



PRESS COMMUNIQUÉS OF THE INTERIM COMMITTEE AND THE DEVELOPMENT COMMITTEE

Interim Committee of the Board of Governors on the International Monetary System

P R E S S C O M M U N I Q U É S

Forty-Fifth Meeting, Washington, D.C., October 8, 1995

1. The Interim Committee held its forty-fifth meeting in Washington, D.C. on October 8, 1995 under the chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and External Trade of Belgium.

2. The Committee welcomed the encouraging global economic situation and outlook, which are due in large part to the pursuit of sound policies in many countries. It reaffirmed that the Madrid Declaration continues to be a useful guide for policies.

3. In reviewing progress in implementing the Madrid Declaration, the Committee observed that:

- In the *industrial countries*, prospects are for sustained noninflationary growth, and policies should continue to be aimed toward this objective. Broad-based expansion will help to create jobs, reduce external imbalances, and contribute to financial market stability. The Committee welcomed the recent economic stimulus measures announced by the Japanese authorities, the easing of interest rates in Europe, progress toward fiscal consolidation in many countries, and the broad movements in the exchange rates between the key currencies since last April. In many countries, strengthened efforts at fiscal consolidation, and prudent monetary policies, have permitted lower long-term interest rates. Nevertheless, much remains to be done, and the current expansion should be taken as an opportunity for vigorous action to tackle fiscal imbalances, to enhance labor market flexibility, and to reduce unemployment, particularly in Europe and Canada, and to further deregulate and open markets in Japan.

- The Committee commended the impressive growth performance of an increasing number of *developing countries*. Strong fundamentals and prompt policy adjustments, and avoidance of recourse to exchange controls, have helped restore investor confidence in the aftermath of the Mexican crisis. Strong adjustment efforts by Mexico and other affected countries, with timely and substantial international support, have enabled them to weather the crisis, although the social costs of the crisis have been severe in some of the countries.

Elsewhere, especially in Asia, some of the strongest-performing countries now must guard against overheating, with an appropriate use of exchange rate and monetary policy.

- Many *low-income countries* now enjoy improved growth prospects as a result of their implementation of comprehensive adjustment policies and more favorable external conditions. However, the Committee expressed deep concern about the plight of a number of low-income countries. It called for the full and constructive implementation of Naples terms by the Paris Club, but emphasized the need to maintain sufficient flows of concessional assistance to low-income countries implementing strong adjustment and reform programs.

- The Committee was encouraged by the resumption of growth in a number of *economies in transition* that had established firm macroeconomic discipline and implemented early and wide-ranging systemic reforms. Many countries that were less advanced in the transition process have also recently strengthened their stabilization and reform efforts, and are now showing signs of economic recovery. The Committee urged all countries in transition to pursue bold policies that the Fund could support. There is a pressing need for improved enterprise efficiency, cost-effective social safety nets, and financial sector reform. Many of these countries need to address without delay the level and structure of government expenditure and the unsustainable decline in budgetary revenues by improved tax policies and administration. Many also need effective debt control and monitoring, and concern was expressed that some are accumulating external debt unsustainably.

4. The Committee welcomed *trade liberalization* under the Uruguay Round, and reiterated the importance of further market opening, avoidance of protectionist measures, and reliance on the multilateral framework of the WTO to resolve disputes.

5. The Committee stressed that increased freedom of *capital movements* and globalized markets bring significant benefits to all countries. Consistent implementation of firm economic policies should help to reduce the volatility of capi-

tal movements. The Committee encouraged the Fund, in promoting liberalization in a global market setting, to pay increased attention to capital account issues and the soundness of financial systems, and emphasized the need for improved prudential supervision.

6. The Committee endorsed the conclusions and recommendations of the report of the Executive Board on the regular and timely provision of comprehensive and good-quality data to the Fund by members for surveillance purposes, including the identification of a set of 12 core data categories, and on the establishment by the Fund of standards to guide members in their publication of economic and financial data (including a two-tier approach consisting of a general standard for all members and the more demanding standard for those having or seeking access to the capital markets and public identification of countries adhering to the more demanding standard). The Committee stressed the importance of providing technical assistance to interested member countries. It supported publication of the report and requested the Executive Board to complete its work soon, taking into account the views of market participants, so that members who wish to subscribe to the more demanding standard should have the opportunity to do so before the Committee's April 1996 meeting.

7. The Committee stressed the crucial need to safeguard the Fund's liquidity at an adequate level at all times. Accordingly the Committee discussed strengthening the Fund's financial resources:

- The Committee welcomed the progress already made by the Executive Board on Fund quotas, and requested the Board to move forward with the Eleventh Quinquennial Review, and to report on progress made at the next meeting of the Committee in April 1996.

- The Committee noted with interest the initiative of the Group of Ten countries to develop new parallel financing arrangements, complementary to the *General Arrangements to Borrow*, with the aim of doubling the resources currently available under the General Arrangements to Borrow through contributions from members of the G-10 and from other countries with the capacity to support the international financial system; it expressed the strong hope that early progress would be made through a constructive dialogue between the G-10 and potential new participants. The Committee emphasized the importance that all participants should be treated equally, and agreed that expanded borrowing should not be a substitute for a quota increase.

8. The Committee welcomed the consensus in support of continuation of the *enhanced structural adjustment facility* (ESAF), including the establishment of a self-sustained ESAF. It agreed that ESAF should continue to be the centerpiece of the Fund's strategy to help the lower-income countries, including those that are heavily indebted. It requested the Executive Board to submit proposals on the future financing of ESAF and to report to the Committee at its next meeting.

9. The Committee noted the ongoing work in the Fund, in close collaboration with the World Bank, on how best to address the problems of those low-income countries that are undertaking strong adjustment and reform programs but whose *debt situation, including debt to multilateral institutions*, may prove unsustainable, even after debt reduction on Naples terms. It encouraged the two institutions to continue

their cooperative work on these issues, including country-specific analysis of debt sustainability, and requested the Executive Board to report to the Interim Committee at its next meeting.

10. The Committee endorsed the Board's decisions:

- To establish exceptional procedures (the *emergency financing mechanism*) that would enable the Fund to respond promptly and prudently in the event of serious financial crises. It emphasized that use of these procedures would not necessarily imply exceptional financing, and would be subject to strong conditionality.

- On the conditions under which the Fund should be prepared to support *currency stabilization funds*, on a short-term basis, in the context of an exchange-rate-based disinflation strategy, and within the limits and guidelines of the current access policy.

- On expanding the scope of the Fund's involvement in *post-conflict situations*, including the circumstances under which the Fund could provide emergency support in a context of coordinated international assistance.

11. The Committee requested the Executive Board to continue its examination of ways to achieve the agreed objective of participation of all members of the Fund in the SDR system. As part of the wide-ranging review of the role and functions of the SDR in the world financial system, the Committee also looked forward to the results of the seminar to be held in March 1996, with the involvement of outside experts.

12. Members of the Committee had a fruitful informal discussion with Mr. Michel Hansenne, Director-General of the International Labor Office, on collaboration between the ILO and the IMF in light of the commitments of the UN Social Summit. The Committee agreed that cooperation should be strengthened, with a view to helping Fund missions to acquire a better understanding on labor markets and social protection issues, and ILO staff to further integrate in their own policy advice the view of the Fund on macroeconomic policies and targets for the country concerned. The Committee also recommended that regular exchanges of views and sharing of information should be pursued in the preparation of the Fund's *World Economic Outlook* and the ILO's *World Employment Outlook*.

13. The Committee will meet again on April 22, 1996.

Annex: Interim Committee Attendance
October 8, 1995

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for Soliman A. Al-Solaim, Minister of Finance and National Economy, Saudi Arabia)

Sultan N. Al-Suwaidi, Governor, United Arab Emirates Central Bank (Alternate for Ahmed Humaid Al-Tayer, Minister of State for Financial and Industrial Affairs, United Arab Emirates)

Jean Arthuis, Minister of Economy, Finance and Planning, France

Domingo Felipe Cavallo, Minister of Economy and Public Works and Services, Argentina
 Anatoli Chubais, First Deputy Chairman, Russian Federation
 Kenneth Clarke, Chancellor of the Exchequer, United Kingdom
 Chen Yuan, Deputy Governor, People's Bank of China (Alternate for Dai Xianglong, Governor, People's Bank of China)
 Lamberto Dini, Prime Minister and Minister of the Treasury, Italy
 Marcel Doupamby Matoka, Minister of Finance, Economy, Budget, and Equity Financing, Gabon
 Sigbjørn Johnsen, Minister of Finance and Customs, Norway
 Abdelouahab Keramane, Governor, Banque d'Algérie
 Pedro Sampaio Malan, Minister of Finance, Brazil
 Paul Martin, Minister of Finance, Canada
 Klaus Liebscher, Governor, Austrian National Bank (p.m. session) and Alfons Verplaetse, Governor, Banque Nationale de Belgique (a.m. session) (Alternates for Philippe Maystadt, Minister of Finance, Belgium)
 Guillermo Ortiz, Secretary of Finance and Public Credit, Mexico
 Robert E. Rubin, Secretary of the Treasury, United States
 Tomaz Augusto Salomao, Minister of Planning and Finance, Mozambique
 Manmohan Singh, Minister of Finance, India
 Otto Stich, Minister of Finance, Switzerland
 Masayoshi Takemura, Minister of Finance, Japan
 Vijit Supinit, Governor, Bank of Thailand
 Theo Waigel, Federal Minister of Finance, Germany
 Ralph Willis, Treasurer, Australia
 Gerrit Zalm, Minister of Finance, Netherlands

Observers

Andrew D. Crockett, General Manager, BIS
 Yves-Thibault de Silguy, Commissioner for Economic, Monetary and Financial Affairs, CEC
 Mohamed Kabbaj, Chairman, Joint Development Committee
 Roger Lawrence, Director, Global Interdependence Division, UNCTAD
 Jean-Claude Milleron, Under-Secretary-General, Department for Economic and Social Information and Policy Analysis, UN
 Jean-Claude Paye, Secretary-General, OECD
 Renato Ruggiero, Director-General, WTO
 James D. Wolfensohn, President, World Bank

Forty-Sixth Meeting, Washington, D.C., April 22, 1996

1. The Interim Committee held its forty-sixth meeting in Washington, D.C. on April 22, 1996 under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and of Foreign Trade of Belgium.

2. The Committee is encouraged by developments in the world economy.

- Inflation has been brought down or kept low in most countries, and the broad movements in the exchange rates of the major currencies since the Committee meeting of April 1995 have improved the prospects for sustainable noninflationary growth.

- In the *developing world*, growth has been well sustained, helped by strong policies of macroeconomic adjustment and structural reform, leading to improved living standards for a large share of the world's population. In Asia, growth is expected to remain buoyant, albeit at a slightly slower rate than in 1995 reflecting, in part, tighter policies in some countries to resist overheating. In the Western Hemisphere, the far-reaching adjustment efforts of Mexico and other countries in the region have improved the prospects for recovery. In Africa and the Middle East, sound policies are improving economic prospects.

- In the *countries in transition*, progress toward market-based institutions and macroeconomic stability has contributed to stronger economic performance. The countries that have advanced furthest in this process provide encouraging evidence that perseverance with financial discipline and structural reforms creates the basis for sustained growth.

- In the *industrial countries*, recovery has begun in Japan, and conditions are good for expansion to continue at a healthy rate in North America. In continental Europe, fiscal consolidation, subdued inflation, and their favorable impact on interest rates should help the expected pickup of growth in the course of 1996, following the recent pause.

3. The Committee notes that many of these favorable developments reflect implementation of key aspects of the common strategy set out by the Interim Committee in the Madrid Declaration of October 1994. The fall meeting of the Committee may be an appropriate occasion for updating the guidelines set out in the Madrid Declaration, and the Committee requests the Executive Board to consider this matter.

4. The Committee emphasizes that important challenges remain:

- Fiscal consolidation remains a key priority in most countries, despite some progress in reducing budget deficits. Fiscal problems take many forms, including unproductive spending, narrow tax bases and high tax rates, inefficient state enterprises often subject to soft budget constraints, large off-budget or hidden imbalances, and extensive commitments, particularly in pensions and health care, given the prospective aging of populations. Greater transparency of fiscal operations and awareness of the implications of longer-term commitments are needed to build public consensus and support for determined policies to deal with these problems.

- Removal of structural impediments to higher rates of noninflationary growth is also critical, and labor market rigidities that contribute to unacceptably high unemployment in many industrial countries are of particular concern; progress in these areas would also assist fiscal consolidation.

- Strengthened supervision of financial institutions and markets will facilitate the efficient allocation of financial resources and guard against potential sources of macroeconomic instability and fiscal costs.

5. The Committee recognizes the very strong efforts by the Fund to adapt its surveillance to the new global environment. Specifically, the Committee

- Welcomes the report of the Managing Director on policies implemented in the context of country surveillance, which provides a useful bridge from the lessons of the Board's daily work on bilateral surveillance to the broader issues relevant to the Interim Committee in its oversight role. The Committee requests a further report on selected surveil-

lance issues frequently arising in the Fund's dialogue with members.

- Welcomes the establishment of the Special Data Dissemination Standard for members having or seeking access to international capital markets, and the early indications that a significant number of countries intend to subscribe; it encourages other members to subscribe. The Committee calls for early work by the Executive Board to establish the general standard for data dissemination for all members before the end of 1996.

6. With respect to the Fund's financial resources and assistance to members, the Committee

- Notes the progress made by the Executive Board in preparatory work for the Eleventh General Review of Quotas and stresses the need to ensure the adequacy of quotas for the Fund to continue to carry out its mandate, taking into account changes in the world economy since the last increase in quotas was agreed in 1990. In view of the prospective evolution in the Fund's liquidity position, the Committee requests the Executive Board to pursue work on quota issues with a view to reaching a conclusion as soon as possible.

- Notes the report of the Chairman of the G-10 Deputies, and welcomes the progress toward doubling the resources currently available to the Fund under the General Arrangements to Borrow, while re-emphasizing that borrowing should be exceptional and that the new arrangements are not a substitute for a quota increase. It welcomes in particular the agreement that has been reached on the broad principles that will guide the design of the new arrangements as well as the indication by a number of countries of their readiness to participate in borrowing arrangements on appropriate terms. It urges an early successful conclusion of this work.

- Reiterates its support for continuation of the enhanced structural adjustment facility (ESAF), including establishment of a self-sustained ESAF, as the centerpiece of the Fund's strategy to help the low-income countries, including in the context of the initiative to assist the most heavily indebted poor countries. It discussed the report presented by the Managing Director and—taking into account the time required to put in place the financing arrangements for ESAF—requests the Executive Board to conclude its discussions as soon as possible with the aim of devising acceptable financing proposals by the time of the next Annual Meetings.

- Welcomes the proposed framework presented by the Fund and the Bank on ways to address the problems of a limited number of heavily indebted poor countries following sound policies for which it is clear that existing mechanisms appear inadequate to secure a sustainable external debt position over the medium term. It agrees that further action is needed, on a case-by-case basis, in line with broad principles agreed by the two Executive Boards, including contributions by the IFIs from their own resources, contributions by bilateral donors, and appropriate action by the Paris Club, and by other creditors. The Committee requests the Fund, in conjunction with the Bank and in close collaboration with all involved creditors and donors, to put forward specific proposals as soon as possible, with the aim of reaching decisions by the time of the next Annual Meetings.

7. The Committee welcomes the report on the Seminar on the Future of the SDR. It requests the Executive Board to reflect further on proposals on the role of the SDR and to reach a consensus on a way for all members to receive an equitable share of cumulative SDR allocations.

8. The Committee will meet again in Washington, D.C., on September 29, 1996.

Annex: Interim Committee Attendance
April 22, 1996

Chairman

Philippe Maystadt, Minister of Finance, Belgium

Managing Director

Michel Camdessus

Members or Alternates

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia

Sultan N. Al-Suwaidi, Governor, United Arab Emirates Central Bank (Alternate for Ahmed Humaid Al-Tayer, Minister of State for Financial and Industrial Affairs, United Arab Emirates)

Jean Arthuis, Minister of Economy and Finance, France

Erik Åsbrink, Minister of Finance, Sweden

Antonio Casas González, President, Banco Central de Venezuela

Roque Benjamin Fernández, President, Banco Central de la República Argentina (Alternate for Domingo Felipe Cavallo, Minister of Economy and Public Works and Services, Argentina)

Kenneth Clarke, Chancellor of the Exchequer, United Kingdom

Jim Short, Assistant Treasurer, Australia (Alternate for Peter Costello, Treasurer, Australia)

Chen Yuan, Deputy Governor, People's Bank of China (Alternate for Dai Xianglong, Governor, People's Bank of China)

Mario Draghi, Director General, Ministry of the Treasury, Italy (p.m. session) and Antonio Fazio, Governor, Banca d'Italia (a.m. session) (Alternates for Lamberto Dini, Prime Minister and Minister of the Treasury, Italy)

J. Soedradjad Djiwandono, Governor, Bank Indonesia
Marcel Doupamby Matoka, Minister of Finance, Economy, Budget, and Equity Financing, Gabon

Sergei Dubinin, Chairman, Central Bank of the Russian Federation

Abdelouhab Keramane, Governor, Banque d'Algérie
Yasuo Matsushita, Governor, The Bank of Japan (Alternate for Wataru Kubo, Minister of Finance, Japan)

Pedro Sampaio Malan, Minister of Finance, Brazil

Paul Martin, Minister of Finance, Canada

Viktor Klima, Federal Minister of Finance, Austria (Alternate for Philippe Maystadt, Minister of Finance, Belgium)

Robert E. Rubin, Secretary of the Treasury, United States
Tomaz Augusto Salomao, Minister of Planning and Finance, Mozambique

C. Rangarajan, Governor, Reserve Bank of India (Alternate for Manmohan Singh, Minister of Finance, India)

Kaspar Villiger, Minister of Finance, Switzerland
 Theo Waigel, Federal Minister of Finance, Germany
 Gerrit Zalm, Minister of Finance, Netherlands

Observers

Andrew D. Crockett, General Manager, BIS
 Yves-Thibault de Silguy, Commissioner for Economic, Monetary and Financial Affairs, CEC

Mohamed Kabbaj, Chairman, Joint Development Committee
 Roger Lawrence, Director, Global Interdependence Division, UNCTAD
 Jean-Claude Milleron, Under-Secretary-General for Economic and Social Information and Policy Analysis, UN
 Jean-Claude Paye, Secretary-General, OECD
 Jesús Seade, Deputy Director-General, WTO
 James D. Wolfensohn, President, World Bank

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

P R E S S C O M M U N I Q U É S

Fifty-First Meeting, Washington, D.C., October 9, 1995

1. The fifty-first Meeting of the Development Committee was held in Washington, D.C. on October 9, 1995 under the chairmanship of Mr. Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco. Ministers welcomed World Bank President James D. Wolfensohn to his first meeting of the Committee. The Committee was pleased that, for the first time, the United Nations Secretary-General, Mr. Boutros Boutros-Ghali, addressed the Committee.¹

Support for Poverty Reduction

2. Ministers reviewed the implications of the United Nations' Social Summit Declaration. They focused particularly on how World Bank and IMF efforts to reduce poverty could be strengthened through enhanced policy dialogue with governments, based in part on results of poverty assessments. Ministers agreed that multilateral development institutions should accelerate their investments in social sectors and poverty-reduction programs. The Committee encouraged the Bank to strengthen its efforts to promote broad-based, labor-intensive growth through increasing access of the poor to land, credit, and basic infrastructure.

3. Ministers agreed that efforts to improve the composition and efficiency of public expenditures were needed. The Committee urged the Bank and Fund to work closely with member governments to help them improve their public finances, especially by increasing attention to funding social and economic development programs and reducing nonproductive spending (including excessive military expenditures) within a framework of sustainable economic growth.

4. In this context, Ministers agreed that donors' support should be consistent with governments' public expenditure programs. The Committee urged donor governments to continue to strengthen assistance for countries demonstrating

strong commitment to social sector investments and other high-priority poverty-reduction programs. The Committee also urged them to take steps to reduce administrative burdens on aid recipients.

International Development Association (IDA)

5. Ministers recognized the importance of supporting the implementation of effective development policies and programs with adequate resource flows, especially of concessional funds, if poverty is to be reduced. The Committee recognized that funding reductions facing IDA present a very serious risk to poverty reduction and economic growth in the world's poorest countries. Ministers agreed on the importance of a significant replenishment of IDA.

6. The Committee expressed great concern that potential reductions in contributions to IDA were likely to jeopardize its future and stressed the great importance donors attach to equitable burden sharing. The Committee urged all donors that have not done so to honor their commitments and continue the strong support that has marked IDA's 35-year life.

7. Ministers agreed that every effort should be made to meet the essential financing requirements of poor countries as reflected in IDA's lending plans, and to protect IDA's multilateral character.

Multilateral Debt

8. Ministers resumed the discussion of multilateral debt begun at the previous meeting. Ministers agreed that current instruments should be sufficient to bring debt and debt service for the majority of heavily indebted poor countries down to manageable levels. For a small group of countries, however, this may still leave an unsustainable debt situation, a problem for which appropriate approaches need to be further explored. Ministers requested the Bank and Fund to continue their work on this issue, including detailed country-specific analysis of debt sustainability, and, after presenting their findings and recommendations to the Executive Boards, to report with proposals to the Committee at its next meeting.

Executive Secretary

9. The Committee selected Mr. Alexander Shakow as Executive Secretary.

¹Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. N'Goran Niamien (Côte d'Ivoire), Chairman of the Group of Twenty-Four, also took part in the meeting. Observers from a number of international and regional organizations also attended.

Next Meeting

10. The Committee's next meeting will be on April 23, 1996, in Washington, D.C., when its agenda will include consideration of the Report of its Task Force on the Role of Multilateral Development Banks.

Fifty-Second Meeting, Washington, D.C., April 23, 1996

1. The fifty-second Meeting of the Development Committee was held in Washington, D.C. on April 23, 1996 under the chairmanship of Mr. Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco.²

International Development Association (IDA)

2. Ministers expressed appreciation to all donors that contributed to the three-year funding arrangement³ agreed upon in March 1996, and extended special recognition to those donors contributing to the FY97 Interim Trust Fund. Ministers noted that the funding pledged by donors, together with other resources expected to be available to IDA, will allow IDA to lend up to US\$22 billion over three years, commencing in July 1996. While this represents a significant achievement, reached under difficult circumstances, it leaves IDA with seriously constrained financial capacity to respond to countries' improved policy performance. Ministers praised those countries that have become new IDA donors and encouraged others to take similar action. They also thanked those that have made supplementary or increased contributions to IDA.

3. Ministers emphasized that the IDA 11 agreement reflects a strong consensus on IDA's importance to the support of effective development policies and programs in the poorest countries, with its core objective of poverty reduction supported by economic growth and environmental sustainability. Ministers urged IDA to raise its effectiveness and development impact.

4. Ministers reiterated the importance of maintaining IDA's capacity to transfer resources to countries with sound policy performance. They stressed the importance of fair burden sharing among IDA donors, and called upon donors to honor their commitments on a timely basis to ensure successful implementation of IDA 11.

5. Noting with great concern the difficulties encountered in the replenishment of IDA 11, Ministers agreed that the prospects for IDA funding be a key issue for discussion by the Committee in a year's time.

6. Ministers urged that rapid progress also be made in ensuring the continued financing of the IMF's enhanced structural adjustment facility (ESAF), a vital complement to IDA, for the multilateral effort to be fully effective.

²Mr. James D. Wolfensohn, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Qazi Alimullah, Deputy Chairman of the Planning Commission of Pakistan for Finance and Economic Affairs and Chairman of the Group of Twenty-Four, and Mr. Abdlatif Y. Al-Hamad, Director-General of the Arab Fund for Economic and Social Development and Chairman of the Task Force on MDBs, addressed the plenary session. Observers from a number of international and regional organizations also attended.

³The arrangement includes a one-year Interim Trust Fund followed by a two-year replenishment of IDA's general resources.

Resolving Debt Problems of the Heavily Indebted Poor Countries (HIPCs)

7. Ministers welcomed *A Framework for Action* presented by Bank and Fund managements. The Committee noted the progress achieved since its last meeting and expressed appreciation for the joint efforts of the Bank and the Fund.

8. Ministers agreed with the analysis of Fund and Bank staff that there were a number of HIPCs for whom the burden of debt, including multilateral debt, was likely to remain above sustainable levels over the medium term, even with strong policies and full use of existing debt-relief mechanisms.

9. Ministers agreed that for these countries further action is needed to address their debt problems, building on actions already being taken by official bilateral and commercial creditors. This would involve both use of existing mechanisms and new arrangements, including contributions by the IFIs from their own resources, contributions by bilateral donors, and appropriate action by the Paris Club, and by other creditors.

10. Ministers agreed that the principal goal of the proposed framework should be to ensure, for these countries, that adjustment and reform efforts are not put at risk by continued high debt and debt-service burdens. They endorsed the following six principles to guide further action. (i) The objective should be to target overall debt sustainability on a case-by-case basis, thus providing an exit strategy from the rescheduling process. (ii) Action will be envisaged only when the debtor has shown, through a track record, ability to put to good use whatever exceptional support is provided. (iii) New measures will build, as much as possible, on existing mechanisms. (iv) Additional action will be coordinated among all creditors involved, with broad and equitable participation. (v) Actions by the multilateral creditors will preserve their financial integrity and preferred creditor status. (vi) New external finance for the countries concerned will be on appropriately concessional terms.

11. While recognizing that many important aspects of the proposed framework of action need to be further developed and refined, Ministers agreed, nevertheless, that it provided an appropriate basis for further work. They requested that the Bank and Fund—in close consultation with concerned bilateral creditors/donors/debtors, the Paris Club and other multilateral institutions—move swiftly to produce a program of action. Ministers urged that a decision be reached on this program and its financing as soon as possible, aiming to do so by the next IMF/World Bank Annual Meetings.

Report of the Task Force on Multilateral Development Banks

12. The Committee welcomed this balanced and objective report prepared by its MDB Task Force. Ministers appreciated that it presented, for the first time, an overall assessment of the multilateral development banks.

13. Ministers believe the report provides an excellent analysis of the importance of multilateralism and the role of MDBs in a rapidly changing world. The Committee appreciated the report's careful assessment of the performance of these five quite different institutions, with particular reference to its support for poverty reduction and sustainable development, investment in infrastructure, promotion of the private sector, operational orientation

toward results on the ground, and to increasing cooperation among the MDBs.

14. The Committee generally agreed with the report's conclusions and recommendations, recognizing that not all apply equally to each institution. Bearing in mind the value of diversity among the MDBs, Ministers urged the MDBs to act upon relevant recommendations as a matter of priority to strengthen further their policies and practices. Ministers invited the Presidents of the MDBs to advise the Committee, in about two years' time, on progress achieved in implementing the Task Force's major recommendations.

15. The Committee expressed its great appreciation and gratitude to Mr. Abdlatif Al-Hamad for his leadership as Chairman of the Task Force, as well as to the Task Force Members and the Secretariat for their dedicated and productive work over the past 15 months. The Committee requested that the report be published and widely distributed.

Next Meeting

16. The Committee's next meeting will be held on September 30, 1996, in Washington, D.C.