

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS

COMMUNIQUÉ

September 19, 1992

Ministers of the Group of Twenty-Four on International Monetary Affairs held their Forty-Seventh Meeting in Washington, D.C. on September 19, 1992. Mr. Alhaji Ahmadu Abubakar, Minister of Finance of Nigeria, was in the Chair, with Mr. Mohamad Imady of the Syrian Arab Republic as First Vice Chairman, and Mr. Edin Velásquez of Guatemala as Second Vice Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund, Mr. Lewis T. Preston, President, World Bank, Mr. Peter Mountfield, Executive Secretary, Development Committee, Mr. K. Dadzie, Secretary General, UNCTAD, Mr. G. K. Helleiner, G-24 Research Coordinator, Mr. Ji Chaozhu, Undersecretary General, United Nations, Mr. Y. Seyyid Abdulai, Director General, OPEC Fund, Mr. A. N. Hersi, Advisor, Islamic Development Bank, Mr. Jose Rivera Banuet, SELA, Mr. Carlos Vega Avila, CAMC, Ms. Ines Bustillo, ECLAC, Mr. Mohamed Berrada, Morocco, and Mr. Abdelaziz N. Al-Orayer, Saudi Arabia; Mr. Chi Haibin, People's Republic of China, attended as invitee.

The Meeting of the Ministers was preceded on September 18, 1992 by the Sixtieth Meeting of the Deputies of the Group of Twenty-Four, with Mr. Ismaila Usman of Nigeria as Chairman, Mr. Adnane Al-Sati of the Syrian Arab Republic as First Vice Chairman, and Mr. Edin Velásquez of Guatemala as Second Vice Chairman.

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ISSUES BEFORE THE INTERIM COMMITTEE

I. World Economic Outlook

1. Ministers noted with great concern the slow and uneven recovery of world output, the weak growth of trade, and the continuing large fiscal deficits of industrial countries that have contributed to the great pressure on global savings, the increased real cost of resources and the ongoing turmoil in the European financial markets. These developments have undermined the stabilization and economic reform efforts in many developing countries and have adversely affected their growth prospects.

2. Ministers also noted that the turmoil in international financial markets and the very high interest rates prevailing in Europe not only impede the recovery of those economies, but also hinder growth and add to uncertainties prevailing in the international economy. These problems reveal the need for an improved policy mix and effective policy coordination among industrial

countries.

3. Ministers called on industrial countries to pursue meaningful structural reforms and credible macroeconomic policies directed at eliminating structural rigidities, reducing long-term interest rates through fiscal consolidation, narrowing divergence in economic policies, and promoting sustained global economic growth with price stability.

4. Ministers reiterated their call on the Fund for greater and effective surveillance over the macroeconomic and trade policies of the major industrial countries in order to ensure a more effective functioning of the international monetary system, so that the cost of adjustment is equitably shared. They regretted the delay in the preparation of the study requested earlier by the G-24 Ministers on the surveillance of the macroeconomic policies of the major industrial countries. They also called on the Fund to include in this study the effects of the macroeconomic policies of industrial countries on the adjustment efforts of developing countries.

5. Ministers noted that sustained structural adjustment and economic reforms in a growing number of developing countries have led to their improved economic performance. In this connection, they stressed that the growth-oriented adjustment efforts of developing countries -- in particular, efforts to reallocate and expand investment -- should be supported by sustained and substantially increased concessional financial flows from the international community, as well as by a conducive and supportive international environment.

6. Ministers noted the continued efforts of former centrally planned economies to transform their economies into market-oriented systems. They also noted the role of technical and financial assistance and the market access provided by the international community, particularly by the major industrial countries. They re-emphasized, however, that financial and other assistance to these countries should be additional to, and not at the expense of, the assistance to other developing countries.

7. Ministers welcomed the recent progress made under the strengthened international debt strategy, but expressed concern that the debt problem of developing countries is still far from being resolved. They, therefore, urged the international financial community to further strengthen its efforts, through substantial debt cancellation and provision of adequate new financing, on a predictable and timely basis, to deal effectively with the interrelated problems of growth and debt in developing countries. They reiterated their call on the Fund and the Bank to provide technical assistance to improve debt management. They noted that, for those countries close to completing debt restructuring packages, a flexible application of segmentation provisions by the Fund should be ensured.

8. Ministers welcomed the recent decision of the G-7 Summit to extend the enhanced Toronto terms to a number of lower middle-income debt-distressed countries, and urged that the consolidation period of the enhanced Toronto terms be significantly extended. Furthermore, they restated their call on the Paris Club to adopt in full the Trinidad and Tobago terms for the low - and lower middle-income countries, as well as to give adequate debt relief to heavily indebted middle-income countries.

9. Ministers called attention to the commendable efforts of some heavily indebted developing countries that have not rescheduled but have regularly serviced their debt. They observed that these countries have not benefited from the debt relief initiatives, and that many of them do not have adequate access to official credits and international financial markets. They urged the official creditors and the Bretton Woods institutions to provide appropriate support for the efforts of these countries.

10. Ministers noted with concern that only a few indebted countries had concluded commercial bank debt restructuring agreements. They also noted the limited recovery of spontaneous capital flows. In this connection, they restated their view that the industrial countries and the Bank for International Settlements should review and improve supervisory practices and regulations in order not to unduly constrain the banks in industrial countries from lending to developing countries, through additional conditions that reduce voluntary credit and investment flows, including new money.

11. Ministers stressed the importance of a more favorable trading environment for developing countries, and expressed deep concern over the protracted negotiations and the failure to conclude the Uruguay Round of multilateral trade negotiations. They, therefore, urged the industrial countries to develop the political will to bring the Round to a rapid and successful conclusion in consonance with the spirit of the G-7 Munich Summit, which reaffirmed the need for a successful conclusion of the Round in 1992.

12. Ministers commended the international community -- in particular, the United Nations and the Bretton Woods institutions -- for its timely response to the drought in Eastern and Southern Africa. They hoped that the target of \$900 million for the drought relief would soon be reached, and urged the donors expeditiously to turn their pledges into aid deliveries. Deputies also called on the Bank and the donor community to assist these countries to establish food security and early drought sensing systems in order to minimize the impact of future occurrences.

13. Ministers expressed grave concern about the deteriorating economic and social conditions in a number of war ravaged developing countries. They reiterated their call on the donor community to strengthen its efforts to provide substantial emergency relief and reconstruction operations for the recovery and rehabilitation of these economies and the resumption of essential services.

II. Ninth Quota Review

14. Ministers noted that a large number of Fund member countries have now complied with the requirements for consenting to the Fund quota increase under the Ninth General Review. They stressed the urgent need for the quota increase to come into effect in view of the projected sharp deterioration in the Fund's liquidity position in 1992 and the need to strengthen this liquidity position to enable the Fund to cope with the increasing demand on its resources. They, therefore, urged members that have not done so to take immediate steps to complete the process to bring the quota increase into effect.

15. Ministers noted that, in accordance with the Articles of Agreement, the Fund's work on the

Tenth General Review of Quotas should commence on time.

III. SDR Allocation

16. Ministers drew attention to the recent Fund staff study which showed the overwhelming need for a new SDR allocation to supplement global reserves and international liquidity. They regretted that in spite of this, the Fund has not been able to reach agreement to resume SDR allocations. They reiterated their call, therefore, for a new, substantial, and unconditional allocation to supplement global reserves, and strongly urged those industrial countries that are still opposed to a resumption of SDR allocations to reconsider their position. They further urged that favorable consideration be given to making available a substantial part of any new allocation to developing countries.

IV. Enhanced Structural Adjustment Facility

17. Ministers welcomed the decision by the Executive Board to extend to end November 1993 the period for the commitment of resources under the enhanced structural adjustment facility (ESAF). They underscored the invaluable role the ESAF has played in providing concessional resources for the implementation of structural adjustment programs in low income developing countries. They expressed concern that, if the facility were to lapse in November 1993 without either renewal or a successor facility, the adjustment efforts of those close to gaining access to the ESAF, as well as of those requiring a longer period for structural adjustment, would be seriously jeopardized, and the gains of the past reversed. They strongly urged the Fund and the donor countries to establish a concessional successor to the ESAF. In this respect, they welcomed the call by the G-7 Munich Summit for the Fund to carry out a "full examination of the options available for the subsequent period, including a renewal of the facility."

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

V. Resource Flows to Developing Countries

18. Ministers took note of the joint Bank/Fund issues paper on resource flows to developing countries and urged the Development Committee to include a regular review of this topic at all its Fall meetings, with concrete proposals on the role of the Fund and the Bank in this connection. They observed that, although aggregate resource flows to the developing countries increased moderately in real terms in 1991, they are still far below the levels achieved in the early 1980s, and that there is an increasing gap between the global resources available and the development financing needs.

19. Ministers stressed that effective mobilization of domestic savings is a crucial element in closing the financing gap in developing countries. In this connection, they recognized the importance of sound macroeconomic policies, including reduction of fiscal deficits, efficient tax laws, and establishment and deepening of capital markets for effective mobilization and utilization of domestic savings. They called on all donors, multi-lateral financial institutions, and commercial banks to reinforce efforts to provide adequate financial flows to supplement the domestic resources of developing countries in order to improve their prospects for sustainable

growth, poverty reduction, environmental protection, and the resolution of the debt problem.

20. Ministers welcomed the World Bank President's report to the Development Committee recognizing that the Bank must play a central role in helping its borrowers implement necessary reforms through constructive policy dialogue supported by economic and sector work and technical assistance. They indicated that the opportunity for increased Bank lending in the present decade can be expected to grow. In this connection, they stressed that all developing countries should benefit in an adequate and equitable manner from the allocation of the Bank Group's resources, advisory services, and technical assistance. They also reiterated their call on the Bank to prepare appropriate proposals for the utilization of its increasing net income, as requested earlier by the G-24 Ministers.

21. Ministers expressed deep concern about the emerging trend of net negative transfers from the Bank to its borrowing countries, and urged the Bank to take steps within a specified time frame to reverse the trend. They called on the Bank to assist developing countries in this situation in finding new viable investment projects to be financed by the Bank, and to expedite disbursements by reviewing and streamlining procedures.

22. Ministers stressed that additional resource flows to the low-income and lower middle-income sub-Saharan African countries need to be much larger in volume and must continue to be on highly concessional terms, given the widespread poverty, low levels of saving and investment, excruciating debt service burden, and recently, the severe drought and famine problems these countries have had to grapple with.

23. Ministers expressed concern that after 25 years of appeals and promises, the overall ratio of official development assistance (ODA) to GNP is still only 0.34 percent. In this connection, while commending the efforts of those donor countries that have reached or surpassed the internationally agreed 0.7 percent ODA/GNP target, they renewed their call on those industrial countries that have not done so to take urgent measures to achieve the agreed ODA/GNP target. They welcomed the undertaking at the Rio Conference by some industrial countries to attain the target by the year 2000. They also welcomed the recent agreement at the G-7 Munich Summit to direct ODA more toward the poorest countries, and the promise to increase the quantity and quality of ODA, and also urged that these decisions be implemented vigorously and expeditiously.

24. Ministers recognized that foreign direct investment (FDI) can potentially increase resource flows, and that the challenge is to maximize this potential by expanding the flow and the coverage of FDI beyond its present level and a few well established countries. They called on the industrial countries to adopt fiscal incentives and to liberalize trade in order to stimulate FDI in developing countries. They also called on multilateral financial institutions to enhance their efforts to accelerate the growth of FDI in a balanced manner in developing countries. They further called on the governments in developing countries to provide an enabling environment to attract additional FDI flows and encourage the repatriation of flight capital. They urged the Bank Group, in particular, to explore innovative mechanisms to facilitate the flow of private funds to developing countries.

VI. Legal framework for the Treatment of Foreign Investment

25. Ministers welcomed the report by the World Bank entitled "Legal Framework for the Treatment of Foreign Investment," which provides non-binding and adaptable guidelines for developing countries. They noted that these guidelines encourage host governments to assume certain obligations, and that adequate obligations should also be assumed by the foreign investors. They noted the work being done by the United Nations in this connection, and reaffirmed the view that the guidelines should not lead to an additional Bank lending conditionality.

VII. Recent Developments in the Uruguay Round

26. Ministers stressed the importance of an open trading system to the flow of resources to developing countries. They urged industrial countries to adopt trade and structural policies that would allow developing countries to take advantage of their export potential. They emphasized the need for a speedy and successful completion of the Uruguay Round of multilateral trade negotiations in order to improve market access for developing countries. They reiterated the need for specific offsetting measures for the net food importing developing countries, including food and financial aid, as well as technical assistance, to improve food production and productivity in these countries during the transition period.

27. Ministers noted with concern that the efforts of many developing countries to liberalize their economies have not met with an adequate response on the part of industrial countries. They expressed particular concern about the persistence of — and in a number of cases, the increase in — subsidies and trade barriers by industrial countries.

28. Ministers noted the increase in the number of regional trade arrangements, and emphasized that these arrangements should not lead to higher trade barriers against nonmembers.

VIII. The Outcome of the United Nations Conference on Environment and Development and the Follow-up Action Planned

29. Ministers emphasized that, in connection with the outcome of the recently concluded United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil, concerted action and proportionately shared responsibility are crucial to address global environment and development issues effectively. They noted that a very substantial amount of resources is required to implement the decisions of the Conference. They stressed the need for industrial countries to assume a greater share, and the necessity for new and additional financial flows to developing countries, on highly concessional terms, in order to promote environmentally sustainable growth and poverty alleviation in these countries.

30. Ministers expressed satisfaction with the recent agreement to restructure the Global Environment Facility (GEF). They noted, in particular, the provisions for sufficient flexibility to expand the scope and coverage of the facility to relevant program areas -- such as land degradation issues, primarily desertification and deforestation -- as well as to ensure transparency in its decision making and operations by guaranteeing a balanced and equitable

representation of the interests of developing countries. They called on the United Nations to establish as soon as possible the proposed intergovernmental committee to negotiate an international convention to deal with the problem of desertification, especially in Africa.

31. Ministers stressed that national environmental problems in many developing countries are often a consequence of widespread poor living conditions in these countries, as demonstrated in the 1992 World Development Report. They, therefore, called on the multilateral development institutions to increase their concessional financial flows above the current levels in order to deal effectively with a major cause of the problem -- namely, poverty. They also urged the industrial countries to increase their ODA flows to simulate environment programs and promote sustainable development.

32. Ministers stressed that environmental concerns should not be used as an excuse to increase protectionism against developing countries' exports.

IX. IDA-10 Replenishment

33. Ministers once again drew attention to the role of IDA in reducing poverty, enhancing productivity, stimulating economic growth, and protecting the environment in low-income countries. They also drew attention to the expected large increase in demand for IDA resources in the 1990s as a result of the increase in the number of eligible members, the need to consolidate the gains made so far through IDA-assisted programs, and the requirements of the "Earth increment." They, therefore, stressed the need for a substantial increase in the IDA-10 Replenishment, which should be significantly higher in real terms than IDA-9, and urged the donor countries to respond positively before the end of 1992.

REPRESENTATION IN THE BRETTON WOODS INSTITUTIONS

34. Ministers welcomed the recent recommendation by the Executive Boards of the Fund and the Bank to increase the number of seats on both Boards to accommodate the growing number of new members of the institutions. They emphasized, however, the need to continue to preserve the true multilateral character of the Bretton Woods institutions, and reaffirmed their call for the geographical representation and voting power of the present developing countries in the Fund and the Bank and the number of their seats on the two Executive Boards to be at least maintained, if not increased.