

Private Flows to Developing Countries Increase, But Aid Flows Grow Slowly

PRESS COMMUNIQUÉ

Following is the press communiqué issued after the meeting of the Development Committee of the Boards of Governors of the World Bank and IMF.

1. The forty-ninth meeting of the Development Committee was held in Madrid, Spain, on October 3, 1994, under the chairmanship of Mourad Cherif, Minister of Finance and Investments of Morocco. On its own twentieth anniversary, the Committee joined in congratulations to the World Bank and the IMF on the fiftieth anniversary of the Bretton Woods agreement, and welcomed the World Bank's publication *Learning from the Past—Embracing the Future*.

Transfer of Resources

2. The Committee's main task is to keep under review the transfer of resources to developing and transition countries. It therefore welcomes the continued high level of total flows to these countries. It notes the slow rate of growth in official development assistance, and calls on donor countries to enhance their aid as soon as possible and to increase their focus on the poorest countries. Where appropriate, the Committee favors a reduction in the stock of debt and an increase in concessionality for the poorest countries facing special difficulties. The Committee recognizes the special needs and problems of countries emerging from economic and political disruption and also of the poorest, most indebted countries and requests the Executive Boards to examine proposals in these areas.

3. The Committee welcomes the increased volume of private flows in recent years to a growing number of countries that are implementing economic reforms. It notes uncertainties about the sustainability of such flows in changing world conditions, and the fact that they continue to be concentrated in a small number of countries. It urges countries not currently receiving such flows to improve their creditworthiness through macroeconomic reform, and to create a climate favorable to sound private sector development; these measures will attract more foreign portfolio and direct investment. The Committee asks the World Bank Group, the IMF, and industrial countries to continue their efforts to facilitate and encourage private flows to all developing and transition countries.

Aid Effectiveness

4. Effective aid requires closer collaboration between receiving countries, international organizations, and donors. For aid to be most effective, it has to be adequate and to operate in a favorable environment. Prime responsibility for domestic policies that contribute to aid effectiveness rests, of course, with the

recipient countries themselves. The guiding principles for recipients are:

- Appropriate domestic economic policies tailored to local conditions are essential, if aid is to be effective;
- The effective use of aid requires strong administrative and institutional capacity; and
- “Ownership” by the government and participation by other stakeholders, including beneficiaries, are essential.

5. The guiding principles for donors and international agencies are:

- The best conditions and policies for aid cannot substitute for strong “ownership” by the recipient government and good governance. Donors and recipients must collaborate to make this the basis for effective aid.

- Donors should support participation by relevant stakeholders (especially women, the poor, and other disadvantaged groups); this helps to improve the design of projects and ensure that they are properly implemented and operated. The Bank should strengthen its skill mix and incentive system for these purposes.

- Technical assistance (TA) is likely to be most effective when it responds to clearly defined needs and absorptive capacity of the recipient. TA should work within, and, if necessary, seek to strengthen the institutional environment along the lines approved by the OECD [Organization for Economic Cooperation and Development] Development Assistance Committee (DAC).

- Multilateral agencies, including the IMF, the World Bank Group, and the regional development banks work closely to support countries’ own efforts to put in place a sound framework for macroeconomic and structural policies that foster the private sector and strengthen public sector management. Aid programs should be consistent with this framework, and with the country’s own development priorities. Innovative approaches to achieve this objective are to be encouraged. The World Bank will strengthen its consultations with other donors who, in turn, will collaborate in this approach.

- Efforts to coordinate and simplify donor aid procedures and practices should be accelerated. Aid operations should be made more transparent to improve accountability. Donors should avoid setting up mechanisms that are inconsistent with the recipients’ own efforts to manage their budgets and implement aid. Ministers support recent efforts in the DAC to reduce the use of tied-aid credits. They also urge donors to minimize the additional costs associated with trade-distorting tying of aid, where this can be done without reducing volume.

- The DAC principles provide an appropriate framework for improving aid coordination. Consultative groups and roundtable meetings are more effective when preceded by active involvement of the recipient government, and consultation with other donors. The agenda for Consultative Groups should cover issues of development strategy, aid utilization, aid coordination, and technical assistance, in addition to mobilization of financial resources.

- Recent efforts to improve the effectiveness of the World Bank and other development agencies, focusing on their development impact and on results in the field, need to be sustained and extended. Particular attention should be given to: shifting the focus from projects to country programs; improving the “quality at entry” of projects; strengthening evaluation and disclosure policies; streamlining procedures; addressing urgently the adequacy of field office networks; and changing staff incentives to focus on development impact.

- Aid can also help to stimulate private investment; institutions like the IFC [International Finance Corporation] and MIGA [Multilateral Investment Guarantee Agency] can play a valuable role, but must pay due attention to development effectiveness.

- Many of these principles apply with equal force to the countries in transition. However, more attention needs to be given in these countries, in differing degrees, to informing both policymakers and public

opinion of the workings of a market economy and the complementary roles of the public and private sectors.

6. The Committee will follow up these issues carefully at future meetings, and particularly looks forward to the report of its Task Force on the Multilateral Development Banks.

The Uruguay Round and the Developing and Transition Countries

7. The Committee reviewed the results of the recently completed Uruguay Round negotiations and their impact on the developing and transition countries. At this stage, it was only possible to make a preliminary assessment of the likely effects. They also considered the implications for the future work of the World Bank and the IMF. The Committee believes that:

- In addition to its global effects, the successful conclusion of the Uruguay Round will bring significant benefits to developing countries over time, through increased market access, the integration of new areas into the system, and strengthened rules and institutions. Early ratification and implementation are, therefore, essential.
- These benefits will accrue particularly to those countries that pursue sound macroeconomic policies and adopt market-based reforms.
- A number of developing countries should benefit in particular from the phased integration of textiles and clothing into the multilateral system, although the timetable for liberalization will delay these benefits.
- Some countries may need help to adjust to higher world food prices and the erosion of preferences, although most of them will gain from the reduction of agricultural subsidies. Initial studies made by the Bank and the IMF indicate that the negative effects are likely to be fairly small, and existing instruments seem adequate to deal with them. Further research may refine these findings. Meanwhile, the Bank and the IMF must be ready to address these problems.
- In the longer run, it is important to keep up the momentum of mutually advantageous trade liberalization and avoid new forms of protectionism.
- The task of the Bank and the IMF is to assist developing and transition countries to ease the change to the new trading system by providing policy advice, financial support, and technical assistance in order to maximize the gains from new market opportunities.
- It will also be necessary to bring the transition countries (many of whom are not yet members of GATT) into the multilateral process as quickly as possible, so that they can fully share the benefits of trade liberalization and enlarged market access without discrimination. The Bank and the IMF should encourage and assist these countries 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).

8. The Committee believes it is essential for both institutions to collaborate closely with the new WTO, and notes that the ministerial declaration at the end of the Uruguay Round calls for early talks between the Director-General of the WTO and the heads of the Bank and the IMF.

Population

9. Ministers from the participating countries welcomed the outcome of the recent United Nations Conference on Population and Development, which it discussed at its last meeting. The Committee called on the World Bank and conference participants to play an active part in implementing the Program of Action approved by the Conference.

Desertification

10. [The Committee] also welcomed last month's agreement on the antidesertification convention, calling for its early ratification, and encouraged the World Bank to continue its active support for development and environmental management in dry land areas.

Next Meeting

11. The Committee agreed to meet again in Washington, D.C. on April 27, 1995, when the principal topic for discussion will be the financing of infrastructure in developing countries.

SOURCE: *IMF Survey*, 17 October 1994.