I welcome this opportunity to report to the Governors, in my capacity as Chairman of the Interim Committee, on the work of the Committee during the Fiftieth Anniversary year of the Bretton Woods institutions, a year that has been marked by important efforts at international cooperation.

World Economic Outlook

At its spring meeting on April 26, the Committee welcomed the entry into force of the Uruguay Round and the formation of the third part of the Bretton Woods system, the World Trade Organization. The Committee noted that developments in the world economy had been generally favorable, and it encouraged members to make wise use of the situation by implementing policies to achieve the objectives of the Madrid Declaration.

At its meeting on October 8, the Committee reviewed again recent developments in the world economy and members’ progress in attaining the goals we set in Madrid. Our discussion concluded on a note of optimism and confidence. Prospects are for sustained noninflationary growth and economic policies are generally on the right track. The Committee welcomed the fiscal consolidation and prudent monetary policies of a number of industrial countries and the broad movements in exchange rates among the key currencies since our April meeting. In many developing countries, determined efforts at stabilization and structural reform have helped to maintain confidence and record another year of impressive economic growth with subdued inflation. Prompt and strong policy adjustments following the Mexican crisis, together with substantial international support, enabled many emerging economies to restore confidence quickly. A number of the transition economies, including some of the largest ones, are now on the path to economic recovery, thanks to their

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comprehensive stabilization and reform programs. In view of this positive assessment, the Committee concluded that our Madrid Declaration on Cooperation to Strengthen the Global Expansion remains a valid basis for policy guidance.

Despite this optimism, there is, however, no room for complacency. Industrial countries should take advantage of the continued expansion to introduce bolder policies to reduce further fiscal imbalances and address their deep-seated structural problems. Developing countries must complement continued strong stabilization programs with measures to further open their economies to market forces. Low-income countries doing their part to implement comprehensive adjustment policies must be able to count on sufficient flows of concessional assistance from donors. Transition countries should intensify their efforts to pursue bold stabilization policies and wide-ranging systemic reforms.

In sum, our agenda is unfinished. Continued vigilance is warranted and there is a continuous need for improving the quality of our policy dialogue with member countries. In this connection, our luncheon meeting with the Director General of the International Labor Organization (ILO), Michel Hansenne, is an important milestone. It confirmed that in today’s global economy, labor market policies can no longer be established on a purely domestic basis. These policies have instead to be submitted to active multilateral cooperation, involving all relevant partners.

**Strengthened Fund Surveillance**

Drawing on the lessons learned from the crisis in Mexico, the Committee agreed last April on far-reaching proposals to strengthen Fund surveillance: data were to be provided to the Fund on a more timely and comprehensive basis and standards were to be elaborated for guiding member countries in their publication of economic and financial data. On Monday, the Committee recommended publication of the progress report which the Executive Board had prepared on these issues, and requested the Board to complete its work soon, taking into account the views of market participants, so that the standard system of data publication will be in place and operational before our spring 1996 meeting.

In addition, 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.

**Fund Financial Assistance and Resources**

With regard to the Fund’s financial assistance and resources, let me group my comments under two headings: financial assistance and financial resources.
First, on financial assistance, the Committee endorsed the Executive Board’s decision to establish an emergency financing mechanism in order to enable the Fund to intervene promptly and prudently in the event of serious financial crises. It also endorsed the conditions under which the Fund can support currency stabilization funds and enhance its involvement in post-conflict situations. The Committee agreed that the enhanced structural adjustment facility (ESAF) should continue to be the centerpiece of the Fund’s strategy to help the low-income countries, and it also encouraged the Fund and the World Bank to continue their cooperative work on the issue of low-income countries implementing strong adjustment but whose debt situation, including debt to multilateral institutions, may prove unsustainable even after debt reduction on Naples terms.

On financial resources, the Committee stressed the crucial need to safeguard the Fund’s liquidity at an adequate level at all times, and agreed that the Fund should remain a quota-based institution. The Committee noted the expected weakening of the Fund’s liquidity position, the considerable technical work accomplished by the Board in connection with the Eleventh Quota Review, and concluded that the time has now come to start serious discussions on the size of the next quota increase, which, in the view of most members, should be substantial and should be decided before the end of next year. Accordingly, the Committee requested the Board to move forward with its work and report on progress made at the next meeting of the Committee.

The Committee also welcomed the ongoing work in the Group of Ten on the doubling of the General Arrangements to Borrow (GAB), and it agreed on the following two guiding principles: first, the enlargement of the GAB should not be a substitute for a quota increase; and second, all participants should be treated equally.

On ESAF, the Committee welcomed the consensus in support of the continuation of ESAF, including the establishment of a self-sustaining ESAF at the beginning of the next century. However, it is clear that the discussion on the way to finance the interim period needs now to be organized around a number of precise options if we want to reach our goal of a self-sustaining instrument in time. It is in that spirit that the Committee asked the Board to submit proposals at our next meeting. I would like to emphasize, personally, that the solution for ESAF should not lag behind the other financing discussions under consideration.

Finally, the Committee also briefly returned to the SDR equity issue, and requested the Executive Board to continue its examination of ways to achieve the agreed objective of participation of all members of the Fund on the SDR system.

Concluding Remarks

In many respects, the past 12 months have been remarkable. The international system has shown its resilience and fundamental strength, and
we have good reason for hope and confidence in the period ahead. We have seen solid policy efforts to achieve the goals we set in Madrid, and a convincing display of the power of international cooperation in response to disruptions in currency and capital markets. That same cooperation has been evident in the work of the Interim Committee on Fund assistance. I am convinced that the recent decisions by the Fund to expand its financial assistance will greatly contribute to the effectiveness of the Fund as a global institution serving a global membership with diversified needs. We now have to ensure that the institution remains well funded to discharge its evolving responsibilities in the period ahead. I trust that the cooperative spirit that has served us well in the recent past will enable us to make important progress in this area in the year to come.

REPORT TO THE BOARDS OF GOVERNORS OF THE
BANK AND THE FUND BY THE CHAIRMAN OF THE
MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES
(DEVELOPMENT COMMITTEE)

Mohamed Kabbaj

While this annual report deals primarily with the work of the Development Committee for the year ended June 30, 1995, I include a section at the end concerning the new initiatives we are introducing to strengthen the work of the Committee.

During the last fiscal year, the Committee had its fall 1994 meeting in Madrid and the spring 1995 meeting in Washington, D.C. The first meeting was chaired by my distinguished predecessor, Minister Mourad Cherif of Morocco. The Committee in these meetings based its discussion on joint issues papers and reports prepared by the World Bank and the IMF as well as supplementary papers provided by international organizations and member countries.

At the fall 1994 meeting in Madrid, there were two main items on the agenda. The first item gave the Ministers an opportunity to concentrate on the issue of “Aid Effectiveness” in terms of achieving the ultimate objective of development; that is, to reduce poverty and to improve living standards through environmentally sustainable growth and investment in people.

The Committee agreed that increasing aid effectiveness requires closer collaboration between recipient countries, international organizations, and donors; that “ownership” by the recipient government is essen-
tial; and that gaining results on the ground must be the goal of each partner in each activity it undertakes. The Ministers emphasized the importance not only of the quantity, but also the quality of aid. It was also stressed that improving the effectiveness with which aid resources are spent is essential. The Ministers look forward to receiving at its April 1996 meeting the report of its Task Force on Multilateral Development Banks.

On the second item, Ministers reviewed the results of the Uruguay Round of multilateral trade negotiations completed in Marrakesh in April 1994. It considered its impact on the developing and transition countries, as well as on the future work of the World Bank and the International Monetary Fund. The Committee recognized it was only possible to make a preliminary assessment of the likely effects. The Ministers believed that in addition to its positive global effects, the successful conclusion of the Uruguay Round would bring significant benefits to developing countries, over time, through increased market access, integration of new areas into the system, and through strengthened rules and institutions. The Committee called for the early ratification and implementation of the agreements. The Committee recognized that on the basis of the evidence available so far, it seemed likely that the existing instruments of the World Bank and the IMF would be adequate to deal with any negative effects of the Uruguay Round on countries that may suffer due to loss of preferences or higher prices for food imports during the transition period. The Committee asked the World Bank and the IMF to be ready to address these problems. The Committee also asked them to encourage and assist the transition countries in Eastern and Central Europe and the former Soviet Union in their efforts to become more fully integrated into the multilateral trading system and to adopt policies that will facilitate their accession to the World Trade Organization (WTO). The Committee concluded that it is essential for the World Bank and the IMF to collaborate closely with the WTO.

With respect to other items, the Committee asked the World Bank and the participants of the Cairo Conference on Population and Development to play an active part in implementing the Program of Action approved by the Conference. The Committee called for the early ratification of the anti-desertification conventions (United Nations) and encouraged the World Bank to continue its active support for development and environmental management in dryland areas.

At the spring 1995 meeting, the main item on the agenda was “Financing of Infrastructure in Developing Countries.” This item provided an opportunity for the Committee to focus on the provision of finance for infrastructure. The developing countries have been investing an average of 4 percent of GNP, about $200 billion a year, in infrastructure. Ministers recognized that current public sector methods cannot meet the present and future demand for basic infrastructure services. The Committee concluded that developing countries need to adopt a more businesslike approach to the
management of infrastructure investment, including introducing realistic prices for infrastructure services, being more attentive to maintenance, and encouraging more private sector involvement. Ministers agreed that these reforms would facilitate better delivery of infrastructure services, promote development efforts, benefit the poor more directly and quickly, and also help improve environmental conditions. The Committee urged donor countries to continue to help meet the poorest countries’ infrastructure needs. The Committee asked the multilateral institutions—including the International Development Association (IDA)—to continue to provide advice and financial support, but in addition to play a catalytic role in raising funds from a wider range of private sector sources, using all the means available, including World Bank guarantees, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

In these meetings the Ministers also discussed a number of other issues which were outlined in the reports of the IMF Managing Director and the World Bank President. These included the impact on developing countries of recent trends in the world economy; transfer of resources; the Global Environment Facility; Special Program of Assistance for Africa; implementation of the debt strategy; responding to challenges in Eastern Europe and the former Soviet Union; International Bank for Reconstruction and Development (IBRD) and IDA commitments and disbursements; and the World Bank’s information disclosure policy and poverty reduction strategy.

Traditionally this report refers only to the previous fiscal year’s meetings. My report would be incomplete, however, if it failed to mention the major changes we are introducing to rejuvenate the Committee.

On October 9, we completed our first meeting under very different procedures and with a changed focus. The new procedures are designed to enhance the efficiency and effectiveness of the Committee’s work, which is now more clearly, but not exclusively, to focus on the work of the World Bank and its policies. We have had strong leadership in these efforts from Mr. Wolfensohn and Mr. Camdessus, as well as complete support from the members.

The results of the October 9 meeting were very constructive. The plenary session was limited to one hour, including an address, for the first time, by the Secretary-General of the United Nations. There was then a particularly valuable exchange of views between Ministers in restricted session covering, inter alia, multilateral debt issues and the funding problems of IDA. Ministers also indicated their strong support and enthusiasm for the new World Bank President James Wolfensohn and his initiatives to make the Bank more effective and transparent. Governors will find the short communiqué of the October 9 meeting a useful summary of our key conclusions.

I believe we now have a good opportunity to make the Development Committee more useful to all the members of the World Bank and the IMF in the future. I look forward to reporting to Governors next year on the progress achieved in strengthening the work of the Committee.