cannot be overestimated, especially in view of the disruptions in trade which may have long-term consequences. Commercial resources have accounted for a dominant and vital share of total flows since the early 1970s. The continued/active participation of the commercial banking system is ^{ABSOLUTELY} essential. But greater balance needs to be restored in the composition of total flows! It is imperative that commercial flows be complemented by expanding official flows, both bilateral and multilateral. And the increasingly pressing needs of the low-income countries for concessional finance, (which are known to us all), must be acted upon. The greater the volume of finance made available on concessional and near-concessional terms, the less the hoped for increases in trade receipts will be swallowed up by debt servicing.

Primo

Whether those trade receipts do increase will depend not only on appropriate domestic policy measures, but also, (to a significant degree,) on the determination of the industrial countries to resist the protectionist pressures that the current period of severe economic strain has stimulated. The GATT deserves strong and organized support from all parties in its efforts to encourage trade liberalization. The Bank looks forward to working with the IMF, the GATT and others on the follow-up of this Committee's discussions of these issues.

In the face of declining exports and diminishing capital flows, the oil-importing developing countries have inevitably cut imports, and hence investment and growth. Increased drawings on the IMF are partially offsetting the fall in private bank lending, but remain insufficient to finance a larger overall deficit. Coupled with little or no increase in official development assistance, another year of ~~slow or~~ ^{OR AT BEST SLOW} negative growth for many oil-importing countries seems certain.

This situation must surely lead us to the conclusion that the role of the international financial institutions needs to be expanded.

Paris

Together with the commercial banks, the IMF is a vital source of financial support to meet the developing countries' short-term balance-of-payments needs. The Fund's recent decision to go ahead with a substantial quota increase is a very welcome step. ^{indeed.} But there is also an urgent need to deal with the longer-term development aspects of the current crisis.

In response to the current financial difficulties in many of our developing member countries, the Bank initiated a 2-year Special Action Program in February of this year. The program includes an acceleration of disbursements to maintain

project momentum and an emphasis on high priority and fast-disbursing operations supporting structural adjustment and policy changes, and the maintenance of crucial infrastructure.

COMMERCIAL

At a time when the ~~private~~ banking community is reducing its exposure in development financing, and when official development assistance is weakening, the Bank has a special responsibility to ensure that the increasing needs of our borrowers are met, and the development momentum restored AND MAINTAINED. It does not, SIMPLY therefore, make sense to hold down the Bank's VOLUME capacity to artificially low levels at this critical time. It is counterproductive.

AND IT SHOULD BE PARTICULARLY NOTED THE WORLD BANK HAS
We ~~have~~ demonstrated IT'S our capacity as an extremely effective intermediary between private capital markets and developing country borrowers. And the markets daily ARE demonstrate their confidence in YOUR this institution. So we can, (if empowered to do so,) be of still greater help to our borrowers in meeting their urgent needs for capital at this very difficult time.

There has been general support in the BANK'S Board of Executive Directors for increasing our current planning assumption for the 5-year period FY82 to FY86. At the same time, (on the basis of established precedents), the Eighth

General Review of Quotas in the Fund offers a timely opportunity for strictly parallel action on a Selective Capital Increase in the Bank. We therefore hope that there will be agreement in the Development Committee that the Executive Board should consider a specific proposal from the Bank's Management to that effect, and to make such preparations for a General Capital Increase as the formulation of a revised five-year lending program may imply. When the Development Committee next meets, we would then be in a position to report on the results of these Board discussions.

It is the Management's firm view that a significant contribution to an expanded flow of much needed ^{LENDING} capital to the developing countries cannot be envisaged without such a capital increase. In order to carry out our traditional function of project lending and to intensify our work of facilitating better economic management, we need the financial ^{RESOURCES} ~~tools~~ UPON WHICH TO LEVERAGE OUR ACTIVITIES. Our standing as a financial institution of proven soundness and strength gives us access to those ^{RESOURCES.} ~~tools~~. We wish now to be enabled to use them.

Recent preoccupation with the severe debt-servicing problems of some ^{MIDDLE INCOME} countries have pushed ~~off center stage~~ ^{OFF CENTER STAGE. AND YET THESE ARE} THE problems of the poorest nations, the very countries which have been most seriously affected by the global recession.

For them, the most urgent need is to secure agreement on a level of funding for the Seventh Replenishment of IDA representing a much needed increase in real terms over the level approved for the previous four-year period. It is no secret here that progress towards such an agreement is hampered by the continuing delay in the completion by the United States of its contributions to the Sixth Replenishment. Let me remind you that the United States pledged a contribution of \$3.24 billion to that replenishment, to be provided in three equal installments in each of the three fiscal years 1981, 1982, and 1983. With only four months left of the replenishment period, \$1.34 billion, or some 40 percent of the pledged amount, remains unappropriated *By THE US. CONGRESS.*

Despite their own budget problems, other donor nations have contributed more than they originally agreed to help compensate for the U.S. shortfall, and we are deeply grateful to them. But the cutback in funds has dealt a very serious blow to many of the 51 low-income countries who rely on IDA. And if there is further delay in rectifying this unhappy situation, the success of the current negotiations for the Seventh Replenishment may well be placed in jeopardy.

Pause

We have here a unique forum in which to discuss and agree upon measures that can enhance the effectiveness of the World Bank as a financial institution and as a member of the community of multilateral institutions. We seek your wisdom and guidance ^{MR. MINISTERS} in our efforts to play a still more effective role in the concerted and coordinated effort required to deal with today's and tomorrow's economic development problems.

In the meantime, the distinguished Chairman of the Development Committee has outlined the type of work that he envisages being undertaken by the staffs of the Bank and the Fund in preparation for the September meeting of the Committee. We are ready and eager to begin that work.

And we look forward to collaborating with you in this Committee as it fulfills its proper role as a focal point in the structure of international economic cooperation.

Thank you.

*The Chairman of the Development Committee
Mr. Ghulam Ishaq Khan
requests the pleasure of the company of*

Mr. Clausen

at lunch

on Thursday, April 28, 1983

at one o'clock

P.M.

P.s.o.p.

477-6424

*Dining Room No. 5
International Monetary Fund
Washington, D. C.*

*The Chairman of the Development Committee
Mr. Ghulam Ishaq Khan
requests the pleasure of the company of*

Mr. Clausen

at dinner

on Thursday, April 28, 1983

at 7:30 o'clock

Dress: Informal

R.s.v.p.

477-6424

*Dumbarton Room
Four Seasons Hotel
Washington, D. C.*



Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825	
Document Date April 27, 1983	Document Type Memorandum		
Correspondents / Participants Development Committee			
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		Withdrawn by Shiri Alon	Date February 25, 2019



DEVELOPMENT COMMITTEE



JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 477-1234

April 29, 1983

PRESS COMMUNIQUE

1. The Development Committee held its twenty-first meeting in Washington, D.C. on April 28-29, 1983, under the chairmanship of H.E. Ghulam Ishaq Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosiere, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 non-oil commodity prices reached their lowest levels in 30 years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining ODA in real terms, a slowdown in private capital flows and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them.

4. The economic problems of the developing countries were noted in the the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of 77 held at Buenos Aires, and will receive further attention at the OECD meeting in Paris, at the forthcoming Williamsburg Summit and at the Sixth Session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; also oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following and in line with the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions; coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

11. The Committee reviewed the growth of developing country debt and expressed its concern about the severity of the debt servicing problem faced by many of them. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. It welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to recent critical situations, the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources.

It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed 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 the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade and development, and to keep the Committee informed of the results of these examinations.

13. The Committee noted that since its Toronto meeting the Bank has introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

14. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

15. The Committee agreed to hold its next meeting in Washington, D.C. on September 26, 1983, at the time of the Annual Meetings of the Bank and the Fund.



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April 29, 1983

REVISED DRAFT PRESS COMMUNIQUE

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2. The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 commodity prices reached their lowest levels in 30 years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining ODA in real terms, a slowdown in private capital flows and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them. NON OIL

4. The economic problems of the developing countries were noted in the the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of 77 held at Buenos Aires, and will receive further attention at the OECD meeting in Paris, at the forthcoming Williamsburg Summit and at the Sixth Session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; also oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. ~~but it may not be sufficient by itself to attain the potential of the majority of the developing countries.~~ The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

AND IN LINE WITH

8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions; coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

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sources. It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed 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 the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between trade, and development, and to keep the Committee informed of the results of these examinations.

Capital flows.

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of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them.

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5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; also oil prices have fallen; all these factors play an important role in the economies of all countries. At the same time, some commodity prices have started to rise ~~---albeit modestly~~. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance but it may not be sufficient by itself to attain the potential of the majority of the developing countries. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and non-inflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, has already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions. Reductions in overall ODA flows in real terms requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment

of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

11. The Committee reviewed the growth of developing country debt and expressed its concern about the severity of the debt servicing problem faced by many of them. While noting the substantial contribution of commercial banks in meeting the severe debt problems faced by some medium-income developing countries over the past several months, the Committee stressed the importance of avoiding an abrupt reduction in the level of international bank lending to developing countries. It welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in availability of private bank credit does not impede a smooth and orderly adjustment of the domestic economies of the debtor countries. While noting with satisfaction the prompt response by bilateral and multilateral sources to the recent critical situation, ⁵ the Committee emphasized the necessity of maintaining and increasing financial flows to developing countries from official sources. It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas

of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital transfers to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed 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 the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between trade and development, and to keep the Committee informed of the results of these examinations.

13. The Committee noted that since its Toronto meeting the Bank has introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

14. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

15. The Committee agreed to hold its next meeting in Washington, D.C. on September 26, 1983, at the time of the Annual Meetings of the Bank and the Fund.

April 28, 1983

DRAFT PRESS COMMUNIQUE

TAKE TO DINNERS
★

1. The Development Committee held its twenty-first meeting in Washington, D.C. on April 28-29, 1983, under the chairmanship of H.E. Ghulam Ishaq Khan, Minister for Finance, Commerce, Planning and Coordination of Pakistan. Mr. A.W. Clausen, President of The World Bank, Mr. J. de Larosiere, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.

3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has ~~extracted~~^{exacted} its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain ~~bleak~~^{uncertain}. World trade ~~has~~ declined dramatically in 1982, in this decline the developing countries' accounted for a disproportionate share; in 1982 commodity prices reached their lowest levels in 30 years; and export earnings of developing

*yet
are not showing much
in real terms
~~only modest~~
~~growth~~*

countries ~~show no~~ signs of growth. The situation is further aggravated by declining ODA, a slowdown in private capital flows and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them.

4. The Committee noted that these concerns found expression in the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of Seventy-Seven held at Buenos Aires. It was also noted that at these meetings proposals were made for the convening of an international conference on money and finance. The Committee noted further that the economic problems the developing countries face will receive attention at the forthcoming Williamsburg Summit and the Sixth Session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: *o/c* inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline; also oil prices have fallen; all these factors play an important role in the ~~external~~ economies of ~~the developing~~ *del* countries. At the same time, *some* commodity prices have started to rise -- albeit modestly. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance ~~but it may not be~~ *though they are still high*

*The committee
did continue to emphasize
the need for
monetary expansion
to support
growth.*

sufficient by itself to attain the potential of the majority of the
developing countries.

6. It was against this background that the Committee deliberated at
some length on a few selected topics and measures which, if adopted, will
help contribute to a resolution of the difficulties which economies of the
industrial and developing countries face at present. ~~This task was
undertaken with the realization that in the present interdependent world a
concerted, coherent, and determined action at a global level was necessary
to bring a durable worldwide recovery.~~

7. In this context, the Committee, taking into account changes in
the global demand and supply for external capital, first addressed itself
to the need for reviewing the lending programs of multilateral development
institutions (MDIs) in the period ahead and examining the consequent
implications for their capital requirements. This review was in pursuance
of the Committee's earlier exhortations at the two previous meetings urging
the World Bank and other MDIs to continue their study of the scope for
expansion in real terms of their lending to developing countries. Taking
into account the urgent need to maintain and increase external financial
flows to the developing countries, the Committee noted with satisfaction
the recent approval by the Bank's Board of Executive Directors of a Special
Assistance Program designed to accelerate financial flows from the Bank.
The Committee expressed its support for the Bank's revision of its current

planning assumptions to allow for expanding the Bank's lending program by
3% per annum in real terms over the next five years. *beginning in 1985* *consistent with this objective,*
In accordance with

past policy and practice of the Bank, the Committee also urged the

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*urged the Bank to put forth proposals
which would increase financial inflows
allow an expansion to the*

management of the Bank to present a ~~specific~~ proposal to the Board of Executive Directors for a ~~substantial~~ selective capital increase following the Eighth General Review of quotas in the Fund by the time of the next Committee meeting.

8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should ~~speedily~~ seek means of financing the ~~future~~ requirements of both ordinary ^{capital replacement} and concessional funds for these institutions including, ~~where needed, an increase in their capital base to~~ enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments particularly during the present prolonged global recession, has already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions. Coupled with reductions ^{in real terms} in overall ODA flows, ~~a major crisis now loomed in ensuring the maintenance of concessional assistance at reasonable levels in the face of~~ ^{this requires the} ~~vastly expanded~~ needs. ~~As an essential step toward ameliorating this crisis,~~ ^{Therefore,} the Committee urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that

failure to do so would have serious consequences ~~not only~~ to safeguarding future levels of concessional assistance, ~~but for the viability of the multilateral system itself.~~

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's Resources (IDA-7) ~~was of a sufficient size~~ to accommodate an expanded recipient community and to reverse negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that ~~donors agree on contributing to an IDA-7 larger in real terms than the negotiated IDA-6 and that IDA-7 negotiations be completed as early as possible~~ to ensure that the Seventh Replenishment became effective no later than July 1, 1984 and thus avoided another funding gap from arising.

11. The Committee reviewed the growth of developing country debt and expressed its concern about the severity of the debt servicing problem faced by many of them. It stressed the importance of avoiding ~~sharp~~ fluctuations in the level of international bank lending to developing countries, and welcomed the efforts of the Fund and institutions in the main creditor countries to ensure that a reduction in ~~reliance on~~ private bank credit, ~~where necessary, is accomplished in a manner consistent with smooth and orderly adjustment of the domestic economies of the debtor countries.~~ The Committee emphasized the necessity, ~~in the current difficult situation,~~ of maintaining and increasing financial flows to developing countries, from official source, both bilateral and multilateral, and noted the importance

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to reverse negative

reduction
sharp
availability of

It also
** useful notes*
the reverse but problems faced by the need minimum
development countries over the next several months

The committee stressed...

for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the efforts of the Bank and the Fund in cooperation to increase their assistance provided to member countries in the areas of external debt statistics and debt management.

12. The Committee encouraged the Bank and the Fund to keep this important matter under review while continuing to pursue constructive and pragmatic solutions to issues of indebtedness in order to safeguard the orderly relationship between creditors and debtors that is required to foster and support the growth momentum and prospects of the developing countries. In this context, the Committee noted the importance of maintaining net flows of concessional assistance to poor countries until they are in a position to absorb non-concessional flows; the World Bank staff, in collaboration with OECD and OPEC was asked to study this problem and suggest for Committee consideration specific ways and means for attaining this objective.

13. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed 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

the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee further urged that the Bank and the Fund ^{in continued demand} ~~seek the collaboration of the GATT, UNCTAD, and others in establishing~~ ^{OTHER MULTILATERAL INSTITUTIONS} ~~an inter-agency staff group which would examine the intimate links between capital flows, trade and development issues. The group should make specific proposals at future sessions of the Committee, including the modalities for monitoring an initial freeze on protectionism and a phased program for rolling back protective barriers.~~ ^{prepare to present to & keep the development committee}

13 14. The Committee noted that since its Toronto meeting the Bank has introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank. ★

14 15. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which

will take into account the recent development and future prospects in this area.

16. [A paragraph or two might be added on future work of the Committee in light of the discussion of the subject by the Members at lunch/dinner.]

15. 17. The Committee agreed to hold its next meeting in Washington, D.C. on September 26 at the time of the Annual Meetings of the Bank and the Fund.

Management of the

How to make the
Committee
more effective
over a 2 year
period
discuss!

list in discussion of Interim Committee!
Role of Bank
Strategy of the Bank

Look at the
current organization
of the committee.

STATEMENT TO THE PRESS

By H.E. Ghulam Ishaq Khan, Chairman, Development Committee

Washington D.C. April 29, 1983

I would like to welcome you to the meeting. You have before you the Communique approved by the Ministers. Mr. Clausen, Mr. ^{Manuel Guitian} de Larosiere, and I will be very glad to respond to any questions you may have. Permit me first to draw your attention to a few significant points.

We ^{met} ~~are meeting~~ at a time of severe difficulties for the global economy. It has, therefore, been especially heartening to see how constructive and indeed substantive our deliberations have been. Progress has been made here on numerous fronts.

This was the first meeting of the Development Committee to take place ^{separately} ~~apart~~ from a meeting of the Interim Committee and there was some concern as to whether it would attract strong attendance and be able to address important issues in an effective manner. It has been a success and I am most gratified to the response given by member governments. The Development Committee can now look forward to playing a more important role.

The Committee will develop a continuity in its deliberations, building up a work programme spanning successive sessions. In this way the Committee will give due recognition to the fact that the issues on our agenda need continuing, not occasional attention. There was full support among ministers for the Committee to move in this direction.

The Committee, therefore, as is evident from the communique, will be playing an active role in the areas of those critical linkages between trade, debt and capital flows. I would in this regard also draw your attention to paragraph 12 of the communique and the need, as stated there, for closer

collaboration between the IMF, the World Bank and the GATT, as well as ~~closer~~ ~~collaboration~~ with other international agencies.

This was the first time that the Committee considered a substantive, comprehensive agenda which recognizes the important linkages that I have just spoken of. I must say that it is with satisfaction that I can report how aware all the participants in the meeting are of the severe problems that confront the poorest nations and how strong the awareness is that the world recession has had a particularly harsh impact on non-oil developing countries.

A number of specific issues concerning the World Bank featured most prominently in our discussions. The Committee, as you will note in the Communique, stressed in particular the very vital need for a swift completion of IDA 6, full ^{discharge} completion by the United States of its obligations under IDA 6 and early completion of negotiations on IDA 7. May I say that one speaker after another noted the importance of IDA - the crucial importance of IDA. The views of all ministers are clearly reflected in paragraph 9 of the communique.

The issue of expanding the lending programmes of the World Bank was of central concern. There has been strong support for the Special Action Programme. The Committee has asked the Bank to put forward ^{by the time of the next meeting of the Committee} proposals for an expansion of lending and for a specific proposal for a selective capital increase. The World Bank needs to be equipped to ensure that it can expand its lending programmes.

As you read the Communique I think you will find that some clear decisions have been reached, that some clear understandings on important issues have been forged and that the base has been set for the Development Committee to move ahead with a meaningful work programme. This meeting has, therefore, played a part in helping to resolve some of the grave economic difficulties that

we all confront. The series of important meetings that follow this year -- at OECD, at Williamsburg, and UNCTAD and then at the Annual Meetings of the Bank and the Fund -- will, I hope, be further advanced as a result of our work these past two days.

We will be happy to take your questions now.

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Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date April 18, 1983	Document Type Memorandum			
Correspondents / Participants To: Mr. A.W. Clausen; Mr. J. de Larosière From: Hans E. Kastoft				
Subject / Title Development Committee				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date February 25, 2019</td></tr></table>	Withdrawn by Shiri Alon	Date February 25, 2019
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DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES



1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 477-1234

April 29, 1983

PRESS COMMUNIQUE

1. The Development Committee held its twenty-first meeting in Washington, D.C. on April 28-29, 1983, under the chairmanship of H.E. Ghulam Ishaq Khan, Minister for Finance, Commerce, and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosiere, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.
2. The Committee was provided with a brief updated version of the World Economic Outlook circulated at the February meeting of the Interim Committee; this updated version constituted a general background document for its deliberations.
3. The Committee noted with deep concern that the world economic situation had remained very difficult since it had last met in September in Toronto, Canada. The protracted world recession now in its fourth consecutive year has exacted its toll from both rich and poor countries, but its impact has been particularly harsh on non-oil developing countries whose short- and medium-term prospects remain uncertain. World trade declined dramatically in 1982; in this decline the developing countries accounted for a disproportionate share; in 1982 non-oil commodity prices reached their lowest levels in 30 years; and export earnings of developing countries are not yet showing much sign of growth. The situation is further aggravated by declining ODA in real terms, a slowdown in private capital flows and the mounting burden of debt. The level of unemployment is unacceptably high and, apart from its social and political impacts, tends to strengthen trends and pressures in favor of protectionist policies and practices. The growth rates have declined in both industrial and non-oil developing countries and in the latter group are now the lowest on record in several decades with declining real per capita income in many of them.

4. The economic problems of the developing countries were noted in the the Economic Declaration of the Non-Aligned Summit held at New Delhi and the Fifth Ministerial Meeting of the Group of 77 held at Buenos Aires, and will receive further attention at the OECD meeting in Paris, at the forthcoming Williamsburg Summit and at the Sixth Session of the United Nations Conference on Trade and Development.

5. There have, however, in the recent past been some welcome trends: inflation rates have come down, particularly in some of the larger industrial economies; interest rates have been on the decline although they remain high in real terms; also oil prices have fallen; at the same time, some commodity prices have started to rise. All these factors play an important role in the economies of all countries. Furthermore, the beginning of economic recovery in some of the industrial countries will, if sustained and strengthened, be of great significance. The Committee emphasized the need for industrial countries to pursue policies to promote sustainable and noninflationary growth.

6. It was against this background that the Committee deliberated at some length on a few selected topics and measures which, if adopted, will help contribute to a resolution of the difficulties which economies of the industrial and developing countries face at present.

7. In this context, the Committee, taking into account changes in the global demand and supply for external capital, first addressed itself to the need for reviewing the lending programs of multilateral development institutions (MDIs) in the period ahead and examining the consequent implications for their capital requirements. This review was in pursuance of the Committee's earlier exhortations at the two previous meetings urging the World Bank and other MDIs to continue their study of the scope for expansion in real terms of their lending to developing countries. Taking into account the great importance of maintaining and increasing external financial flows to the developing countries, the Committee noted with satisfaction the recent approval by the Bank's Board of Executive Directors of a Special Assistance Program designed to be responsive to the current financial requirements of these countries. The Committee invited the Bank to put forward proposals which would, with due regard to financial prudence, allow an expansion of the Bank's lending program. The Committee noted the Bank management's intention to propose an expansion by 5 per cent per annum in real terms beginning in 1985. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following and in line with the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

8. On the basis of material provided by the regional banks and IFAD, the Committee took note of their resource needs and urged member governments to take steps to meet the pledges already made. The Committee felt that member governments should seek means of financing the requirements of both ordinary capital and the replenishment of concessional funds for these institutions in order to enable them to continue to play their important role in the development efforts of their member countries.

9. Recognizing that the poorest countries had been most affected by the global recession, the Committee reiterated its concerns about the crucial importance of IDA in financing the development programs of low-income developing countries. Delays in the availability of IDA-6 commitment authority, its subsequent stretching out to four years and the resultant reduction in intended annual IDA commitments, particularly during the present prolonged global recession, have already had a serious impact on the low-income developing countries, especially in the poorest nations in Sub-Saharan Africa and other regions; coupled with reductions in overall ODA flows in real terms, this requires the maintenance of concessional assistance at reasonable levels in the face of expanded needs. The Committee therefore urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences for safeguarding future levels of concessional assistance.

10. In a related view, the Committee noted that the extremely serious economic predicament of the poorest developing countries required a major effort on the part of donor governments to ensure that the Seventh Replenishment of the Association's resources (IDA-7) takes account of the need to accommodate an expanded recipient community and the desirability of reversing negative growth rates in IDA's most distressed borrowing countries. The Committee urged, therefore, that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984, and thus avoid another funding gap from arising.

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It also noted the importance for borrowing countries of monitoring their external indebtedness carefully and maintaining sound economic and debt management policies and also welcomed the joint efforts of the Bank and the Fund to increase their assistance provided to member countries in the areas of external debt statistics and debt management. The Committee encouraged the Bank and the Fund to keep the important matter of the net capital flows to developing countries under review.

12. A subject of increasing importance which attracted the Committee's attention related to the linkages between trade and development. The Committee recognized the interdependence of the world economies and found that global economic recovery was critically important for increasing the foreign exchange earnings of developing countries. The expansion of world trade has made and can continue to make an important contribution to the economic growth and development of both industrial and developing countries. In this connection, the Committee welcomed 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 the developing countries. The Committee urged both institutions to collaborate with the GATT in keeping under careful review, in the areas of their competence, the progress made, including inter alia the dismantling of barriers. It also called upon governments to resist protectionist pressures and to step up their efforts, both at the national level and in the relevant international fora, to liberalize trade, urging in particular that governments of industrial countries refrain from introducing restrictions or negotiating agreements which would limit their imports from developing countries. The Committee urged the Bank and the Fund, in continued collaboration with other agencies, to pursue their examination further in the areas of their competence on the linkages between capital flows, trade and development, and to keep the Committee informed of the results of these examinations.

13. The Committee noted that since its Toronto meeting the Bank has introduced a set of new co-financing instruments designed to increase the participation of commercial banks in World Bank projects. The new pattern of participation is intended to provide developing country borrowers with new benefits like longer maturities and increased financial flows. The Committee also noted with satisfaction co-financing arrangements entered into by the Bank with official lenders. This will be of special significance to low-income borrowing members of the Bank.

14. The Committee briefly discussed the subject of lending for energy development. A full consideration of the subject was, however, deferred until receipt of a comprehensive study under preparation by the Bank which will take into account the recent developments and future prospects in this area. A report on this subject will be submitted to the next meeting of the Committee.

15. The Committee agreed to hold its next meeting in Washington, D.C. on September 26, 1983, at the time of the Annual Meetings of the Bank and the Fund.

April 28, 1983

OPENING REMARKS
BY
THE CHAIRMAN
OF
THE DEVELOPMENT COMMITTEE

1. I would like to greet and welcome all of you, particularly the new Members. I look forward to your active participation in the deliberations of the Committee. This is the 21st meeting of the Development Committee. But it is the first international meeting being held in this striking new building of the International Monetary Fund. Let me hope that we make a new auspicious beginning and achieve concrete results.

2. The world economic situation imparts a sense of urgency to our deliberations. The prolonged world recession with the cruel sacrifices it imposes all around is now in its fourth consecutive year and surpasses in its sweep anything we have known in the last 40 years. World trade is declining and the trade figures today show no improvement over those reached in 1979. The level of unemployment is unbearably high and tends to destabilize the social fabrics of all societies.

3. There are increasing pressures in favour of protectionism; net assistance has been declining; private net capital flows to developing countries have virtually dried up and the debt burden has become serious for many countries. The decline in world trade has hurt the developing countries more than proportionately. It is hardly surprising that in this climate, the development prospects for the low income developing countries have suffered a serious setback. For non-oil developing countries as a group, real GDP growth is estimated at an average of 2 per cent per annum for 1982 and 1983. Real income per capita has ceased to record any growth for the majority of poor countries and has started declining for a significant number. Africa has experienced negative per capita growth for the fourth year in succession. Latin America also recorded a negative growth rate in per capita income this year. Slowdown is occurring in East and South West Asia.

4. World economic recovery has been forecast many times in the past but it has proved to be illusory. The current expectation is for a mild recovery in 1983. After years of adversity, there is perhaps now an opportunity to initiate policies which would sustain and strengthen recovery by taking care of the weak elements in the world community. Drawing lessons from the past, we may suggest measures which would encourage steady increase in the flow of capital resources to the developing countries commensurate with their needs.

5. The Development Committee with its compact size, its representative character at a decision making level, its business-like approach, and enjoying the support and direct involvement of the two major

and prestigious institutions in the field provides a forum where real progress can be achieved. The Committee can provide effective guidelines for action programs which would balance the interests of the developed and the developing countries.

6. There is a global concern on issues which form our Agenda. This concern is no longer confined to specialists, as these issues touch deeply the lives of the people around the globe. These concerns found a concrete expression in the economic declarations of the Non-Aligned Summit held recently at Delhi and the Fifth Ministerial Meeting of the Group of Seventy-Seven held at Buenos Aires. At these meetings cognizance was taken of the inequities and shortcomings, such as the wide and erratic fluctuations in exchange rates, lack of symmetry in surveillance mechanisms, and failure to increase international liquidity in line with the growth in world trade, which mar the functioning of the existing system. Accordingly, proposals were made for the convening of a new Bretton Woods type conference on money and finance. Meanwhile, the existing institutions have an obvious obligation to demonstrate their responsiveness to the newly emerging problems and show tangible results. Here the Development Committee can play a decisive role.

7. The Committee must, however, seek agreement based on the political will of its Members. My effort would be that the Committee should continuously explore ways in which the area of agreement can be enlarged and new common ground discovered. I suggest that in our informal meetings, we pursue the subject of the Committee's effectiveness, its future role and its work programme in the period ahead. The future work

programme of the Committee is one of the items on our agenda for which no paper has been circulated; this will permit a free, frank and informal exchange of views among the Members on the basis of which proposals can be prepared and pursued. I shall have a few ideas to suggest for our future work when we take up this item for discussion.

8. For our present meeting and the immediate period ahead, the agenda identifies three areas which deserve serious and urgent attention.

9. The most significant issue before us relates to the practical arrangements which are essential for maintaining capital flows -- commercial as well as non-commercial -- at levels commensurate with the needs of the developing countries. Non-concessional flows that increased at the rate of 22 per cent per annum during 1970-80 in nominal terms, turned negative in 1982. The countries that received large amounts of commercial capital flows in the seventies still remain inherently creditworthy and capable of productively utilising funds obtained from outside. Their short-term liquidity crisis should not be confused with economic non-viability. The intermediation by multilateral development institutions between the market and the borrowing countries is of crucial significance; these institutions have already demonstrated their capability to play an effective role in this area but they need to be strengthened further to meet the challenge of the future. A decision has already been taken with regard to the increase in the Fund quota. I suggest that the Committee seriously consider endorsing a real increase of 5 per cent per annum in the IBRD's lending program. For this purpose, the Committee should urge the management of the Bank to present in time for consideration

by the next Committee meeting, a specific proposal to the Board of Executive Directors for a substantial selective capital increase, in accordance with past policy and practice of the Bank, following the Eighth General Review of Quotas in the Fund.

10. We have to be concerned also with the problem created by a sharp decline in international liquidity which has occurred precisely at the time the global economy needs financial resources for expansion. The squeeze in liquidity, virtual disappearance of OPEC capital surpluses and the need for the developing countries to refinance the short term debt they hold with commercial banks, will put pressure, once again, on interest rates. In this connection, the Committee may wish to support the view expressed by the G-24 Ministers yesterday in favor of a sizeable allocation of SDRs in the Fourth Basic Period. Although this item is not on the agenda, I hope we will have time, during our informal meetings, to touch upon it.

11. The countries that need concessional flows are those that have been most badly hurt during the current recession. There has been a cumulative loss of 35 per cent in their terms of trade since 1980. Translated in terms of the loss of income, this has offset the growth in per capita income for a number of years. IDA has been the most effective source of concessional assistance. It has made a remarkable contribution to the development effort of the weaker members of the world community. Its terms of assistance are appropriate for the countries to which it lends. The recent IDA Retrospective Study has shown that credits have been effectively utilised by the borrowers. It is unfortunate that IDA is currently facing difficulties in maintaining the level of its lending operations. We should aim at the completion of IDA-VI funding before the

end of financial year 1984 to avoid a disruption in the lending program of the Association. It is equally essential that donors agree on contributing to an IDA-VII larger in real terms than the negotiated IDA-VI and that negotiations to that effect are completed as early as possible in time to make it effective no later than July 1, 1984.

12. The debt question is the logical extension of the problem of capital transfers. A fresh approach to the debt problem is required. Non-concessional lending by the market and Multilateral Development Banks should be combined in a manner that net transfers are maintained at an appropriate level and that debt servicing capability of the developing countries is not eroded.

13. The debt problem of the low income developing countries relying substantially on concessional flows is significantly different in character. The concessional assistance represents a partnership suggestive of a moral obligation to eradicate poverty and mutuality of interests. When the increase in debt servicing reaches a point where a major part of the fresh aid commitments just suffices to maintain the servicing of the past debt, the relationship is clearly not functioning along the lines originally envisaged. This should not be viewed as a debt problem in its classical sense. It is essentially the problem of maintaining an adequate net flow for the required length of time after which a country can be graduated to absorb non-concessional flows. The Committee may wish to consider requesting a study from The World Bank staff in collaboration with OECD and OPEC to identify specific ways and means for attaining this objective.

14. This is the first time the Development Committee has decided to take up the issue of linkage between trade and development. This demonstrates our common worry regarding growing protectionism in the world. There is a visible asymmetry in the economic relations between developed and developing countries. According to the latest trade data from the GATT, well over one-half of the \$ 130 billion decline in the world trade during 1982, was borne by the developing countries, although they account for only a quarter of the world trade. Studies have shown that developing countries have lost more as a result of denied trading opportunities -- possibly as much as \$ 30 billion a year -- than they receive in the form of concessional assistance. Debt repayment potential is also closely linked with expanding trading opportunities.

15. Specific proposals in this field can only be implemented by the relevant international institutions. We should, however, analyze the trade situation within a development perspective. It may be useful, for instance, if an inter-agency group composed of the staffs of the World Bank, IMF, GATT and UNCTAD is established to examine the intimate link between capital flows, trade flows and development issues and to report some specific proposals for the consideration of this Committee at a later meeting, including the modalities for monitoring an initial freeze on protection and a phased program for rolling back protective barriers.

16. Energy and its crushing cost to the developing countries is another subject which needs our continued attention. The recent decrease in oil prices will provide some welcome relief but over the longer run the prices will continue to reflect scarcity of energy resources. We cannot

afford, therefore, to be complacent. There is a good case that the difference between the old and the new prices -- or at least a portion of it -- be devoted to the development of energy wherever prospects may exist in developing countries. We should consider setting up arrangements encompassing participation by Governments, private banks and suppliers of equipment for financing the capital-intensive and technologically complex projects in the energy sector. I trust the study in preparation by the Bank will take account of the recent developments and future prospects in this area to enable us to take up this subject comprehensively at our next meeting.

17. As is customary, we will have a draft press communique reflecting our discussions based on the annotated agenda for the meeting. It should be possible to distribute the draft to the members in the afternoon, well in advance of its discussion at our dinner.

18. The format and structuring of the discussion in the meeting will follow the past pattern but this, again, is one of the subjects which we need to take up at our informal meetings.

19. After these opening remarks, may I suggest that we turn our attention to the agenda. I propose that we discuss it on the basis of the annotated agenda which highlights some key issues arising from various individual papers prepared and circulated for the meeting. However, before we proceed to the list of speakers, I am sure you would like me to request Mr. De Larosiere and Mr. Clausen to address the meeting.

Anticipated Attendance
April 27, 1983

Development Committee
April 28 - 29, 1983

<u>Member</u>	<u>Associates</u>
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Note: As set forth in IBRD Governors Resolution 294 and IMF Governors Resolution 29-9, October 2, 1974, only seven Associates from one constituency may be present in the meeting at any one time.

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March 8, 1983

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Review of IBRD Lending Plans and Capital Requirements

Section 1: Introduction

1. During the discussion last July of the operating programs and budgets for FY83 a number of Executive Directors called for a review of the IBRD lending plans for the FY82-86 period. Management was requested to re-examine IBRD lending plans in light of the changed circumstances of recent years, taking into account both potential increases in demand and changes in the supply of external capital.

2. Over the past few months a country-by-country review of IBRD country assistance programs has been completed. A principal conclusion of that review was the need to re-orient the FY83 and FY84 programs along the lines described in the recent memorandum on the Program of Special Assistance.^{1/} As noted in that memorandum, our present assessment is that the Program can be accommodated within the Bank's planned commitment level for FY83 (\$11.2 billion) and probably also in FY84 (\$11.9 billion), though there is greater uncertainty about the latter year and some modest increase (on the order of \$500 million) could prove desirable.

3. For the years after FY84, this same country-by-country review has led us to the conclusion that the current planning assumptions fall short of what the Bank can and should do to assist borrowers during FY85, FY86 and (what is now the fifth year of our rolling five-year planning horizon) FY87. At an informal seminar on January 27, 1983, the following modified planning assumptions were put forward:

	<u>IBRD Commitments, FY82-87</u>						<u>Totals a/</u>	
	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY82-86</u>	<u>FY83-87</u>
Recommended Program	10.3*	11.2	11.9- 12.6	12.9- 13.6	14.8	16.4	61.8	67.9
FY83 Budget	10.3*	11.2	11.9	12.9	13.6		60.0	

a/ Mid-points of the ranges have been used in calculating the total.

* Actual. FY82-86 total in FY83 Budget assumed a figure of \$10.4 billion.

^{1/} World Bank Program of Special Assistance to Member Countries, 1983-84, R83-22 dated January 28, 1983.

As was emphasized at the seminar, the revised planning assumptions are being put forward as a basis for discussion. Given the importance of the FY82-86 planning assumption to many member governments, Management agreed last July that any significant upward revision in this assumption would be brought to the Board for discussion and would be incorporated in formal proposals only if it received broad support. This memorandum is intended to form the basis for that discussion. The coverage is as follows:

- Section 2 reviews the history of the IBRD planning assumptions used for FY82-86 and explains the main factors which underlie the suggested increase in planning assumptions for FY85-87.
- Section 3 then examines the implications of the recommended planning assumptions for the Bank's capital requirements.
- Finally, in Section 4, a plan for future Board action on IBRD lending plans and capital requirements is presented for consideration.

4. Following discussion of the recommended planning assumptions and their implication for capital requirements, they will be incorporated in the FY84 operating programs and budgets to be submitted for Board approval in June.

Section 2: IBRD Lending Plans

Evolution of Current Plans

5. The current planning assumptions for IBRD lending in FY82-86 may be traced back to informal discussions which took place in the Bank during 1977 and 1978 in connection with the negotiations for a General Capital Increase. One of the key issues in those negotiations was the rate of growth of IBRD commitments which ought to be used for planning purposes. A memorandum entitled Future Role of the World Bank and its Associated Capital Requirements^{2/}, submitted to the Executive Directors in early 1977, contained an extensive analysis of the factors affecting the appropriate rate of growth for the Bank. While that memorandum did not reach firm conclusions, primary attention was devoted to real growth rates in the range of 5% to 7%.

6. In informal discussions of this memorandum, a number of Executive Directors advocated a real growth rate of 7% to 9%, whereas others suggested that a growth rate below 5% would be appropriate. The

^{2/} R77-18 dated February 1, 1977.

significance of alternative growth rate assumptions for the sectoral distribution of lending and for the distribution of IBRD/IDA commitments among country income groups was discussed.^{3/} In addition, the Bank's role in the overall transfer of resources to the developing countries and its non-financial contribution to development policy issues were emphasized. While the informal discussions resulted in some convergence of views on the use of a 12% nominal growth rate assumption, there was no agreement on a particular figure. In practice, Management proposals for future IBRD lending assumed real growth at 5% given the inflation assumptions then in use (which corresponded to a nominal growth rate of 12% per annum).

7. The subject of longer-term planning assumptions was taken up once again in early 1981. The IBRD lending plans used in that review are shown in the table below. They were essentially an extrapolation of plans that had been put forward in 1977. The 1981 review emphasized the changes in the environment which had occurred over the preceding four years--changes which had resulted in the external financing requirements of the oil-importing developing countries rising much more rapidly than had been expected. Particular attention was drawn to the increased need for structural adjustment and energy lending, as well as to the potential demands associated with the change in representation of China.

IBRD Lending Plans, FY82-86
(\$ billion)

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>Total FY82-86</u>
FY83 Budget	10.4	11.2	11.9	12.9	13.6	60.0
1981 Review: Scenario A ^{a/}	9.6	10.4	11.9	13.2	14.6	60.0

a/ Scenarios B and C envisaged more rapid expansion in IBRD lending.

8. In view of major unresolved issues about how an expanded IBRD lending program would be financed, and about the need for such an expansion, no consensus was reached on a modified lending program for the FY82-86 period. Subsequently, a special adjustment to the FY82 program (from \$9.6 billion to \$10.4 billion) was proposed in order to help moderate the adverse impact of a shortfall in IDA commitment authority in FY82. This change, together with a \$500 million increase in the FY83 program (from \$10.7 billion to \$11.2 billion) were accepted as a "drawing forward" of the IBRD lending planned for later in the FY82-86 period. The planning figures for FY85 and FY86 were reduced correspondingly.

3/ Several Technical Notes prepared on these subjects were issued in a revised form on December 27, 1977.

Review of Current Plans

9. It was against this background that a number of Executive Directors requested a review of the IBRD lending plans for the remainder of the FY82-86 period. This review was approached on a country-by-country basis. Individual country assistance programs were re-examined both from the point of view of what types of assistance could be especially helpful in the near-term and from the point of view of the levels of IBRD lending that would be appropriate once the world economy begins to recover (hopefully within the next 12-24 months).

10. The current situation of borrowing countries and the types of assistance which seem desirable in the near-term have been set forth in the World Bank Program of Special Assistance to Member Countries, 1983-84. The implications of the Program for overall IBRD commitment levels in FY83 and FY84 is likely to be minimal. For FY83 the current plan of \$11.2 billion continues to be appropriate. For FY84 there is more uncertainty because the results of the reordering of investment priorities in many of our main borrowers are not yet known and the scope for policy oriented lending at the sector or macro-economic level not yet clearly defined. However, our initial assessment is that a range of \$12.9 to \$13.6 billion would be appropriate for our lending program, including the Special Assistance Program component. A more precise estimate will be put forward in the FY84 Budget and Operating Program.

11. For the years after FY84, the aggregate IBRD lending plan is similarly based on country-specific assistance programs, but there is obviously greater uncertainty about the precise characteristics of the program in individual countries and correspondingly greater flexibility in adjusting the program to take account of changing country requirements. Our review of these requirements on a country-by-country basis has led us to the conclusion that the current planning assumptions for FY85 and FY86 fall short of what the Bank can and should do to assist borrowers in these years.

12. This is hardly a surprising conclusion in view of the fact that the current planning assumptions imply a stagnation in the real level of IBRD lending and possibly even some decline, depending upon what happens to inflation rates in the years ahead. Stagnation or decline in real assistance levels is not consistent with the environment which we anticipate (and should in any event be prepared for) in FY85-87. Given the deferral of development investment (including the projects currently in the FY83 and FY84 Bank programs that are assumed to be deferred), any significant recovery in the world economy should provide unusually promising opportunities for Bank support of investment efforts of borrowing countries. The pressures on current lending plans are further exacerbated by the need to accommodate a growing lending program for China, the introduction of new programs in some countries such as Zimbabwe, and the

possible resumption of lending to Lebanon. The needs of countries approaching the graduation benchmark (cf. para. 20 below) are also much higher than anticipated when the current lending plans were formulated. Moreover, under the pressure of current difficulties, policy reforms that were previously unattainable are likely to become reality in some cases and, where this occurs, it will be important for the Bank to be in a position to support and help assure successful implementation of such changes.

13. These positive factors on the side of demand for assistance, both quantitative and qualitative, are reinforced by the outlook for the availability of funds. The rather bleak prospects for concessional assistance are well known. Already existing constraints on IDA resources, for example, have resulted in a phasing out of IDA assistance to several very low income countries and have forced a harder than desirable blend of IBRD and IDA assistance in others. The effect of this has been to put added pressure on future IBRD lending plans. For example, the combined current IBRD lending plans for Egypt and Cameroon (recent graduates from IDA) are now roughly \$250 million per annum higher than was planned as recently as two years ago. The combined increases for some of the larger blend countries (e.g., India; Pakistan) have been even larger. These pressures are unlikely to diminish in the FY85-87 period and could well intensify.

14. The outlook for commercial bank lending is also less favorable than was assumed when previous Bank lending plans were formulated. The present planning assumptions were put forward in the context of a prospective expansion of commercial bank lending. In the final quarter of 1982 there appears to have been negative net lending by the commercial banks to the developing countries. The near-term prospects are for some increase in net lending, but at a much slower rate than has been customary in the past. While the Bank cannot, and should not, attempt to substitute for commercial flows, neither can it ignore the overall external financing prospects faced by borrowers or the total availability of financing for investments. The Bank's efforts in the co-financing area are designed to strengthen the complementarity between Bank lending and commercial bank lending. Given the experiences of recent months, however, the co-financing efforts will be very successful if they help restore the growth of commercial bank lending to developing countries to a rate which is substantially slower than has been customary in recent years.

15. In the light of these considerations the revised planning assumptions suggested for FY85-87 (shown in the table below) may appear modest. Indeed they are modest in relation to what could be proposed if the external environment were more favorable or if there were not internal constraints based upon established policies and practices. The key environmental factors are those related to creditworthiness, the policy framework in borrowing countries, and a sense of what may be broadly

acceptable to member countries. The main internal constraints are those that follow from our graduation policy, including the nominal limits on lending to countries that are approaching the benchmark level, and from our assessment of what diversification rules should apply to the Bank's own portfolio of outstanding loans.

Revised IBRD Planning Assumptions, 1985-87
(\$ billion)

	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>
<u>Current Dollar</u>			
Recommended Now	12.9-13.6	14.8	16.4
FY83 Budget	12.9	13.6	n.a.
1981 Review	13.2	14.6	n.a.
<u>Constant FY83 \$</u>			
Recommended Now	11.4-12.0	12.3	12.9
FY83 Budget	11.4	11.3	n.a.
1981 Review	11.6	12.1	n.a.

16. The Bank's country creditworthiness assessments have had to take account of the deterioration in the markets for developing country exports, and of the less favorable prospects for private (and concessional) capital flows. This has resulted in the phasing down or phasing out of IBRD lending in some countries. It has also, of course, prompted the intensified efforts of an advisory sort that are cited in the memorandum describing the Program of Special Assistance (esp. para. 42). Our role is not one of passively accepting the deterioration in creditworthiness, but rather one of seeking--to the extent possible--to offset it through encouragement and support of policy improvements.

17. It is always difficult to anticipate the policy environment that will prevail in particular countries in the years ahead. The aggregate planning assumption allows for a balance between countries where progress is substantial--and increased lending can support positive change--and countries where this is not the case or where the policy environment may call for a reduction in lending plans. It is especially difficult to anticipate how the extreme financial pressures now being experienced by many borrowing countries will affect this balance.

18. There are some indications that these pressures may in fact lead to the balance being tipped in the direction of constructive policy change. This has already happened in a number of "pure" IDA countries, thereby creating numerous situations in which countries seek support for

actions that have long been advocated by IDA and where IDA's response capacity is either very limited or indeed non-existent. In IDA's case the response capacity is a function of resources supplied by donors. In the case of the Bank, the response capacity is not so dependent on government action, at least not on actions involving budgetary outlays.

19. The IBRD planning assumption--which will form the basis for the Bank's response capacity in the mid-1980s--makes only a modest allowance for a shift in balance toward a more favorable policy environment in borrowing countries. This is one of the many reasons why these planning assumptions need to be kept under review. The review planned for the end of calendar 1983 should provide a convenient opportunity to reassess how borrowing countries are reacting to the current difficult environment.

20. Turning to the internal constraints, the Bank's policy on graduation--last reviewed in January 1982--provides for the formulation of a phase-out program when a borrowing country's per capita income reaches the equivalent of \$2,650 in 1980 dollars. Even before this benchmark is reached, Bank lending to these countries has typically levelled off in nominal terms. The overall effect of this policy as presently applied is to hold down the share of Bank lending to higher income borrowing countries--a result which has been repeatedly endorsed by the Board. Were there to be a relaxation in how the policy is applied--even a temporary one--a higher level of lending could be recommended particularly in FY84 and FY85.

21. The Bank's portfolio diversification limits also constrain the volumes of lending proposed for FY83-87. While there is no doubt that creditworthiness considerations must be taken into account in formulating Bank lending plans--as required under the Bank's Articles^{4/}--the diversification limits on the Bank's loan portfolio reflect a judgment about how much risk it is appropriate for the Bank to bear. The judgment which underlies the proposed IBRD planning assumption for FY83-87 is that aggregate lending to the four largest prospective borrowers (Brazil, China, India, Indonesia) should not exceed about one-third of the total portfolio and that exposure in any single borrower should, in the long-run, be covered by the Bank's reserves (i.e., be less than 8% to 10% of total disbursed loans).^{5/} Were a different judgment applied, a higher set of planning assumptions for FY83-87 could be justified on country grounds.

^{4/} Article III, Section 4 requires that "in making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in a position to meet its obligations under the loan;"

^{5/} Review of IBRD Reserve Policy and Criteria for the Allocation of Net Income. R83-39, dated February 10, 1983.

22. For all these reasons, the growth envisaged in IBRD lending for FY85-87 is far less than what would be derived from an unconstrained assessment of borrower "needs" and prospective availability of public and private capital from other sources. It is recommended that these higher--albeit still constrained--IBRD lending assumptions be adopted for purposes of preparing the FY84 operating programs and budgets. The implications of this change for overall lending in the FY82-86 period, once cancellations are taken into account, is likely to be minimal: the increase (net of cancellations) will almost certainly be less than \$2 billion or about 3%. The more important effect is the response capacity created for the Bank in the FY85-87 period and the consequences that capacity may have for the Bank's role in that period as well as later in the decade.

Section 3. Capital Requirements

23. When the General Capital Increase was negotiated (in 1977 and 1978), it was expected that this increase would be sufficient to meet the capital requirements of the Bank for five or six years, or until the mid-1980s. While there was no formal agreement on this timing--just as there was no formal agreement on the rate of growth of Bank lending--it is clear that this expectation with respect to timing has considerable significance for some member countries. Recognizing this concern, this section reviews the current situation regarding Bank capital requirements and concludes that the lending levels recommended through FY85 can be implemented without prejudging either the size or other characteristics of the next General Capital Increase.

Assessing Capital Requirements

24. Past assessments of Bank capital requirements have identified three limits on the Bank's ability to make new commitments. The first is the only legally binding requirement--the requirement under Article III, Section 3 of the Bank's Articles of Agreement that loans disbursed and outstanding not exceed subscribed capital and reserves. The estimated date when this would occur is called the disbursement cut-off date. As the table below shows, this point will not be reached for several years even if commitment growth in the future is fairly rapid and subscribed capital is valued on a conservative basis. The table also shows a related estimate--the so-called commitment cut-off date--when new commitments must stop altogether to prevent subsequent disbursements on those commitments from exceeding the statutory limit. It is clear that the proposed planning assumptions through the mid-1980s are consistent with the limit set up in the Bank's Articles of Agreement.

Timing of Capital Requirements Based Upon the Articles

	Disbursement Authority		Commitment Authority	
	Cut-Off Date		Cut-Off Date	
	Current Planning Assumption	Recommended Planning Assumption	Current Planning Assumption	Recommended Planning Assumption
Commitment Growth After FY86/87 at 10% per Annum				
- Capital Value: \$120,635/share	FY91	FY91	FY90	FY89
- Capital Value: \$109,000/share <u>a/</u>	FY90	FY90	FY89	FY88

a/ SDR 100,000 per share at recent exchange rates. The value of the SDR has fluctuated in the range of \$1.06 to \$1.34 since 1977.

25. The second limit is a market constraint--the point at which investors begin to question the adequacy of Bank capital, and the Bank's ability to borrow the sums it requires on reasonable terms is jeopardized. This point is less readily quantifiable than the other limits on Bank lending. As noted in the recent memorandum on Review of IBRD Reserve Policy^{6/} creditors and rating agencies appear to take account of the full "package" of established Bank policies and actual financial performance in evaluating the strength of the Bank. Despite the fact that the coverage of Bank borrowings by security considered by the rating agencies to be top quality (i.e., liquid assets and callable capital of financially strong countries) will decline somewhat between now and FY86, the overall "package" should continue to preserve the Bank's standing in capital markets during this period.

6/ R83-39, dated February 10, 1983. See especially paragraphs 14-17.

Ratio of Relevant ^{a/} Callable Capital Plus Liquid Holdings
To Borrowing Outstanding

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
Recommended Planning Assumption <u>b/</u>	114	121	113	103	96
Current Planning Assumption <u>b/</u>	114	121	114	105	98

a/ 70% of total callable capital, reflecting share of Part I and capital surplus oil-exporting countries.

b/ Interest rate and other financial assumptions as shown in Review of IBRD Loan Charges, R83-38, dated February 10, 1983, Attachment 1.

26. A third limit is based upon a policy understanding reached in 1976 during negotiations for a Selective Capital Increase. At that time the Executive Directors approved a management recommendation that the levels of Bank operations be planned in a way that in the "absence of . . . a further [capital] increase, future adjustments of plans [should not be] so large as to substantially distort or disrupt operations."^{7/} The intention behind this policy is to avoid a situation in which member governments would either have to approve an increase in IBRD capital or accept a disruptive adjustment in IBRD operations.

27. The application of this policy in practice has required periodic calculations of what is called the "sustainable level of lending". This is defined as the level of IBRD lending to countries that can be sustained indefinitely (in nominal terms) without any further increase in Bank capital. This particular calculation has both practical and conceptual weaknesses that limit its usefulness except as a very rough benchmark. The practical weakness is that--as the table below shows--the calculation is quite sensitive to changes in exchange rates and other factors, and so can vary abruptly over time.

7/ Summary of Understandings Related to IBRD Operations and Financial Plans. SecM76-335, dated May 10, 1976.

Sustainable Level of IBRD Lending

	<u>Level of Lending</u> <u>(\$ billion)</u>	<u>Year Reached</u>
FY81 Budget	11.8 ^{a/}	FY84
FY82 Budget	14.6 ⁻	FY86
FY83 Budget	13.3 (14.2) ^{b/}	FY86 (FY87)
Latest Estimate	11.5 (12.9) ^{b/}	FY84 (FY85)

a/ Assumed annuity-type repayment terms.

b/ Figures in parentheses are based upon a valuation of \$120,635 per share rather than the (lower) SDR 100,000 per share. Attachment I explains the reasons for the changes which have occurred over the past several months.

28. The conceptual weakness arises because of ambiguity about what constitutes a "non-disruptive adjustment" in Bank lending operations. During the GCI negotiations, various definitions were discussed, ranging from no decrease in nominal terms to a decrease of 25% in nominal terms spread over four years. No decision was taken on which definition should apply. Moreover, the adjustment would not have to be confined to a reduction in future commitments. An alternative would be to tighten repayment terms on future commitments. If, for example, repayment terms were to be shortened by reducing average grace periods by six months and final maturities by one year, the level of commitments that could be sustained indefinitely rises (under the most recent calculations) from \$11.5 billion to \$12.3 billion.^{8/}

29. Thus, a good deal of judgment must be applied in assessing whether any particular plan for future lending is consistent with the understandings which guide operational and financial planning in the Bank. Our judgment is that the level of IBRD lending projected for FY85 under the recommended planning assumptions--\$13.6 billion--is consistent with these understandings. If there is no strengthening of the SDR vis-a-vis the U.S. dollar over the next few years and if there were to be no Selective Capital Increase following on the Eighth Review of IMF quotas. (para. 33), then the implementation of the recommended planning assumptions through FY85 would need to be followed by a tightening of repayment terms and a reduction of commitments after FY85. From an assumed level of \$13.6 billion in FY85, a reduction of 3.5% per annum for four years would suffice to adjust annual commitments to a level (\$11.7 billion) that could be

8/ All figures cited in the text assume that capital is valued at SDR 100,000 per share--the lower of the two valuation principles now in use. If the higher valuation were used (\$120,635 per share), the increase would be from \$12.9 billion to \$14.2 billion.

sustained indefinitely. An adjustment of this sort is certainly not an attractive prospect, but in our judgment it could be accomplished without a substantial distortion or disruption of operations.

30. Even more important than the question of whether this adjustment can appropriately be considered "non-disruptive" is the question of whether the risk involved is one that the Bank and its shareholders should be willing to assume. We believe that it is, both because the risk itself is small and because acceptance of the risk will permit the Bank to position itself for the role which it should be prepared to play in the FY85-87 period.

31. It should be emphasized that what is at issue here is the planning assumption to be used in the Bank's operational and financial programs. If the recommended higher planning assumption is used, then the staff and other resources needed to support the higher lending levels will be mobilized. Thus the higher lending capacity will be assured. If, for any reason, the decision is subsequently taken not to utilize that capacity in full, then the cost is simply one of having deployed resources and built up the lending pipeline prematurely. In terms of the budget submission for FY84, for example, the difference between the higher (recommended) planning assumption and the current one would be 25-35 man-years. If this staff and other resources are not mobilized, and the lending pipeline is not built up, then the possibility to enhance the Bank's capacity to assist borrowers in the mid-80s--at a time when opportunities for productive assistance may be especially attractive for the reason already stated--will have been either lost or much reduced.

Selective Capital Increase

32. The recommendation to proceed on the basis of higher planning assumptions also takes account of the prospects for a Selective Capital Increase (SCI) following the recent agreement in the Interim Committee to increase IMF quotas by just under 50%--from SDR 61 billion to SDR 90 billion, of which 60% has been allocated on a selective basis. If past precedents are applied, there would be the basis for considering a corresponding Selective Capital Increase in the Bank.

33. Estimates of the size of a Selective Capital Increase based upon past precedents are necessarily tentative--pending detailed analysis of how the IMF action would be used in determining selective increases in the Bank. If strict parallelism with the IMF should continue to apply and if we assume that the percentage increase in Bank capital authorized for the individual countries averages 28.4% (i.e., 60% of the overall increase of 47.4%), then an SCI of 195,000 shares (\$21 billion at recent exchange rates) could emerge. It is clear, however, that a mechanical application of the parallelism criteria would raise serious issues (e.g., affecting the rankings of countries) and that a pragmatic approach to dealing with the

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issues will be called for. An extensive process of consultations and discussions will be undertaken over the next few months to develop such an approach. With an SCI on the order of \$20 billion, the various calculations of the sustainable lending level would be increased by at least \$3 billion. In this case, therefore, the recommended planning assumptions could be implemented through FY85 on even the most conservative assumptions without risking a subsequent reduction of commitments in nominal terms. Indeed, it is likely that the higher planning assumption for FY86--\$14.8 billion--could be implemented with little, if any, risk of a subsequent reduction. Thus, the essential contribution of a Selective Capital Increase would be to avoid the risk of a downward adjustment in future Bank lending.

Section 4: Proposed Approach to Future IBRD Lending Levels and Capital Requirements

34. This review of IBRD lending plans and capital requirements suggests the following approach for dealing with these complex and interrelated issues:

- First, on the basis of this memorandum, we seek broad support for the revised planning assumptions shown in para. 3;
- Second, between now and the submission of the FY84 Budget memorandum, the range of planning assumptions shown for FY84 would be replaced with a specific estimate that takes account of consultations with borrowing countries;
- Third, we would use this period to initiate consultations with member countries regarding the modalities of a Selective Capital Increase. Subject to the outcome of these consultations, Management would plan on submitting, before the next Annual Meeting, a specific proposal for Board consideration; and
- Fourth, by the end of calendar 1983 there will be a review of the Program of Special Assistance. On the basis of this review the range of planning assumptions shown for FY85 would be replaced with a specific estimate for that year.

35. If this schedule is followed, the risks entailed in adopting the revised planning assumptions should be minimal. Prior to submission of the FY85 Budget memorandum another reading could be taken of the adequacy of Bank lending plans for FY85-87. At that point--that is, prior to approval of the FY85 program--there should be a clear understanding of the status of the Selective Capital Increase.

36. The recommended IBRD program for FY85 and FY86 would then proceed without prejudice to the size or characteristics of any further capital replenishment of the Bank. This period would then be an appropriate time to review in depth the role that member countries wish the Bank to play in the last half of this decade. That review--to be initiated in FY85--would in turn serve as the basis for discussion of the capital requirements for the Bank over the same period.

Attachment

Analysis of Changes in the Sustainable Level of Lending

The table below shows the effect on the sustainable level of lending from which have occurred since the FY83 Budget.

	Sustainable Level of Lending (\$ billion)			
	Share price SDR 100,000		Share Price USD 120,635	
	<u>Sust. Level</u>	<u>Change</u>	<u>Sust. Level</u>	<u>Change</u>
FY83 Budget	13.3	NA	14.2	NA
Allowing for expanded Loans to IFC	12.5	-0.8	13.2	-1.0
Change in Reserves projection	11.9	-0.6	12.5	-0.7
Other Changes	12.1	+0.2	12.9	+0.4
Effect of exchange rates changes on capital (from USD 1.14 per SDR to USD 1.09)	11.5	-0.6	12.9	NA

Loans to IFC: IFC's plans for expanded investments have added measurably to IBRD capital requirements. In the past, loans to IFC have not been large and they have not been a significant portion of the Bank's disbursed loans. Therefore, the fact that a loan to IFC counts just as heavily as any other loan in determining Bank capital requirements has not attracted much attention. In calculating the sustainable level it is necessary to project forward into the 1990's, a time when IFC's expansion plans make the levels of lending to it significant. Taking account of these loans to IFC, projected to be over \$5 billion disbursed and outstanding in the early years of the 1990's, has lowered the sustainable level of loans to countries by \$0.8-1.0 billion.

Projected reserves: The previous calculation of the sustainable level of lending was based on projections of reserves based on the fixed lending rate. With the new lending rate policy, the levels of annual net income that were previously projected for the latter part of the 1980s have been reduced. Accordingly, we have adjusted the projection of retained

earnings downward. This accounts for \$600-700 million of the reduction in the sustainable level.

Other changes: In addition, exchange rate developments have lowered the value of the present portfolio, increasing the Bank's capacity to make new commitments to countries. This has increased the sustainable level by up to \$200 million. Finally, the average repayment terms of loans committed are now slightly shorter than previously assumed. Modifying the assumption about future repayments to harmonize with actual developments has increased the sustainable level by another \$200 million.



Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date March 10, 1983	Document Type Memorandum			
Correspondents / Participants Development Committee				
Subject / Title Status and Funding of IDA				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date February 25, 2019</td></tr></table>	Withdrawn by Shiri Alon	Date February 25, 2019
Withdrawn by Shiri Alon	Date February 25, 2019			

SELECTIVE CAPITAL INCREASE

The Committee expressed its support for the Bank's revision of its current planning assumptions to allow for expanding the Bank's lending program in real terms over the next five years. In accordance with past policy and practice of the Bank, the Committee also urged the management of the Bank to present a specific proposal to the Board of Executive Directors for a selective capital increase following the Eighth General Review of Quotas in the Fund by the time of the next Committee meeting.

IDA VI

. As an essential step toward ameliorating this crisis, the Committee urged the United States to provide its full third payment of \$945 million in FY83 and to complete its IDA-6 contribution in FY84, recognizing that failure to do so would have serious consequences not only to safeguarding future levels of concessional assistance but for the viability of the multilateral system itself.

IDA VII

The Committee urged, therefore, that donors agree on contributing to an IDA-7 larger in real terms than IDA-6 and that IDA-7 negotiations be completed as early as possible to ensure that the Seventh Replenishment became effective no later than July 1, 1984 and thus avoided another funding gap from arising.



Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date September 14, 1983	Document Type Memorandum			
Correspondents / Participants To: The Honorable Ghulam Ishaq Khan From: A.W. Clausen				
Subject / Title Appointment of the Executive Secretary of the Development Committee				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date February 25, 2019</td></tr></table>	Withdrawn by Shiri Alon	Date February 25, 2019
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Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date September 14, 1983	Document Type Memorandum			
Correspondents / Participants To: Mr. A.W. Clausen From: Ibrahim F.I. Shihata, VPG				
Subject / Title Term of Office of the Executive Secretary of the Development Committee				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date [undated]	Document Type Letter			
Correspondents / Participants To: Mr. A.W. Clausen From: Marc Lalonde				
Subject / Title Position of Executive Secretary of the Development Committee				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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Record Removal Notice

File Title Development Committee Files - Correspondence 02		Barcode No. 1773825		
Document Date September 14, 1983	Document Type Memorandum			
Correspondents / Participants To: Mr. A.W. Clausen From: M.P. Benjenk				
Subject / Title Mr. Hans Kastoft				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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Correspondents / Participants To: The Honorable Ghulam Ishaq Khan From: A.W. Clausen				
Subject / Title Appointment of the Executive Secretary of the Development Committee				
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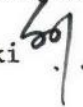
Record Removal Notice

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OFFICE MEMORANDUM


DATE September 20, 1983

TO Mr. Clausen
(through M. P. Benjenk)

FROM Shahid Javed Burki 

EXTENSION 72407

SUBJECT Visit of Development Committee Chairman
Finance Minister Ghulam Ishaq Khan



On Friday, September 23 at 11:30 a.m., Minister Khan and IMF Managing Director de Larosiere will meet with you in your office to discuss the upcoming Development Committee meeting. Other participants in the meeting include: Messrs. Dale and Palmer (IMF), Kastoft and Ahmad (Development Committee), and Benjenk and myself. Following this meeting you are also hosting a lunch for the same group (excluding Mr. de Larosiere who had a previous engagement) in your private dining room.

1. Substantive Priorities

You might wish to review briefly with the Chairman and the Managing Director your substantive priorities for this Development Committee session, bringing them up to date on the latest developments in each area.

(a) IDA - Note that the IDA Deputies are scheduled to meet on Saturday, September 24th; whatever is said at the Development Committee will need to reflect that discussion. You might also stress to the Chairman the influence informal comments by ministers can have on the views of members from the major donor countries, especially if the crucial impact of IDA on borrowers' adjustment and development prospects is stressed; the Chairman might encourage developing country ministers to speak more directly on this subject in the private sessions.

(b) SCI - Note that early agreement on the SCI is needed to realign members voting rights following the IMF quota increase, with the size of the future lending program linked to the separate GCI issue. You might indicate how close an SCI compromise is and the chance that the Development Committee will provide the occasion to reach final agreement. (Our conversation with Munzberg suggests that his government expects an agreement on the SCI might be reached in the Development Committee meeting at a level of about \$8 billion).

(c) Future Role of the Bank/GCI

- You might explain your intention that the Executive Directors discuss a paper early in CY1984 exploring the future role of the Bank and laying the groundwork for a GCI and a larger lending program.
- Ministerial encouragement for consideration of a larger role for the Bank in this context would be helpful. The subject should be on a future Development Committee agenda, probably in September 1984.

- (d) - IFC - Note your upcoming proposal for a \$750 million increase in IFC's capital.

2. Conduct of the September 26 Meeting.

Given the importance of enhancing the effectiveness of the Committee as a useful forum for considering critical development issues, the Troika should agree on the most appropriate procedures for the plenary session and the two meals. We suggest you make the following points, in addition to asking the Chairman and Managing Director for their views:

- (a) Ministers should be encouraged to keep their statements brief, hopefully completing all speeches in the morning session. This will permit a more relaxed and informal luncheon discussion.
- Note that your own statement will take less than 10 minutes, basically highlighting the Bank Group funding issues (noted above) on which discussion should focus.
 - Minister Khan might suggest to his colleagues at dinner the previous evening that the oral statements at the Plenary be short, with complete texts circulated and made part of the record.

ACTUALLY
ABOUT 6

- (b) The Communique or Chairman's Summary should be kept short and factual.
- One important step in moving toward a more effective, flexible Committee was the substitution of the President's Report for the Annotated Agenda.
 - A further step in the same direction is to reduce the size and scope of the Communique - or Chairman's Summary, depending on the wishes of Ministers. Instead of a long rhetorical document we propose - and most Executive Directors agree - that a brief statement be issued saying essentially that the Committee met and discussed the several topics noted above.
 - If agreement is reached on any subject (e.g., SCI) that can be stressed in a revised text. (A draft is attached).
 - This type of Communique could be approved quickly by Ministers at lunch, thereby freeing scarce time for informal discussion of the issues rather than haggling over words; ministers might also be more candid and direct in their comments if they did not fear each word would be used to make a point in the Communique.
 - The draft would have been discussed with several delegations before the meeting and shown again to a few before giving it to Ministers at the lunch, reflecting any changes emerging from the morning session. Final approval could occur at the afternoon Plenary Session.

- (c) Pre-Luncheon Caucus for Ministers and Executive Directors.
- At Sunday's dinner the Chairman might wish to ask Ministers if a short break between the morning session and lunch would be helpful to permit Ministers about 30 minutes to consult with their delegations, based on the morning's discussion. (This suggestion is a modification of a more radical proposal made by Mr. Phaichitr which would shorten the lunch discussion and bring Executive Directors together with Ministers for further discussion; this is intended to help multi-country constituencies, but we are reluctant to move away from the extended discussion of issues by ministers themselves).

3. Conduct of Dinner Session - September 25

Three major items are on the formal agenda for this session:

- (a) Future of the Committee. The paper prepared for the Committee (at Ministers' request) encourages continuation of the Committee with increased flexibility in procedures to enhance effectiveness. There seems to be little disagreement on these conclusions, and some of the approaches are being tested in this meeting. An open discussion of Ministers' views would be useful and should provide guidance on what further improvements are desired.
- (b) Future Work Program. Increased ministerial interest in the Committee may be engendered by having them help set the Agenda for future meetings. The Chairman should encourage such suggestions at the dinner session.
- As each meeting should probably have only one major topic, the March/April 1984 session might focus on the trade/development link (based on Bank/Fund/GATT papers) and the September 1984 meeting on the future role of the World Bank and its

resource needs, following a Board discussion in the Spring and further development of the case for the GCI.

- Other subjects which might arise include Bank/Fund Cooperation (given French and U.S. interest in having this on the Agenda at this meeting), Sub-Saharan Africa development issues, and others of which we are not yet aware.
- (c) Continuation/appointment of Development Committee Executive Secretary.

OFFICE MEMORANDUM

TO: Managing Committee

FROM: Ernest Stern, SVP, Operations

SUBJECT: Responsibility for the Development Committee

DATE: January 27, 1982

When it was established, I was assigned the responsibility for liaison with the Development Committee and the preparation of Bank papers and positions for the semi-annual meetings. I was asked to retain the function through several changes of assignment. I believe the time has now come to reconsider where this responsibility should be located.

Prospects are that the Development Committee will continue to be only a modestly effective forum for policy matters which will be handled substantively either in the Board or at the political level on a bilateral basis. The agenda for future work of the Committee is not large in volume and does not involve new policy issues. A number of status reports, such as on the progress of IDA commitments and negotiations of future IDAs, the Sub-Saharan Africa Report and energy lending, are regular features of the agenda.

The Committee has just completed a report on non-concessional capital flows, done by a subcommittee established for this purpose at the insistence of Mexico and chaired by it. The establishment of a Task Force on Concessional Flows is under consideration, with terms of reference designed to explore whether in the long term concessional flows can be made more automatic. This Task Force was proposed by the Nordic countries, the Netherlands, and Canada.

The workload in dealing with the Development Committee is not great, but it peaks twice a year about six weeks before the meetings. In the last several years, much of the attention has focussed on financial issues. On those matters, much of the work has been done in Finance (primarily the Financial Policy and Analysis Department). Similarly, it may be expected that the work of the Task Force on Concessional Flows will have to be supported by the Financial Complex.

The Development Committee, on occasion, provides a useful forum for the resolution of items not formally on its agenda, such as the PLO or maintenance of value.

Responsibility for the Committee could be assigned either to Finance or External Affairs. Even though a good deal of the support work would have to be done in other parts of the Bank, I would conclude, on the basis of my experience, that the best location would be in External Affairs. The reason is that the

after Helsinki

substantive work is only part of the task involved in liaison with the Development Committee. The other aspects involve contacts with high level officials of member countries, not limited to the Part I countries; liaison with the IMF; preparatory work involving the G-24, both at the Deputy and at the Ministerial level; and essentially diplomatic work on communiques and other statements issued by the Committee. It is in these areas that External Affairs, which has in any event participated throughout in this part of the work, may have the comparative advantage.

A meeting of the Committee is scheduled for May. I have started the preparatory work and the necessary arrangements.

I recommend that we decide to transfer responsibility for liaison with the Development Committee upon the conclusion of the May meeting.

EStern:dpw

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: February 25, 1982

FROM: Ernest Stern, SVP, Operations *ES*SUBJECT: Development Committee

The Executive Directors of the Group of Six asked to meet with me this morning to express their concern arising out of comments you had made during the meeting in the lounge regarding the Development Committee. They had received the impression that you wished to make the Committee an effective decision-making body, that you thought the past failings of the Committee were due to the management of the work program, and that you and Mr. Thahane would take the lead in this effort at reconstruction. While there is no disagreement that the Development Committee is not an effective body, there is no interest among these major shareholders to change that. The contrary is true. If they knew of a decent way to bury it, they would. The Development Committee is powerless as a decision-making body because it has been made powerless, not because, as is sometimes alleged, the work program is not sufficiently screened, the agenda is not properly prepared, or there is an inadequate supply of studies on any given subject. The Committee doesn't function because it has no purpose and never did have one; and the Finance Ministers of the industrialized countries do not have the slightest interest in negotiating sensitive issues in such a public forum.

While one or two of the G-6 members indicated that if they knew what to suggest, they might wish to take a more constructive line; they agreed unanimously that in the absence of any basic reorientation at the political level, they wished to see no increase in the activity of the Development Committee.

In regard to investment insurance, several of them urged that you take the opportunity to discuss this subject with them in some detail before it is placed on the agenda of the Development Committee. They recognize we would only be making a status report, but they claim that they have no information on what it is that you have in mind or which approach we are pursuing. The Development Committee agenda will be scheduled for discussion in the Board approximately on April 12. The papers would be circulated about two weeks in advance so that you should have a discussion with them, perhaps in one of your lunches, before then.

EStern/lms