INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

TWENTY-FIRST MEETING OF MINISTERS

COMMUNIQUÉ

Washington, D.C.
September 27, 1980

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their twenty-first meeting in Washington, D.C. on September 27, 1980. Professor S. M. Essang, Minister of Finance, Federal Republic of Nigeria, was in the chair, with Mr. Cesar Es A. Virata, Minister of Finance, the Philippines, and Mr. M. De Souza, Minister of Finance and Minister of Caribbean Community Affairs, Trinidad and Tobago, as Vice-Chairmen. The meeting was attended by Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. T. H. Kanaan, Chief, External Financing and Development Branch, UNCTAD, Mr. Cyrus Sassanpour, OPEC, Mr. E. Stern, Vice President, Operations, World Bank, and Mr. S. Dell, UNDP/UNCTAD Project Staff.

2. The meeting of Ministers was preceded by the thirty-first meeting of the Ministers of the Group of Twenty-Four, with Mr. G. 0. Nwankwo, Nigeria, as Chairman and Mr. Benito Legarda, the Philippines, and Mr. Victor Bruce, Trinidad and Tobago, as Vice-Chairmen.

39 The Ministers discussed the international economic situation and the adverse implications for developing countries of the further deceleration in the growth rate of industrial countries, persistence of high inflationary pressures and the continuing underutilization of resources. They noted with grave concern the widening of the deficits on current account of non-oil developing countries from $56 billion in 1979 to $76 billion in 1980. The prospects for 1981 indicate a further deterioration to $80 billion. The main factors accounting for this deterioration are worsening terms of trade, weak growth in exports to developed countries induced by slow growth rates, the rising wave of trade protectionism in industrial countries and higher nominal interest rates. The financing of these deficits is becoming increasingly difficult because of inadequate flows of real resources, particularly those on concessional terms, and increasing resort to financial protec-tionism by industrial countries. All these will lead to further deterioration in the import capacity and growth prospects of non-oil developing countries, and further aggravate the debt-service situation of several developing countries.

4. The Ministers welcomed the Fund's recognition that the size and structural nature of the imbalances necessitate the provision of larger resources over longer periods than in the past. They were of the view that the bulk of the deficits are exogenously induced and are not amenable to traditional adjustment measures. They urged that adjustment policies should take cognizance of the origin and structure of the imbalances and that they should be borne equitably by both developed and developing countries. They reiterated that the developed countries should not shift

the burden of their adjustment to developing countries through measures such as reduction of their aid flows and increases in trade and financial barriers.

5. The Ministers stressed that, particularly in the low-income developing countries, the scope for adjustment without causing severe damage to their already low rates of growth is very limited, and that the mix of financing and adjustment should take into account the special circumstances of individual countries.

6. Ministers recognized the need for the Fund to increase its resources. They were of the view that the increase should be through substantial increases in quotas. In this connection they urged the early implementation of the Seventh General Review and advance consideration of the Eighth General Review of Quotas. They observed that the size of quotas in relation to the volume of imports and financing needs has shrunk over the years and urged that this erosion in the relative size of quotas be reversed. Pending such developments Ministers can support the Fund's proposal to supplement its resources through borrowing and urge that the resulting additional resources should be lent with low conditionality.

7. Ministers noted that most developing countries were facing severe external imbalances. They stressed the need to modify Fund policies to allow this institution to play a greater role in the financing of these imbalances. Furthermore, the Ministers reiterated their support for an expansion to 30 percent of quota of the first credit tranche to help meet the present situation, and also extended support to the proposed policy of increasing access to IMF funds as presented by the Executive Board.

8. The Ministers reaffirmed their view that in the present difficult situation additional balance-of-payment support should be provided with the minimum of conditionality. In this context they emphasized the importance of the establishment of a medium-term balance-of-payments facility as stated in the Program of Immediate Action of the Group of Twenty-Four, which would carry minimum conditionality and provide support that is significant in relation to present levels of deficits. The facility should have as one of its basic characteristics an interest subsidy account for low-income developing countries.

9. Ministers welcomed the initiative of the Fund's management in responding to the request by the Food and Agriculture Organization/World Food Council for additional financial assistance to low-income food-deficit countries with weak balances of payments, when such countries are adversely affected by a crop failure or an increase in the world price of essential food items, especially cereals. They expressed support for an appropriate financing mechanism for this type of assis-tance by the Fund.

10. Ministers expressed concern at the proposal to wind up the Trust Fund and to use part of its resources to finance the proposed Subsidy Account aimed at lowering the cost of use of SFF by low-income developing countries. They reiterated their call for the continuation of the Trust Fund and augmentation of its resources. They stressed that the establishment of the Subsidy Account should not lead to the liquidation of the Trust Fund. They re-emphasized that all the resources of the Trust Fund should be used exclusively for the benefit of the low-income developing countries, and should not be linked to drawings under the SFF. They observed that

the Subsidy Account, which the Group of Twenty-Four asked for, is different from the one now being proposed by the Fund, in that it lacks the essential characteristic of additionality of resources. Any Subsidy Account that is established should lead to additionality of resources to low-income developing countries. It should be financed through voluntary contributions and, if necessary, by other appropriate means.

11. Ministers noted that decision-making in the Fund is determined primarily by the member's voting power which in turn is derived from the size of the member's quota. In this context, they called for an increase in the developing countries' share of the total quota from approximately 33 percent to 43 percent which will also lead to increasing their weight in the decision-making process. They therefore called for a thorough review of the formula for determining members' quotas and for advancement of work on the Eighth Quota Review. In order to help make the IMF more appreciative of the problems of devel-oping countries, Ministers stressed the need for early recruitment by the Fund of a larger number of middle- and senior-level officials from those countries.

12. The Ministers welcomed the Fund staff papers on SDR allocations, and they were of the view that unexpected major developments in the world economic situation as contemplated in Article XVIII had taken place since the decision on allocation for the current basic period was taken, and therefore called for a supplementary allocation of SDR 6 billion for the remainder of the present basic period. They also called for allocations of at least SDR 10 billion annually over a five-year period beginning in January 1982. Such allocations, they observed, were justified by the growth in the value of international trade, the increased demand for reserves generated by the current and prospective large external payments imbalances, and the need to make the SDR the principal reserve asset in the system. They further stressed that the role of the SDR as the principal reserve asset in the system could be improved by elimination of the reconstitution requirement, substantially increasing allocations, and an improvement in its charac-teristics and attractiveness. In this regard, the Ministers noted the decision to make the SDR valuation and interest-rate baskets identical.

13. Ministers observed that the Executive Board had held exploratory discussions on the link between SDR allocations and additional development finance. They noted that the link would provide a means of giving substance to the general agreement on the desirability of promoting the flow of real resources to developing countries and would facilitate the recycling process. It would also correct the poor distribution of international liquidity. They therefore urged the early establishment of the link, which should be direct. They also felt that the link should not be tied to the use of Fund resources.

14. Ministers noted that the recent liberalization of the compensatory financing facility have increased the amount of purchases a member can make. However, they requested the IMF to consider further liberalization, including full compensation of the shortfall and longer repayment terms in certain circumstances, taking into account deterioration in the terms of trade and tying repayments to increases in real exports, and to keep under constant review developments in the area of the stabili-zation of export earnings, with a view to further improving the benefits to members drawing under the compensatory financing facility. Ministers also urged all concerned to make every effort to bring about the early establishment of a global stabilization scheme on

export earnings of developing countries.

15. The Ministers reviewed the World Development Report, 1980 prepared by the staff of the World Bank. They appreciated the efforts put into the preparation of the report, particularly in diagnosing the acute problems confronting the developing countries. They stressed that adjustment should be equitably shared and that, because of their weight in the world economy, the industrial countries should assume a larger share of the burden. In this regard, they expressed regret that policy prescriptions for the developed countries fall short of expectations. They emphasized the pressing need for a substantial increase in the transfer of real resources to the developing countries, particularly of concessionary assistance to the lower-income developing countries. In this regard, they expressed concern over the prospects of inadequate flows of Official Development Assistance (ODA) in the 1980s and urged the industrial countries to strive to reach the target of at least 0.7 percent of GNP by 1985, and invited those industrial countries that have reached the target to further increase their assistance. Contributions toward ODA can be facilitated and made less uncertain, inter alia, by donors allocating 3 percent of the annual increase in their GNP to ODA, as well as by multi-year planning and cash budgeting techniques. The Ministers expressed the desire that at least 50 percent of increasing ODA disbursements should be made available to the low-income developing countries. In this context, they urged that special attention be accorded to the problems of the least developed countries. Multilateral financial institutions should also give them priority in their programming and allocation of resources.

16. The Ministers drew attention with concern to the current and prospective debt situation, particularly of the low-income countries and in this connection called for the full and immediate implementation of UNCTAD Resolution 165 (S IX) related to the adjustment of terms on past ODA debts.

17. The Ministers viewed with profound concern the increasingly difficult external financing problems faced by the developing countries, and deplored the fact that IDA has had its new lending operations brought to a halt by lack of fresh commitment authority. They strongly urged that the legislative action needed to make the agreed Sixth Replenishment of IDA effective be completed with the utmost possible speed. The Ministers welcomed the steps taken by several IDA contribu-tors to provide advance contributions to bridge the gap until IDA-6 becomes effective and urged the remaining contributors to take early action on their advance contributions so as to make possible the resumption of IDA commitments. The Ministers also stressed the urgent need to complete legislative actions on the recently agreed increase in the capital of the World Bank and to further enlarge its capital base and take other measures to enable it to expand its annual lending in real terms by not less than 10 percent. They also called for expansion of the capital base of the regional development banks.

18. Ministers noted that the projected investment needs of oil-importing developing countries for intensifying development of all possible energy sources are very large, in the order of $400 billion, over the five years 1981-85; and they welcomed the World Bank's efforts to expand its programs in this area, as long as they are financed with additional resources. They were of the view that it is still too early to evaluate the potential benefits and costs of the proposed energy affiliate to the World Bank. They suggested that when the organizational structure and financing

policies for mobilizing the expanded lending program for energy exploration and development take a more concrete shape, a specific proposal should be placed on the agenda of the Development Committee. The Ministers emphasized the need to evaluate energy proposals in the context of a global and strategic approach, taking into account other initiatives that are being discussed in other fora.

19. Ministers urged that the World Bank and other international financial institutions should urgently explore the possibility of further expanding their lending to the developing countries over the presently planned levels. In order to sustain this lending, consideration should be given to the gearing ratios of these institutions.

20. Ministers referred to the structural adjustment financing program initiated by the World Bank. They stressed their view that this facility should be funded with additional resources so as not to impair the traditional operations of the Bank. They urged that this new type of World Bank operation be on reasonable terms and kept distinct from the IMF and be based on programs formulated by the developing countries themselves. They were of the view that in formulating the programs the particular characteristics of each country should be taken into account, and that the facility should not be a substitute for other types of program or project loans.

21. Ministers noted that non-concessional capital flows from the private capital markets and financial institutions are already inadequate to meet the needs of developing countries in 1980, and that the prospects for 1981 and beyond are even more uncertain. They there-fore urged the capital market countries to enhance developing countries' access to their markets. They stressed the need to keep these capital markets free from interference and restrictions, by confining regulation to concerns which were truly prudential in nature. This would strengthen the role of private banks in channeling funds to developing countries and enable them to continue to serve as a major international conduit of funds. They called on international organizations to devise means of aiding developing countries in finding access to international capital markets.

22. Ministers noted that the Task Force on Non-Concessional Flows has submitted a progress report to the Development Committee and intends to continue its work on the basis of the studies it has requested the World Bank to undertake. Recognizing the satisfactory progress so far made by the Task Force and the importance they attach to its future work, the Ministers agreed to the proposals contained in the progress report and called on the World Bank to assist the Task Force in preparing the studies it has requested to enable it to complete its assignment.

23. The Ministers also noted the report by the Task Force on Private Foreign Investment.

24. Ministers noted that the World Bank has not yet completed studies on many of the recommendations of the Brandt Commission related to its work. They urged that the Bank expedite action on studies currently under way, with a view to early implementation of the proposals.

25. Ministers noted the report of the high-level Intergovernmental Group of Experts on the Evolution of the International Monetary System and welcomed the Group's statement that the international monetary system is due for a fundamental and comprehensive reform as an integral

part of a restructured system of international economic cooperation. They acknowledged the role of UNCTAD as contributory to further discus-sion on the broader requirements of the future evolution of the international monetary system. They endorsed the developing country experts' view that an orderly and purposeful evolutionary process for the international monetary system was preferable to alternative methods, and supported their desire to devise a system more favorable to the growth of trade and the prospects of development in cooperation with all countries and all relevant institutions. They welcomed the presence and participation of representatives from the IMF and the IBRD at the Meeting of the Group of Experts and called upon those developed countries that did not participate in the session to do so when the Group resumes its meetings. They also expressed disappointment that agreement was not reached in the United Nations on the agenda and procedures for the global negotiations and called for early agreement on them.

26. The Ministers agreed to hold their next meeting in Libreville, Gabon, in the spring of 1981.