INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

FORTY-THIRD MEETING OF MINISTERS

COMMUNIQUÉ

September 22, 1990

1. Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Third Meeting in Washington, D.C. on September 22, 1990. Mr. S. M. H. Adeli, Governor, Central Bank of the Islamic Republic of Iran, was in the Chair, with Mr. Rudolf Hommes, Minister of Finance and Public Credit, Colombia, and Mr. Mallam Ismaila Usman, Deputy Governor, Central Bank of Nigeria, as Vice-Chairmen. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Barber B. Conable, President, World Bank, Mr. Bernard T. G. Chidzero, Chairman, Development Committee, Mr. K. Dadzie, Secretary-General, UNCTAD, Mr. Sidney Dell, Project Director, UNDP/UNCTAD, Mr. Rafeeuddin Ahmed, Under -Secretary General, United Nations, Mr. Y. Seyyid Abdulai, Director-General, OPEC Fund, Mr. Isaac Cohen, Director, Washington Office, ECLAC, Mr. Abdurahman N. Hersi, Advisor, Islamic Development Bank, Mr. Carlos Pérez del Castillo, Permanent Secretary, SELA, Mr. Abdul Moneim Othman, Iraq, Mr. Mohammed Dairi, Morocco, and Mr. Ibrahim A. Al-Assaf, Saudi Arabia; Mr. Xiang Huaicheng, Vice Minister, People's Republic of China, attended as invitee.

2. The Meeting of the Ministers was preceded on September 20, 1990 by the Fifty-Sixth Meeting of the Deputies of the Group of Twenty-Four with Mr. Masoud Mozayani, of the Islamic Republic of Iran, as Chairman, and with Mr. Hernán Mejia, of Colombia, and Mr. Matthew A. Uduebo, of Nigeria, as Vice-Chairmen.

ISSUES BEFORE THE INTERIM COMMITTEE

World Economic Outlook and International Monetary and Trade System

3. Ministers expressed concern that the slowdown of world output and trade growth for the second consecutive year, coupled with the prevalence of an unfavorable external environment, including high real interest rates, and weakening non-oil commodity prices, have adversely affected the growth prospects of developing countries and undermined their adjustment efforts. Ministers further expressed concern that, for the third year running, the rate of growth of developing countries will be less than the rate of growth of the industrial countries.

4. Ministers noted with deep concern the seriously adverse impact on many developing countries of the recent Middle East crisis, including high import bills, the cost of resettlement of returning workers and their dependents, the problem of refugees, the reduction of workers' remittances,

and loss of exports and contractual arrangements. Ministers further noted the potential serious impact on most developing countries' economies of the higher degree of uncertainty and vulnerability that the crisis may bring to the global economic situation, through reduction in the demand for developing countries' exports, deterioration in the terms of trade, higher interest rates, and exchange rate fluctuations. Ministers urged the Fund, the Bank, and the donor countries to take the appropriate steps to effectively assist the developing member countries most seriously affected by the crisis.

5. Ministers urged the Bank and the Fund to extend highly concessional assistance, and also to play a catalytic role in mobilizing additional concessional financing from bilateral and multilateral sources, as well as substantial debt relief, to the developing countries that are most seriously affected, particularly the most immediately impacted countries (MIICs). In this connection, Ministers further urged the Bank to consider establishing an IDA supplementary facility (by directing part of IDA reflows) and the possible augmentation of IDA-9. Ministers also stressed the need to administer the existing Fund facilities, such as the CCFF, SAF, and ESAF, in a more flexible manner in order to address the difficulties caused by the Middle East crisis.

6. Ministers called on the Bank and the Fund to continue to monitor the impact of the crisis on developing countries as the situation evolves.

7 . Ministers pointed out that the sustainability of the adjustment efforts in developing countries, particularly sub-Saharan African and other debt-distressed countries, depends critically on the provision of an adequate flow of financial resources on concessional terms, meaningful debt and debt-service reduction, and supportive external conditions, in particular the improvement in the terms of trade.

8. Ministers urged the industrial countries to strike an appropriate balance between monetary and fiscal policies and adopt the necessary structural reforms to accelerate world output growth and trade, contain inflationary pressures, and raise global savings.

9. Ministers stressed that the expected surge in the demand for financial resources associated with German unification and the economic restructuring of Eastern Europe, coupled with the continuing need for external financing by the developing countries, underscore the importance of sound macroeconomic and structural policies that will enhance global savings and mitigate the upward pressures on interest rates. Greater responsibility in this respect rests with those major industrial countries in deficit.

10. Ministers called on the Fund to enhance its role in overseeing the functioning of the international monetary system by increasing the effectiveness of surveillance over macroeconomic policies of the major industrial countries, and to ensure that the adjustment process is symmetrical and the cost is equitably shared among various groups of countries.

11. Ministers emphasized the need for an early resumption of allocations of SDRs both to meet the liquidity needs of developing countries and to contribute to the objective of making the SDR the centerpiece of the international monetary system. Ministers stressed that consideration should

also be given to the linking of future allocations of SDRs to development finance for developing countries to enable them to finance their development effort and maintain the momentum of their adjustment effort.

12. Ministers urged industrial countries to make stronger efforts to remove all protectionist barriers and to foster a more open trading system in the areas of interest to developing countries. In this respect, they pointed out that a successful conclusion of the Uruguay Round by the end of this year will be of crucial importance and its failure would have serious repercussions for the global economy and undermine growth-oriented adjustment programs.

Developments in the Debt Situation and Strategy

13. Ministers took note of some positive developments under the current debt strategy in a few severely indebted middle-income countries implementing strong adjustment measures, including a limited revival of spontaneous flows, and progress in negotiations of financing packages. Ministers stressed, however, that this progress has been very limited, and that the strategy has not been conducive as yet to restoring sustained and satisfactory growth, external viability, and normal debtor-creditor relations. Ministers welcomed the new initiatives on debt reduction by bilateral official creditors, and called on the official creditors to give these initiatives a broader scope.

14. Ministers pointed out that the recent Middle East crisis is affecting the debt-service capacity of several heavily indebted countries, including those that have recently made some progress in debt and debt-service reduction. Ministers further stressed that the crisis could equally affect those oil exporting countries that are in the process of concluding negotiations with commercial banks, as the present high oil prices create the illusion that such countries are reaching external viability, while the international community is withdrawing its support. Then, when the inevitable reversion of oil prices occurs, the countries would suffer a liquidity squeeze and would have lost the opportunity to deal appropriately with their debt problems.

15. Ministers recalled that the scarcity of financial resources has often frustrated the efforts of indebted countries to restructure their economies. They urged the industrial countries to facilitate the flow of direct investment and other non-debt creating flows to indebted countries. Ministers stressed the need for a favorable international environment supportive of the strengthened debt strategy.

16. Ministers expressed concern about the slow pace of progress in debtor-creditor bank negotiations, and called on commercial banks to speed up negotiations on debt and debt-service reduction packages and new financing, and to grant waivers of contractual clauses when required in the context of structural adjustment. Ministers re-emphasized the need to ensure that bank financing packages are consistent with the requirements of debtor countries' Fund-supported adjustment programs. Ministers urged the commercial banks to establish an appropriate balance between debt and debt--service reduction and the provision of new money.

17. Ministers welcomed the recent debt initiatives taken by some industrial countries to alleviate the official debt and debt-service burden of the lower middle-income countries, and urged other

industrial countries to follow suit. Ministers stressed that standard rescheduling terms do not effectively alleviate debt-service burdens and eventually lead to an increased stock of debt, and that the resulting uncertainty about the future treatment of rescheduled debt-service payments undermines the confidence of investors, thereby reducing the chances for the restoration of investment and growth. Ministers reiterated that debt relief should be provided to these countries by not only the lengthening maturity and grace periods, but also by adequate reduction of debt and debt-service payments. Ministers urged the official creditors to provide grants and new loans on highly concessional terms in addition to the provision of concessions on existing debt.

18. Ministers called on the governments of creditor countries to review, amend, or introduce appropriate regulatory provisions, including fiscal and accounting measures, to encourage commercial banks to undertake debt and debt-service reduction operations and to provide new money, particularly to severely indebted countries. Ministers urged the creditor governments to facilitate the implementation of the strengthened debt strategy by providing greater financial support for debt and debt-service reduction operations. Ministers further urged them to re-establish in a timely fashion new medium-- and long-term credit or insurance cover at appropriate rates.

19. Ministers emphasized the importance of the fungibility and front-loading of funds for debt and debt-service reduction in the multilateral institutions and among donor countries and of incorporating these into existing guidelines on the subject to avoid undue rigidities which limit the effectiveness of the debt strategy. Ministers stressed the importance of augmentation, which should be used automatically and in a flexible manner, according to each particular case.

20. Ministers called attention to the specific situation of developing countries with substantial debt burdens, including those that have not restructured their debt and have remained current in servicing their foreign obligations. Ministers stressed that these countries have not benefited from debt relief initiatives and do not have adequate access to official resources. Ministers urged the official creditors to adopt appropriate measures to address the debt burden of these countries.

21. Ministers noted with deep concern that the debt and debt-service burdens of severely indebted low-income countries have become so large that it is unlikely that even continued concessional rescheduling over a very long period could lead to sustained growth and external viability. Ministers stressed that to benefit these countries the current debt-relief initiatives need substantial strengthening, including debt cancellation and additional resources on highly concessional terms. Ministers further stressed that such concessional treatment should be extended to the heavily indebted lower middle-income countries.

Policies and Reforms Toward Market-Oriented Economic Systems

22. Ministers took note of the recent market-oriented reforms in the formerly centrally-planned economies, with emphasis on enhancing competition and promoting the efficient allocation of resources, Ministers underlined that market-oriented structural reform should take account of the specific features of each economy, with due attention to alleviating the problems associated with the transition period. Ministers pointed out that sequencing of reform measures should be well considered so as not to undermine the reform process.

23. Ministers stressed that safety nets to protect the vulnerable segments of society are necessary to ameliorate any short-term adjustment costs that the implementation of comprehensive market-oriented reform policies may entail during the transition period.

24. Ministers re-emphasized the importance of a favorable and supportive external environment for the success of market-oriented reforms. Ministers underscored that access to international markets, managerial and technical assistance, together with transfers of appropriate technology to countries undertaking market-oriented reforms, will greatly facilitate the smooth implementation of such policies. Ministers encouraged the Bank and the Fund to continue to pay special attention to these efforts and provide support to member countries embarking on and implementing market-oriented reforms.

25. Ministers expressed the hope that implementation of market-oriented structural reform in the formerly centrally planned economies will result in the expansion of international trade and income, which would benefit all countries, including the developing nations. Ministers emphasized, however, that increased overall competition for foreign direct investment, debt relief, and financial and development assistance necessitates a significant rise in global savings as well as the flow of these resources, so that international financial support for reforms in the formerly centrally-planned economies does not occur at the expense of the developing countries.

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

Strategies for the Effective Reduction of Poverty in the 1990's

26. Ministers expressed concern that extensive poverty remains in many developing countries, and emphasized that extraordinary efforts by developed and developing countries are needed to alleviate this problem. Ministers stressed that sound macroeconomic and structural policies, with emphasis on labor-intensive economic strategies and investment in human capital, are effective means of reducing poverty in the developing world. Ministers underlined that well-targeted subsidies and adequate safety nets or income support arrangements for the protection of the poorest segments of the population are necessary. Ministers exhorted the World Bank and the Fund to improve the design of their programs for reducing poverty in developing countries and to implement procedures for more timely assistance to countries undertaking structural adjustment programs in the design of these programs.

27. Ministers emphasized that a reduction of poverty in rural areas depends on achieving sustainable growth in agricultural productivity, combined with guaranteed access of the poor to productive resources -- land, water, pastures and forests -- and financial resources. Ministers stressed that these considerations should be taken into account in formulating strategies for poverty reduction in the 1990s, with special consideration to granting adequate access for the agricultural products of developing countries to international markets.

28. Ministers stressed that farm trade policies of the OECD countries, particularly tariff escalation, non-tariff barriers including quantitative import restrictions, and assistance to domestic farmers via price supports, have a particularly damaging effect on low-income

countries. Ministers emphasized that the poor in the developing countries would gain from trade liberalization in industrial countries.

29. Ministers noted that a considerable part of aid is tied and not oriented toward development and poverty reduction, and stressed that donors should provide adequate assistance on appropriate terms to support policies aimed at poverty alleviation.

The Debt Strategy and Its Impact on Development Prospects for All Severely Indebted Countries

30. Ministers pointed out that the external debt crisis has severely undermined the economic conditions and prospects of the indebted developing countries. Ministers reiterated the need for the satisfactory resolution of the debt problems of severely indebted countries.

31. Ministers reiterated the need for financing formulas in the framework of debt and debt-service reduction for indebted developing countries that are current in their external financial obligations. Ministers called attention to the case of highly and moderately indebted countries implementing macroeconomic policies designed to promote growth and contain inflation while maintaining an adequate level of international reserves and servicing the foreign debt, especially those that have not restructured their external debt obligations. These countries not have not only been provided with an adequate solution to commercial bank debt, but also confront excessive conditionality in obtaining access to, and the use of, the resources of the multilateral financial organizations. A specific solution to their problem and more flexible access and utilization of these resources are of utmost importance not only to help reduce the debt burden, but also to support growth and the continuation of servicing the debt. An important part of that solution in the case of countries in these categories whose debts to official creditors are of some relative importance, should be the provision of more extensive and fluid access to general purpose financing.

32. Ministers indicated that uncertainty about the availability of continued official support to debt and debt-service reduction and the persistent of an unfavorable external environment weaken the chances of comprehensive reorientation of economic policies aimed at attracting foreign investment and other non-debt creating private flows. They reaffirmed that the international community should enhance its support for adjustment programs of severely indebted countries. Ministers emphasized the importance of the adoption of policies to consolidate national saving, attract non-debt creating flows, and reverse capital flight.

33. Ministers expressed concern that the strengthened debt strategy is under-funded and stressed that given the limited capacity of debtors to provide collateral for the enhancements required to effect debt and debt-service reduction, the scale of debt reduction needs to be enlarged through financial support from official sources. They urged the Fund and the World Bank to enhance the fungibility and flexibility of, and access to, set-aside and augmentation resources to further support debt and debt--service reduction operations.

34. Ministers stressed that there are many low and lower middle-income countries whose debts are mainly to official creditors and which have not benefited from the recent debt-relief

initiatives. Ministers noted that for a large number of these countries the heavy concentration of official debt implies that, without significant official debt and debt-service reduction, external viability cannot be regained. Ministers strongly called on the-international community to consider appropriate support for these countries, and urged the Paris Club to introduce without delay new options to address their debt burden.

35. Ministers welcomed the recent extension of the Special Program of Assistance to heavily indebted low-income African countries through 1993, but stressed that a great number of SPA-supported efforts lack sufficient external financing, and that there is a need to substantially enhance the SPA's financial resources and to extend its coverage to severely indebted lower middle-income countries in Africa.

36. Ministers strongly insisted that the international community enhance its efforts to provide more concessional assistance and substantial debt and debt-service reduction to the debt-distressed low and lower middle-income countries, so that they can reduce their debt to a serviceable level and thus restore normal debtor-creditor relations and resume effective economic development.

Enhancing, the Role of Women in Economic Development

37. Ministers pointed out that economic and social development requires the participation of all human resources, and enhancing the economic role of women will contribute to the development of society as a whole. Ministers emphasized that women can play a more important role in the world economy in bettering economic and social conditions if their considerable potential is realized. Ministers underscored that enhancing the economic productivity of women will promote their role in development, increase economic efficiency and growth, contribute to family welfare, reduce poverty, ease pressure on the environment, and check population growth.

38. Ministers emphasized the importance of improvement in female education, health, and women's access to the labor force, and underlined that a deliberate effort is required to include women effectively in the development process. Ministers stressed that programs for the advancement of women should be designed in the context of the specific circumstances of each country in terms of the country's stage of development and its socio-cultural, religious, political, and economic characteristics. Ministers further stressed that special attention should be given to the most disadvantaged groups of women in society.

39. Ministers welcomed the World Bank's initiative to assist women in the developing world, as well as the financial support provided by the UNDP and some member countries, and called on other donors to join in providing assistance in order to promote women's role in development.

40. Ministers drew attention to the five priority areas for future action identified by the World Bank: education; health and family planning; access to agricultural extension and credit for women farmers; promoter of women's entrepreneurship in small and medium-scale enterprises; and women's labor force participation. However, Ministers emphasized that other objectives should not be ignored, particularly those that ease pressure on women, such as increased water and fuel wood supplies, better household technology, and improved child-care facilities.

41. Ministers pointed out that, while many governments in developing countries are moving to implement policies aimed at improving opportunities for women, they face severe resource shortages; therefore, they called on the international community to support such efforts by providing concessional financial resources, technical assistance, and training programs. Ministers exhorted international financial institutions to create special facilities for the development of women in developing countries.

Review of the Implementation of the Bank's Action Plan for Private Sector Development and Progress in the Discussion of IFC's Capital Adequacy

42. Ministers noted that sound macroeconomic and structural policies are necessary conditions for private-sector development in developing countries, and emphasized that the success of this process depends greatly on a supportive external environment and the transfer of required resources and appropriate technology to these countries. Ministers stressed that the World Bank and the Fund should include in the agenda of their dialogue with industrial countries the impact of their economic policies -- especially taxes, trade (including tariff and non-tariff barriers), and exchange and interest rates -- on promoting the role of the private sector in economic development in developing countries.

43. Ministers took note of the active roles of the Bank and the Fund in helping interested countries to promote deregulation of their economies. Ministers underscored that the extent, sequencing, and phasing of deregulation and liberalization depend on the social, institutional, and economic structures of these countries. They noted that they should be preceded by an analytical study of the obstacles to the contribution of the private sector to development in each country, including realistic assessments of the consequences of proposed reforms.

44. Ministers reiterated the importance of the complementarity of the public and private sectors, and pointed out that the respective roles of the two sectors should be defined with reference to economic efficiency and should take into account the sociopolitical conditions of the country. Ministers stressed that privatization should not lead to replacement of public monopolies by private ones.

45. Ministers re-emphasized the importance of increasing public sector efficiency in developing countries, and emphasized that, where the capacity is lacking for the private sector to flourish immediately, it is crucial to restructure existing public enterprises and enhance their efficiency.

46. Ministers underscored that governments in most developing countries continue to have the main responsibility for providing infrastructure and social services. Ministers noted, however, that some countries, owing either to financial constraints or to the need to increase overall efficiency, may allow the private sector to be more involved in the provision of social services and certain infrastructure, and thus require more Bank assistance to promote the private sector's role in these areas.

47. Ministers stressed that, while reform of the financial sector is necessary for promoting private sector activities, the realities in many developing countries suggest the need for a cautious

approach in undertaking financial liberalization, particularly when there are extensive macroeconomic imbalances and a lack of strong regulatory institutions.

48. Ministers expressed concern that IFC's activities would be constrained by its existing capital base, and urged that a capital increase of at least 100 percent be agreed immediately. This would enable the Corporation to perform its expected role and meet the increasing demand for its financial resources and technical assistance in the process of enhancing the role of the private sector in developing countries. This capital increase is particularly important given IFC's well-proven catalytic role.

REPORTS

Environmental Issues

49. Ministers noted that effective management of the environment plays an important role in the attainment of sustainable development. Ministers emphasized that the prime responsibility for environmental pollution lies with industrial countries, and called on them to take more effective steps to reduce their emission of gases and ozone-depleting substances that produce the greenhouse effect, prohibit the dumping of pollutants and toxic waste in sea and fresh water sources, and ameliorate existing pollution in such water sources.

50. Ministers emphasized that the main cause of environmental degradation in developing countries is the lack of sufficient and adequate technological, and financial resources. Moreover, they recognized that multilateral development institutions can play an important role in environmental protection by providing financial and technical assistance consistent with the objectives and priorities of each country's national development plan. In this regard, Ministers called on industrial countries to provide additional financial assistance and transfer environmentally sound technologies on concessional terms. Ministers noted the progress made toward finalizing the Global Environmental Fund, and expressed appreciation for the contributors' objective of making the financing of this fund genuinely additional and concessional.

51. Ministers expressed deep concern that declining prices of raw materials undermine developing countries' financial capacity to address environmental problems and could intensify environmental degradation. Ministers noted that this process is reinforced by inappropriate trade and pricing policies of industrial countries, and called on them to reverse their protectionist trade policies.

Trends in the Transfer of Resources to Developing Countries

52. Ministers expressed deep concern about the decline of aggregate net flows and the acceleration of the negative net transfer of resources to developing countries in 1989, and strongly emphasized the urgent need to reverse this trend.

53. Ministers expressed deep concern about the continuous decline in private flows to developing countries, and noted that, in light of that decline, the importance of official flows to developing

countries has dramatically increased. Ministers regretted that net disbursements of Official Development Assistance stagnated in 1989, resulting in a sharp reduction of ODA as a percentage of GNP of industrial countries to levels far below the internationally agreed target. Ministers urged industrial countries that have not yet reached this target to substantially increase their ODA toward fulfilling their responsibility to meet the target.

54. Ministers strongly emphasized the need for a substantial increase in the flow of concessional resources to low and lower middle-income countries to finance their development needs and to sustain their growth-oriented adjustment efforts.

55. Ministers emphasized the adverse impact of high-real international interest rates on the already diminishing payment capacity of the indebted developing countries, and called on the industrial countries to reduce real interest rates through the adoption of appropriate economic policies.

56. Ministers noted with concern the Fund's negative net flows to developing countries in the past several years, and stressed the need for expanding the Fund's financial support to these countries, along with softening the conditionality on the use of Fund resources.

57. Ministers emphasized the important role of the catalyzing efforts of the Fund and the World Bank Group in encouraging more private flows to developing countries, and called on the international financial institutions to extend their support for these countries to attract more financial resources.

Current Developments in International Trade

58. Ministers reiterated their concern about the declining share of developing countries in world trade and called on industrial countries to improve market access to exports of finished and semi-finished goods as well as primary commodities from developing countries, as this is the most efficient way to expand commercial flows, ensure sustainable growth, alleviate poverty, and enable developing countries to meet their financial obligations.

59. Ministers emphasized that the profound transformation of the world economy, including the developments in Eastern Europe and the adoption of growth-oriented structural adjustment programs in many developing countries, increases the urgent need for a strengthened open multilateral trading system.

60. Ministers drew attention to the fact that the international trading system is now at a critical stage, with its future hinging crucially on the successful and timely outcome of the Uruguay Round, which is due to conclude in December 1990. Ministers expressed their deep concern about the status of the negotiations and the lack of substantive results at the July meeting of the Round's Trade Negotiations Committee, owing to the lack of political will of the major participants to tackle their differences in key areas, particularly agriculture, textiles, and clothing.

61. Ministers underscored that, despite their critical economic situation, many developing countries have made considerable efforts to comply with the objectives of the Ministerial

Declaration of Punta del Este through constructive participation in the Round as well as through autonomous trade liberalization efforts. Ministers called on industrial countries to speed up constructive negotiations on a fair and equitable basis in order to reach reasonable solutions for the existing imbalances currently impeding progress in the Round.

62. Ministers called on the industrial countries to remove the structural rigidities embedded in their economies in order to allow for more open international trade on the basis of comparative advantage conducive to the expansion of market access for developing countries' exports. Ministers stressed that this is the most efficient way to channel financial resources to developing countries, to ensure their sustainable growth, and to enable them to meet their financial obligations and achieve their development objectives.

G-24 REPORT ON THE ROLE OF THE FUND AND THE WORLD BANK IN THE CONTEXT OF THE DEBT STRATEGY AND PROPOSAL ON EXTERNAL DEBT BY SELA

63. Ministers welcomed the completion of the G-24 Deputies' report entitled 'The Role of the Fund and the World Bank in the Context of the Debt Strategy,' reviewing the current developments and proposing a series of recommendations by the Group of Twenty-Four concerning the debt strategy. They also welcomed the proposal by Latin American and Caribbean countries on external debt as presented by the Secretary General of SELA and approved by the Latin American and Caribbean Council.

64. Ministers directed the Chairman of the G-24 Ministers to present both the Group's report and the SELA document to the Managing Director of the Fund and the President of the World Bank, and encouraged the Executive Directors of the two institutions to take these reports' recommendations into account in their future consideration of the debt strategy.