
Development Committee of the Boards of Governors of the World Bank and the IMF

PRESS COMMUNIQUÉ

Washington, 1 May 1993

1. The Development Committee held its forty-sixth meeting in Washington, D.C. on May 1, 1993 under the chairmanship of Dr Ricardo Hausmann of Venezuela. The Committee recorded its deep regret at the violent death of President Ranasinghe Premadasa and sent its condolences to the Government and people of Sri Lanka.
2. The Committee devoted most of this meeting to an examination of ways of encouraging private capital flows, as part of its ongoing review of the transfer of resources to developing countries. The Committee reaffirmed its belief that a high level of investment in the private sector is important to sustainable economic growth in developing countries. It recognized that the majority of this investment comes from these countries' domestic savings. Private foreign flows and official development assistance have a complementary but crucial role to play. Private foreign flows have been largely concentrated in a small number of countries. The challenge before the international community now is to enlarge this number as quickly as possible.
3. The Committee noted that host countries have the primary responsibility for creating an environment attractive to foreign investors. This will require a stable political climate and sound macroeconomic policies; a healthy, vigorous, and competitive domestic private sector; a legal and institutional framework which encourages investment without discrimination; a liberal exchange regime; a flexible labor market; improved management capacity in the public sector; and provision of the necessary physical and human infrastructure. Prompt servicing of debt will reassure investors. Reduction of the debt overhang, where appropriate, for reforming countries, will also help. Because much investment in developing countries is in export industries, open world markets are essential. Once these measures are in place, which may take time in some countries, funds will tend to flow naturally to profitable ventures.
4. Where unnecessary institutional and regulatory barriers to the supply of such funds remain, the Committee called on the industrial countries and the international financial institutions to do all they can to remove them and to catalyze greater volumes of investment. The IFC (International Finance Corporation) in particular can help by doing more to support investments in poorer countries with less access to private capital.

Foreign Direct Investment

5. The Committee believes that foreign direct investment (FDI) is the most valuable form of private external finance, since it brings with it access to the technical know-how, managerial expertise, and wider markets of the industrial countries. Because it moves in response to perceived market needs, it is much more efficient than state-directed capital flows. It poses less risk to the host country's fiscal or balance of payments position. The Committee welcomed the action taken by most host countries to attract FDI by reducing discrimination against foreign investors. It also called on the industrial countries and the international institutions to play their part by providing technical assistance, investment sector lending, fuller information, guarantees, and, where appropriate, financial support.

Portfolio Investment

6. The Committee welcomed the sharp increase in portfolio investment in equities and bonds in several developing countries in recent years. Foreign portfolio investment will add flexibility and depth to domestic capital markets. These markets should be expanded further. The Bank Group and the Fund provide continuing support for market development through policy advice, finance, and technical assistance. The Committee called on both industrial and developing countries to speed up the removal of the remaining regulatory and other impediments to portfolio flows, particularly by facilitating the greater participation of institutional investors.

Bond Markets

7. The Committee also welcomed the reform efforts made by several developing countries. These have restored confidence and allowed them to enter or regain access to the international market for bonds and other financial instruments. It encouraged the governments of "source" countries to review and address the remaining obstacles which prevent access to their securities markets by creditworthy developing country borrowers.

Commercial Bank Lending

8. The Committee recognized that commercial bank lending is not always a suitable form of long-term development finance, or available or appropriate for countries facing severe balance of payments deficits. However, the successful resolution of the debt problems of many middle-income developing countries has permitted a small increase in commercial bank lending. The Committee encouraged industrial countries which have not already done so to review their regulatory mechanisms and requirements regularly and, in doing so, to examine the scope for easing constraints on trade and project finance to developing countries without weakening proper prudential supervision. It noted the role of the World Bank's Enhanced Cofinancing program in supporting lending.

Private Sector Development

9. The Committee also reviewed a related report by the World Bank Group on its private sector development strategy, which also helps to attract more foreign investment. It welcomed the emergence of a new generation of loans through which the World Bank supports policy, regulatory, and legal reforms

directed at improving the day-to-day environment in which firms operate. It commended the work already done or in hand, while calling on the Bank Group as a whole to make even greater progress by promoting small and medium-scale industry and the entrepreneurial role of women, encouraging the private sector in developing countries, especially the poorest, and supporting the necessary underpinning public sector reforms.

Official Flows

10. The Committee recognized that, for poorer countries and those presently unable to attract sufficient private capital, official development assistance (ODA) remains essential. It therefore welcomed the completion of the IDA-10 (International Development Association, Tenth Replenishment) negotiations and called on the donor countries to complete the ratification process, so that there is no disruption to commitments. It also called on the Bank to increase further the focus on poverty reduction and environmentally sustainable development. It welcomed the rapid progress in considering the operational modalities for a successor to the ESAF (enhanced structural adjustment facility), the Fund's concessional facility for its poorer members; it urged that this work be completed by November 1993 and called on the Fund to explore all options for funding. It also noted that a review of the pilot phase, discussions on restructuring, and negotiations for the replenishment of the Global Environment Facility are about to commence; it agreed on the importance of a productive outcome by December 1993. It noted that other negotiations are in hand to replenish the concessional funds of other multilateral agencies and hopes they can be concluded as soon as possible. It called on industrial countries to consider further ways of increasing flows of officially supported export finance. Finally, it pointed to the continued stagnation in flows of official development assistance, despite the increased needs, and invited donor countries to do their best to increase their aid as circumstances permit, particularly where it still falls short of 0.7 per cent of GNP. Ministers also underscored the critical importance of ODA achieving its intended developmental impact. They called on all donors and recipients to strengthen efforts to improve the quality and effectiveness of assistance. Ministers commended the World Bank's effort to undertake a frank and critical self-evaluation of its project performance and stressed the importance of a vigorous action program. They also urged all development agencies which have not already done so to undertake similar efforts to improve the development impact of their assistance, and to concentrate aid operations on the poorest countries and those where aid can be most effective.

Trade

11. The Committee recorded its increasing concern about the continued delays and risk of breakdown in the Uruguay Round negotiations. Failure could easily lead, not to continuation of the status quo, but to a downward spiral of increasing protectionism. This would be extremely serious for the growth of the world economy and particularly for the developing countries, leading to a progressive reduction in the markets for their exports and a consequent fall in the living standards of their citizens. It would weaken the developing countries' resolve to liberalize trade further and to undertake structural reforms. On the other hand, an early agreement will benefit all countries. The Committee asked that all countries firmly resist protectionist pressures. It called on all the parties for a prompt and successful conclusion to the Round by the end of 1993, and its early implementation.

Next Meeting

12. The Committee agreed to meet again in Washington, D.C. on September 27, 1993, when it will concentrate its discussion on two topics: long-term social policy reforms and short-term safety nets; and adjustment experiences in low-income countries and their financing needs. It will also review action taken, or in hand, to follow up the suggestions made at today's meeting.

SOURCE: International Monetary Fund, Washington, D.C.