INTERGOVERNMENTAL GROUP OF TWENTY-FOUR

ON INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT

COMMUNIQUÉ

April 28, 2001

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their sixty-fifth meeting in Washington, D.C., on April 28, 2001. Mr. Joseph Sanusi, Governor of the Central Bank of Nigeria was the Chairman, with Mr. Alain Bifani of Lebanon as First Vice-Chairman, and Senator Gerald Yetming of Trinidad and Tobago as Second Vice-Chairman.

The meeting of the Ministers was preceded on April 26-27, 2001 by the seventy-seventh meeting of the Deputies of the Group of Twenty-Four, with Dr. Ramsey Mowoe of Nigeria as Chairman.

A. Global Economic Outlook

1. The outlook for the world economy has worsened in recent months reflecting the slowdown in the U.S. economy, compounded by the failure of recovery efforts in Japan and slower growth in Europe. This has created large uncertainties and risks, making economic management among developing countries more difficult. The implications of this for developing countries are severe, particularly in terms of lower exports against the backdrop of weakening demand in advanced economies and a secular decline in non-fuel commodity prices. Furthermore, a growing risk aversion in the capital markets may lead to a sharp decrease in private capital flows to developing countries. This outlook calls for greater vigilance within the international community and for greater policy coordination among the major currency areas. In this context, the maintenance of adequate and stable flows of public capital becomes imperative if developing countries are to avoid having to take drastic contractionary measures. This applies not only to ODA flows to the poorer countries but also to flows from the international financial institutions.

B. World Bank – IMF Support For Low-Income Countries

(i) Enhanced HIPC Initiative

2. Ministers welcome the progress made under the Enhanced HIPC Initiative. They, however, note with concern that only one country has reached completion point, and urge that efforts be redoubled to bring more eligible countries to the completion point at the earliest date. Ministers stress the importance of HIPCs having access to adequate and additional concessional financing so that the objectives of higher growth and long-term debt sustainability may be achieved. Ministers recognize the need to ensure that HIPC relief is directed towards reducing poverty, with priority given to social spending in the areas of education and health, including fighting HIV/AIDS and other pandemics. In this context, substantial technical assistance will be needed to support the public finance systems of HIPCs, including effective public expenditure management. Ministers welcome the contributions of multilateral and bilateral creditors to the

Initiative and urge them to ensure that the HIPC Trust Fund is adequately funded, with due consideration to the special circumstances of developing country creditors. They also call for additional funding to meet the needs of countries with protracted arrears, which have not been included so far in the costing exercise.

(ii) The Poverty Reduction Strategy Paper (PRSP) Process

3. Ministers note the progress made with respect to the PRSP process. In this regard, they emphasize the need to keep conditionality simple, realistic, and focused on a few key issues and to ensure that the modalities for the preparation and approval of the PRSP are designed to be consistent with the existing institutional framework in the country concerned. Ministers also urge that donors provide support to the HIPCs in the form of budgetary assistance. They welcome the introduction of the Poverty Reduction Support Credit (PRSC) instrument of the Bank and stress the importance of avoiding overlap, conflicting advice, and cross-conditionality with the IMF Poverty Reduction and Growth Facility (PRGF).

(iii) Communicable Diseases

4. Ministers note with deep concern that the HIV/AIDS pandemic has continued its alarming spread, with almost 95 percent of those infected residing in developing countries. They are encouraged by the increased global awareness of the disease and of the threat that it poses to international development. Ministers welcome the World Bank's expanded support through the Multi-country AIDS Program (MAP) recently approved for African countries. Ministers urge the Bank to further expand its funding of HIV/AIDS projects, strengthen support for the use of HIPC resources for combating the disease, explore the use of grants for HIV/AIDS programs in all affected developing countries, and establish a global trust fund for addressing the disease. They also urge the Bank, under the Accelerated Access Initiative, to continue its support for making appropriate drugs affordable and accessible, and to strengthen its partnerships with UNAIDS and other important actors in the effort to develop a vaccine. Ministers stress the need to complement these efforts with a parallel effort to address other diseases which continue to constrain the development of low-income countries, including malaria, tuberculosis and other communicable diseases. In this context they commend the Bank and its partners for establishing the Rollback Malaria Initiative, and urge them to continue to pursue innovative ways of addressing other communicable diseases.

C. Countries In Conflict

5. Ministers note with dismay the continuation of armed conflicts in many low- and middle-income countries and the major impediment these present to their development. They underscore that conflict resolution must be given top priority if the strategy for growth and poverty reduction is to succeed. In particular, Ministers urge support for the OAU Mechanism for Conflict Prevention and Resolution. Most countries in conflict are heavily indebted, often with arrears to the international financial institutions. Ministers urge the Bank and the Fund to further enhance their special policies and instruments to assist countries emerging from conflict, and to help meet their substantial technical assistance needs by enlarging the Bank's Post-Conflict Fund, broadening the scope of IDA grants, and helping to mobilize donor funding. Ministers stress the

need for the HIPC framework to be flexibly implemented to accommodate the special circumstances of post-conflict countries by shortening the track record required for both the decision point and the floating completion point, as well as by front-loading interim assistance. Ministers encourage the Bank and the Fund to give particular consideration to the case of post-conflict countries in arrears and seek effective mechanisms for addressing their special needs, in collaboration with other development partners. Ministers also urge the Bank and the Fund to design policies appropriate to tackle the special development difficulties of middle-income countries emerging from conflict.

D. Trade and Development

6. Ministers welcome the World Bank's increased support for developing countries' efforts to leverage trade and investment into faster economic growth and poverty reduction. They note that developing countries have become more important players in the global market as their share of world trade has increased substantially in the last three decades. Ministers recognize, however, that many developing countries, particularly low-income countries, have not benefited from this trade expansion. This is due, in part, to protectionist mechanisms, such as anti-dumping and countervailing duties, as well as subsidies in advanced economies and the slow implementation of trade liberalization agreements, such as those in agriculture, which impose prohibitive costs on developing countries. Barriers to developing country exports in industrialized markets continue to severely disadvantage developing countries. For example, industrialized countries spend more than $300 billion a year on agricultural subsidies, which is roughly equivalent to the total GNP of sub-Saharan Africa, and their tariffs on meat, fruit, and vegetables—all primary exports from the developing world—can exceed 100 percent. These have the effect of inhibiting developing country exports and competitiveness. It is conservatively estimated that costs in terms of foregone income to developing countries from trade restrictions on their exports exceed $100 billion a year. It is pertinent to note that aggregate aid flows to developing countries are less than $60 billion a year. Furthermore, FDI flows remain concentrated in a small number of developing countries, but many more are yet to receive FDI at the levels necessary to spur their development.

7. Ministers urge the Bank to support the efforts of developing countries to use the multilateral system more effectively to promote trade and development by increasing their access to global markets. This will involve preparing them for a new round of trade negotiations and supporting their capacity building efforts for accession to the World Trade Organization (WTO). Ministers welcome the European Union's "Everything But Arms" initiative to grant lower-income developing countries duty-free and quota-free access to their markets, while fulfilling its obligations to its traditional developing country trading partners. They also welcome a similar initiative by the government of New Zealand.

8. Ministers urge the Fund to continue to strengthen its work on trade policy advice, and encourage both the Bank and the Fund to work in collaboration with other relevant international entities such as the WTO, UNCTAD, ITC, UNDP and the Regional Development Banks, to provide policy advice and lending to developing countries for capacity building, the expansion and diversification of exports, and infrastructure development, so as to expand trade and accelerate their integration into the global economy. They note the lack of progress since the

establishment by the World Bank of the International Task Force on Commodity Risk Management in Developing Countries for addressing the adverse impact of price volatility on developing countries, and look forward to speedy implementation of the initiative.

E. International Financial System

9. Ministers note the significant progress made in strengthening the international financial system through the development of international codes, standards, and best practices, to be applied by both developed and developing countries. They continue to underscore the need to ensure that the observance of standards and codes remains voluntary, duly recognizing the country-specific circumstances and stages of development, including administrative and institutional constraints. The work of the Bretton Woods Institutions (BWIs) on such standards and codes should not extend beyond their core areas, and their observance should not be incorporated in program conditionality. Significantly more technical assistance, additional resources, and adequate time are essential to strengthen developing countries' implementation capacities. Ministers underscore the importance of addressing the existing weaknesses in the regulatory framework of the financial sectors of advanced economies, including in areas such as hedge funds and the supervision of offshore financial centers, to ensure uniform application of standards of transparency.

10. Ministers agree that combating money laundering is a matter of global concern and important to the protection of the integrity of the international financial system. Efforts to combat money laundering should be based on a cooperative strategy involving both developed and developing countries and should encompass not only offshore centers, but also large financial centers where most of the financial flows originate. Ministers caution against the non-voluntary and non-cooperative manner in which the Financial Action Task Force (FATF) 40 Recommendations are currently applied to non-FATF members. They also agree that monitoring of the implementation of anti-money laundering standards should take full account of members' capabilities and stage of financial sector development, and should not be used as a means of diverting legitimate financial resources away from developing countries. Ministers stress the importance of technical assistance to facilitate the effective implementation of anti-money laundering measures. While emphasizing that the focus of the Fund and the Bank should be limited to their respective mandates, they consider that for the Report on the Observance of Standards and Codes (ROSC) and Financial Sector Assessment Program (FSAP) processes, the BWIs will need to work closely with other international bodies. Ministers caution against the BWIs' involvement in the law enforcement aspects of anti-money laundering policies. They also caution against relying on the FATF for ROSC assessments, which should remain the responsibility of the BWIs.

11. Ministers underscore the catalytic role of the Fund and the Bank in the resolution of financial crises in ways that can effectively help to involve the private sector. Given the limited availability and accessibility of IMF resources to developing countries, they stress the importance of supplementing IMF financing with official bilateral financing. Ministers urge that special attention be given by the BWIs to improving developing country access to international capital markets and to developing domestic capital markets, and express the hope that the recent establishment of the International Capital Markets Department in the Fund, and the creation of the Capital Markets Consultative Group, will help in this regard. While welcoming the ongoing

work on involving the private sector in the prevention and resolution of financial crises, they stress the need to maintain a voluntary approach under which member countries are ultimately responsible for negotiating with their private creditors.

F. Conditionality

12. Ministers note that IMF conditionality has become excessive during the last decades in both magnitude and scope, particularly in areas that lie outside the Fund's mandate and expertise. They emphasize the need to take into account the institutional capacity and domestic legislative processes of program countries in implementing conditionality. Furthermore, excessively broad and detailed conditionality undermines the national ownership of programs, which is essential for their successful implementation, and hinders compliance with the Fund's conditionality. The conditions applied to low-income country programs seriously strain their administrative capacity, especially when they are combined with additional conditions included in programs with the World Bank, the regional development institutions and bilateral donors. Ministers welcome the review initiated by the Managing Director of the IMF of the scope of conditionality in Fund-supported programs and the decision of the Fund Board to implement the proposed shift from broad coverage to a more selective application of conditionality. They emphasize that the objective is not to weaken, but to streamline conditionality and make it better focused, more effective, and less intrusive, as well as to enhance program ownership. Ministers stress the importance of the principle of uniformity of treatment of all countries, while taking into account the particular circumstances of each country. In addition, they underline the importance of a comprehensive revision of Fund program design. They stress the need for technical assistance for the development of institutional capacities in these countries. Ministers note that efforts to streamline conditionality should also address the issue of how to better define the division of labor between the Fund and the World Bank, while preventing cross conditionality. Conditionality in areas outside the Fund mandate should not be included in Fund-supported programs.

G. Resource Flows to Developing Countries

13. Ministers recognize that the development agenda is enormous, and efforts to attain the international development goal of halving poverty by 2015 will require the mobilization of significant funding throughout the development community to sustain and expand the many initiatives designed to address the challenges of development. Ministers note that aid as a proportion of donor GNP remains low at 0.24 percent ¾ far short of the 0.7 percent UN target.

14. Ministers note that negotiations for the 13th replenishment of IDA resources are currently underway, and urge donors to ensure that IDA-13 is adequately funded to meet the increasing needs of the poorest countries, many of which are reactivating dormant programs as they emerge from conflict and indebtedness. Africa continues to deserve special priority, and Ministers urge that IDA lending to the region meet the 50 percent target agreed under previous replenishments.

15. Ministers reaffirm the important role the World Bank Group continues to play in helping to reduce poverty in middle-income countries, where nearly 80 percent of the world's poor reside, by increasing direct lending and helping to leverage sustainable private flows to these countries.

They encourage the Bank to expand its menu of lending instruments to match the needs of middle-income countries through a prudent balance of investment lending, programmatic adjustment lending, and strengthened economic and sector work.

16. Ministers underscore the importance of the United Nations Conference on Financing for Development, to be held in 2002 in Mexico. They emphasize the need for the full engagement of the G-24 in its preparatory process.

H. Governance of the BWIs

17. Ministers welcome the establishment of the independent Evaluation Office (EVO) in the IMF, and commend the Board for the cooperative and transparent manner in which the Director was selected. Ministers also welcome the endorsement of the Boards of the IMF and the World Bank of the joint report on the selection of the heads of the two institutions, which draws on the proposals made by developing countries.

18. Ministers stress the need for the BWIs to ensure that developing countries have a larger voice in the decision making processes of these institutions. They note that the workload of the chairs representing developing countries—particularly the African chairs—on the BWI Boards has increased significantly as a result of the PRSP process, the HIPC Initiative, and post-conflict and arrears cases. In this regard, Ministers welcome the recent decision of the Fund Board to increase the staffing of Executive Directors' offices, and they urge the Bank Board to follow suit. Moreover, Ministers encourage the BWIs to enhance the representation of developing country nationals in the staffs of these institutions.

19. Ministers welcome the broad support already attained for the Fourth Amendment on the equity allocation of SDRs. They urge the rest of the membership to adopt the amendment as soon as possible. Ministers also urge the Fund to continue to study possible mechanisms to help stabilize financial market conditions.

20. Ministers express their appreciation for the research work on international financial and development issues coordinated by the G-24 and for the financial support provided by various countries and organizations, which complement the G-24's own efforts. These research efforts need to be considerably strengthened, and would require additional funding. Given the complementary nature of this research with the research conducted by the Fund and the Bank, Ministers consider that it would be appropriate for the Bank and the Fund to supplement this assistance annually from their research budgets. This would help build capacity in G-24 member countries and contribute to better governance of the BWIs.

I. Date and Place of Next Meeting

21. Ministers agree to meet again on September 29, 2001 in Washington, D.C.

LIST OF PARTICIPANTS

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR

ON INTERNATIONAL MONETARY AFFAIRS

SIXTY-FIFTH MEETING OF MINISTERS

Washington, D.C., April 28, 2001

African Group: Sid Ahmed Dib, Algeria; Bouabré Bohoun, Côte d'Ivoire; Ismail Hassan Mohamed, Egypt; Sufian Ahmed, Ethiopia; Andzembe Philibert, Gabon; Yaw Osafo-Maafo, Ghana; Ernest C. Ebi, Nigeria; Trevor A. Manuel, South Africa.

Asian Group: Bimal Jalan, India; Mohsen Nourbakhsh, Islamic Republic of Iran; Khalid Al-Saad, Lebanon; Shaukat Aziz, Pakistan; Diwa C. Guinigundo, Philippines; G.L. Peiris, Sri Lanka; Mohamad Khaled Al Mahayni, Syrian Arab Republic.

Latin American Group: A. Guillermo Zoccali, Argentina; Marcos Caramuru de Paiva, Brazil; Carlos Caballero, Colombia; Lizardo A. Sosa L, Guatemala; Javier Guzman-Calafell, Mexico; German Suarez, Peru; Leroy Mayers, Trinidad and Tobago; Hernán Oyarzábal, Venezuela.

Observers: Liqun Jin, China; Ali Lamrani, Morocco; Ibrahim A. Al-Assaf, Saudi Arabia.

Special Guests: Horst Köhler, International Monetary Fund; James Wolfensohn, World Bank; Yashwant Sinha, Development Committee; Yilmaz Akyuz, UNCTAD; Cristian Ossa United Nations; Bagher Asadi, Group of 77; Y. Seyyid Abdulai, OPEC Fund for International Development; Ines Bustillo, Economic Commission for Latin America and the Caribbean; Muhammad Ahmad, Islamic Development Bank; Eddy Lee, International Labor Organization; Mario B. Alemau, CACM; William Larralde, G-24 Liaison Office; Dani Rodrik, G-24 Research Coordinator.

Executive Directors and Alternates

International Monetary Fund: Alexandre Barro Chambrier, Mohammed Dairi, Vijay Kelkar, Abbas Mirakhor, and Shakour Shaalan.

World Bank: Girmai Abraham, Mohamed Amr, Paulo Gomes, Inaamul Haque, and B.P. Singh.

G-24 Secretariat: Patrick Cirillo, Ragnar Gudmundsson, Kate Jonah.