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Report on the 1975 Commonwealth Finance Ministers' Meeting and the 1975 Annual Meetings of The Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank)

The House of Representatives is asked to note the following reports on the 1975 Meeting of Commonwealth Finance Ministers and the 1975 Joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank and its Affiliates.

The 1975 Commonwealth Finance Ministers' Meeting

2. The Commonwealth Finance Ministers met in Georgetown, Guyana, from 26th August to 28th August, 1975 under the chairmanship of the Hon. Frank E. Hope, Guyana's Minister of Finance. The meeting was opened by the Hon. L. F. Burnham, Prime Minister of Guyana. The following agenda was adopted by the Ministers:-

(a) consideration of Interim Report of Commonwealth Group of Experts, "Towards a New International Economic Order".

(b) Current World Economic Situation and Problems (including IMF and World Bank questions).

(c) Commonwealth Functional Co-operation - with particular reference to the Commonwealth Fund for Technical Cooperation.

(d) Proposal to Establish a Commonwealth Investment Bank.

3. The growing emphasis and dialogue on a new international economic order caused the developed members of the Commonwealth to have much more representation from External Affairs and aid agencies of those Governments than in any previous year, with Ministers responsible for such fields leading the discussion on behalf of their countries for significant portions of the agenda.

Jamaica was represented by the Minister of Finance accompanied by Senator Maurice Tenn, Parliamentary Secretary in the Ministry of Finance, Sir Egerton Richardson, (Adviser on International Affairs), the Alternate Executive Director of the World Bank, and officials from the Ministry of Finance and the Bank of Jamaica.

Towards a New International Economic Order

4. The Ministers discussed the Interim Report entitled "Towards a New International Economic Order" which was prepared by the Commonwealth Group of Experts appointed under the chairmanship of the Caricom Secretary General by the Commonwealth Heads of Government Meeting in Kingston in May, 1975. The Group of Experts was congratulated by the Ministers for producing in such a short time, a valuable Interim Report with many proposals which were unanimous and yet amenable to immediate implementation, although the Group of Experts came from both developed and developing countries.

5. Several developing countries and even one developed Commonwealth country strongly proposed that the Report be endorsed and submitted to the Seventh Special Session of the United Nations General Assembly which was scheduled for early September, 1975. However, some developing countries saw the Report as a minimum package, while some developed Commonwealth countries found difficulty with an unconditional endorsement especially as regards items such as

indexation of commodity prices, automatic debt relief to developing countries with severe debt burdens, and the acceptance of international producer associations such as OPEC and IBA. It was also proposed that the Report be presented to the Seventh Special Session of the United Nations General Assembly by the Prime Minister of Jamaica. The Jamaican position on this approach was that it would not be practicable and could give the wrong impression to those who were unaware of the constraints of time which left the Report as an Interim one, as well as the wrong impression that the Commonwealth was presenting a negotiated position to the world. It seemed preferable to have the Interim Report available to others and for each Commonwealth Country to use every opportunity to advance the ideas and proposals in it to get as wide an acceptance as possible

6. The Ministers, without necessarily committing their Governments to every aspect of the Interim Report, gave it general endorsement, and agreed that early implementation of those proposals which are amenable to immediate implementation "would constitute a first step towards achieving the progressive removal of the wide disparities of wealth now existing between different sections of mankind." They requested the Secretary General to publish the Interim Report and make it available to the international community including the Seventh Special Session of the United Nations General Assembly, as a contribution to constructive international dialogue and the building up of a concensus in relevant aspects of international economic relations.

7. The Ministers requested the Group of Experts to complete its valuable work in fulfilment of the mandate from the Commonwealth Heads of Government to provide "a comprehensive and interrelated programme of practical measures directed at closing the gap between the rich and poor nations." They drew the attention of the Group of Experts to a number of issues which were not fully covered in the Interim Report and to the need, in their final report, for in-depth examination of those issues, taking account of the work being carried out in other bodies and the specific matters raised by the Ministers in the discussion.

Current Economic Situation

8. The Ministers discussed the problems arising from the deep and prolonged world economic recession which has continued alongside unacceptably high inflation. The expressed grave concern that "many developing countries are caught in a squeeze between reduced demand and depressed prices for their exports" on the one hand, "and inflated prices for their imports" on the other hand, with serious adverse effects on their already inadequate momentum of development, and aggravated balance of payments problems. They emphasised the view expressed at their 1974 meeting that industrialized countries should refrain from attempting to solve their economic problems by import restrictions, especially as they affect imports from developing countries. All industrialized countries, and particularly those with relatively strong balance of payments, were called upon to take early and effective action to lead the world out of the economic recession, and to bring inflation under control.

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International Monetary Reform

9. The Ministers appreciated that some advances had been made toward international monetary reform, but expressed disappointment that no agreement had been reached on a number of key issues of particular interest to developing countries. Such issues included the increase in the quotas of the International Monetary Fund (IMF) the role of gold, and the revised principles for exchange rate regimes. They stressed the importance of an early resolution of these issues and urged an early agreement on the use of gold held by the IMF. They also felt that the IMF "oil facility" should be extended beyond 1975 and that the conditions under which it can be utilized should be eased.

Commonwealth Fund for Technical Cooperation (CFTC)

10. The Ministers expressed satisfaction at the growth of the CFTC which has an expenditure budget of £5.5 million (J$11 million) for the 1975/76 financial year. The Fund had undertaken over 700 projects in the past year and had provided over 10,000 man months of training since its establishment in 1971. The flexibility of the Fund and its use of expertise from Commonwealth developing countries were seen as very valuable characteristics. Many Governments announced increased contributions to the Fund during the meeting.

Proposal to Establish a Commonwealth Investment Bank

11. The various studies on the proposal to establish a Commonwealth Investment Bank prepared at the request of Commonwealth Governments, consequent on the initiatives of Kenya and Jamaica at the 1973 Heads of Governments and Finance Ministers' Meetings, were reviewed by the Finance Ministers. A general concensus on establishment of such a Bank with adequate support to make it viable, did not arise from the discussions. The Ministers noted that certain needs of developing Commonwealth countries for the provision of resources, specialised skills and technical services, especially those for "packaging and marketing" projects and programmes, were indicated in the studies. However, they recognised the possibility of the CFTC performing some of the functions identified, and consequently asked the Commonwealth Secretary General to examine the extent to which the CFTC may meet those needs, and to return at some suitable time, in his discretion, to exploring the extent to which there is support for the proposal to establish a Commonwealth Investment Bank.

Report on the Annual Meetings of the Boards of Governors of the International Bank for Reconstruction & Development and International Monetary Fund September, 1975

12. The Thirtieth Annual Meeting of the Boards of Governors of the IBRD and Affiliates and the IMF were held in Washington, D.C. from the 1st to the 6th of September, 1975. The Chairman of the meetings was the Minister of State in charge of Co-ordination and Planning for Venezuela, the Hon. Gumersindo Rodriquez. Grenada, which recently joined the IBRD and IMF and became its newest member, was represented at the meeting by Hon. E. M. Gairy, Prime Minister.

13. The President of the United States, Gerald Ford, addressed the session. He spoke of the interrelated problems of increased oil prices, inflation and recession which have beset the world economy. Progress is needed in all these three areas simultaneously. The United States was aware that these problems created hardships, not only for the industrial world, but even more serious

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for developing countries. He remarked on the evidence of renewed economic health of the USA and expressed a determination to fight against an acceleration of inflation that would restrain this recovery. "A sound, healthy, growing US economy is the best lasting contribution that that nation can make to other nations. No other action by the US would contribute as much to the welfare of the world economy".

International Monetary Fund

14. The Annual Report of the IMF was presented by the Managing Director, Mr. Johannes Witteveen. The Report supported by Mr. Witteveen's statement to the meeting highlighted the following main areas:

(a) Domestic Economic Activity

The slowdown of economic growth in the industrial world which began at the beginning of 1974, developed into an unexpectedly severe and widespread recession featuring exceptionally high rates of unemployment.

Inflation remained a severe problem for many countries although the spread of recession had the effect of bringing about some noticeable success on the inflation front.

The slump in the industrial world along with other factors, adversely affected primary producing countries and in particular the non-oil developing countries.

Mr. Witteveen further remarked that it was necessary for the USA, Germany and Japan which countries bulk large in the world economy, to conduct their demand policies so as to take particular account of the international recession and of the severe constraint felt by many other countries in pursuing an expansionary course. However, it would be unreasonable for these countries to push expansionary measures to the point of incurring undue risks with respect to inflation.

(b) World Trade and Payments

Current international recession reflected in world trade developments since mid-1974 shows that the total volume of world trade stopped growing in the second half of 1974 and took a downward turn in the first half of 1975. The only segment of world trade expanding was imports into oil-exporting countries.

The large shift in payments balances was conditioned by generalized floating of major currencies, cresting of the boom in economic activity in the industrial countries and the sudden increase in the price of oil at the beginning of 1974. The result was a substantial rise in the collective surplus on current account for the major oil exporters, from $6 billion in 1973 to $70 billion in 1974. More than half of the adverse shift in the aggregate balance was absorbed by the primary producing countries especially oil-importing developing countries.

(c) Exchange Rates and International Liquidity

A number of currencies continued to float. However, it has not been one of free flexibility, as those floating currencies have been subjected to varying degrees of official intervention.

The guidelines for the Management of Floating Exchange rates was adopted by the Executive Directors in June, 1974. The guidelines reflect a

general agreement that the behaviour of Governments with respect to exchange rates is a matter for consultation and surveillance in the Fund.

Mr. Witteveen observed that there was still considerable disagreement as to the relative weight to be assigned to par values on the one hand, and to floating, on the other. The case for allowing exchange rates to float is very strong when the world economy is faced with disturbances of the magnitude experienced in the past few years. Some troubling aspects to such arrangements are that -

(a) exchange rates that bring about equilibrium in the exchange market, in the short-term, are not necessarily compatible with long-term equilibrium in the balance of payments;

(b) further, exchange rate movements have shown fluctuations which can be described as large and unsettling and critical to developing countries. Variations in the relative values of the principal currencies, make the task of economic management more difficult for developing countries.

15. Both the Report and Mr. Witteveen's statement draw attention to the large accumulation of reserves by oil exporting countries. This, they observed, did not cause a serious drain on reserves from the rest of the world, as deficit countries financed their payments position by various kinds of credit operations. These large credit transactions resulted in an increase in total international reserves.

For the longer run, however, there is cause for concern in present liquidity arrangements. The use of various kinds of credit arrangements to finance balance of payments deficits, while reserve gains of surplus countries are invested in international capital market, means that disequilibria can give rise to uncontrolled reserve creation.

Interim Committee

16. The Chairman of the Interim Committee, Hon. John Turner of Canada, also presented to the meeting of the Boards of Governors a report on the activities of this Committee.

Some of the major topics examined by the Committee and on which considerable progress was achieved included:

(a) Increase in IMF quotas to SDR 39 billion; major oil-exporting countries share as a group would be doubled and the collective share of all other developing countries would not be allowed to fall below its present level. Agreement was also reached on the distribution among the individual industrial countries of the reduction in their total share of quotas. The next general review of quotas will be held after three years instead of the usual five years.

(b) It was agreed that the role of SDR would be enhanced as the central asset in the International Monetary System, with a consequent reduction in the role of gold. To give effect to this undertaking, a number of measures were agreed upon including the abolition of the official price of gold.

(c) Regarding the mobilization of the Fund's gold, for the benefit of members, it was agreed that $\frac{1}{6}$ of the Fund's gold amounting to 25 million ounces would be sold for the benefit of developing countries. Another $\frac{1}{6}$ of the Fund's gold would be restored to all members at the present official price. The Fund can accept gold in transactions by agreement with members, if there is an 85% majority decision.

On the question of the exchange rate system of the future, the Committee was unable to reach an agreement.

Main Session

17. The majority of statements made by Governors and directed towards Fund matters, focussed on the recession in the Industrial World, the continued problem of inflation, and difficulties facing the developing countries as a result of these developments. Mr. Simon of the USA responded to the comments made by the Managing Director of the IMF, and supported by some Governors, suggesting that USA, Germany and Japan adopt measures to lead the world out of recession. He said that his country would not embark upon more stimulative fiscal and monetary policies in order to help other nations out of recession. Herr Hans Apel, Finance Minister from Germany, said that inflationary pressures still persisted, thus caution should prevail so as not to rekindle inflation while stimulating their economies.

There was a general feeling of satisfaction with the agreements reached within the Interim Committee and hope was expressed that the remaining outstanding issues would be resolved at the next meeting in Jamaica during January, 1976.

The Hon. Arthur D. Hanna, Deputy Prime Minister and Minister of Finance for the Bahamas, spoke on IMF matters, on behalf of the Commonwealth Caribbean members of the IMF with the exception of Grenada.

In his address he commented on the present recession and continued world inflation which adversely affects the volume and terms of trade of developing countries. The problems created by these developments are futher complicated because of persistent high levels of unemployment and rapid increase in population of Caribbean member countries. This resulted in a most urgent need for increased assistance from the IMF to finance balance of payments deficits and shortfalls of export earnings. Support was given for the continuation of the IMF Oil Facility.

Specific mention was made of the need to extend the facility for compensatory financing of export shortfalls to include invisible exports. He explained that some of the countries of the Caribbean depend heavily on income from tourism and the continued growth of this industry has been seriously hampered by the world recession. This meant that these countries with mono-service industry will suffer serious losses from a decline in their invisible exports which were as detrimental to them, as for countries whose single commodity export suffer a fall in prices. It was therefore logical that the same facility should be extended to invisible exports.

World Bank and Affiliates

18. The statement made to the meeting by the President of the World Bank Group, Mr. McNamara, offered an evaluation of the problems confronting developing countries as a result of the persistent world-wide inflation, the surge in the cost of petroleum, the deterioration in their terms of trade, and the prolonged recession in the OECD countries.

These problems have grown more ominous and there is an urgent need for increased flows of foreign exchange both from exports and from external capital to help offset these adverse forces. He made reference to the middle-income countries who are now facing foreign exchange crises and who in the short-term have greater access to external capital. He pointed out that the additional concessional aid needed by developing countries will have to come from OECD countries as the level of aid expected from OPEC countries in 1975 was likely to continue at the same level throughout the decade. The main focus of his speech, however, was on the more fundamental problems of poverty not only in the rural areas which he had stressed for the past three years but in the urban areas as well. What was required in this area was a strategy that will attack absolute poverty and substantially reduce income inequities. This should be done not merely through programmes of welfare, or simply through redistribution of already inadequate national wealth, but rather through measures deisgned specifically to increase the productivity of the poor.

In recommending policy actions which Governments can pursue to assist the poor to increase their productivity, he enumerated certain essential steps to be considered in any comprehensive programme.

These are as follows:

(a) Increase earning opportunities in the "informal" sector; this sector comprises the small producer and the self-employed and provides the livelihood for the vast majority of the urban poor. There should not be an attempt to transform this sector into the "formal" sector, but to support it without undue insistence on regulating it. Support can be, for example, in the form of assured access to credit facilities to lower their costs and increase their efficiency.

(b) Create more jobs in the modern sector through expansion of the export manufacturing enterprises where the opportunities are much greater rather than concentrating on manufacturing enterprises associated with import substitution with relatively small market opportunities.

(c) Provide equitable access to public utilities, education and health services at costs which they can afford to pay.

(d) Establish realistic housing policies, for example, through the Sites and Services approach.

19. Governors generally commended the efforts made by the Bank to assist developing countries. These efforts are demonstrated in:

(i) The expansion of the Bank's overall lending activities. The Bank Group's financial commitments in 1975 were $6.1 billion compared to $4.5 billion for 1974 and the estimate for 1976 is

$7 billion. It is proposed to expand their lending programme in both nominal and real terms to the maximum level consistent with their capital structure, the availability of funds, and the creditworthiness of their borrowers.

(ii) The establishment of new lending facility "Third Window" which will provide funds at a concessional interest rate midway between that of Bank loans and IDA credits.

Many comments made by Governors, particularly from developing countries, on the "Third Window" stressed that resources of this facility should be additional to those of the present World Bank lending resources. They urged donors to expand their pledges to the interest subsidy fund to the $250 million level necessary to support the original $1 billion programme of this facility. A number of developing country Governors, including the Hon. Franklyn Hope of Guyana who spoke on IBRD matters on behalf of the Caribbean members excluding Grenada, wanted to see the "The Third Window" facility made a permanent feature of the Bank.

Governors also made repeated references to the early completion of negotiation for the Fifth Replenishment of IDA and that this Replenishment should recognise the very rapid inflation rate which occurred since the Fourth Replenishment was negotiated. The Fifth Replenishment should be supported by traditional donors and by those countries which since the Fourth Replenishment have benefited from major increases in their national incomes and in their foreign exchange reserves.

The important role of the IFC in mobilizing private investment in the developing countries particularly in this period of capital shortage was recognised by a number of Governors who expressed their support for an expansion of IFC's capital. Mr. Hope also supported the expansion of IFC's resources but within the context of a restructured framework which would enable it to improve its impact on resource development and promote expansion in manufactured exports of developing countries. However, the Caribbean member countries' principal pre-occupation was for a sustained expansion in the resources of the World Bank itself.

Strong support was given to the proposal for selective increases in the capital of the Bank. However, in view of the large volume of capital flows needed by developing countries, some developing countries' Governors regard the selective increases alone as inadequate to support the Bank's expanding lending programmes and therefore urged that a general increase in the Bank's capital should follow soon after the special increases have been approved.

Meeting of Joint Ministerial Committee of the Board of Governors on the Transfer of Real Resources to Developing Countries (Development Committee)

20. The first report of the Development Committee was submitted to the Board of Governors of the Bank and the Fund.

The Development Committee was established in October, 1974 (as a high political level forum) to study the broad question of the transfer of real resources to developing countries and to make recommendations to implement its conclusions. The report showed that the activities of the Committee during its initial period covered a review of the prospects facing

many developing countries as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital, and observed that this situation was likely to continue in the future. They agreed that industrialised countries should seek to adopt measures so as to avoid any reduction in the net flow of real resources to developing countries and should seek to improve the real volume and the quality of official development assistance and should avoid trade restrictions that have a negative effect on exports of developing countries.

The concepts of the Special Trust Fund and the "Third Window" were the Committee's response to the immediate situation facing the developing countries.

On a more long term basis, the Committee has also given consideration to such measures to improve the real volume and quality of official development assistance from both bilateral and multilateral sources; based on conclusions contained in a Bank study of capital requirements of developing countries, the Committee recommended that concessional assistance be given on a priority basis to the low-income developing countries. They also agreed that the middle and high-income developing countries required substantial additional amounts of external capital, and recommend that access to capital markets be improved in view of the substantial role which private capital flows could play in helping to meet overall capital needs.

The Committee has also shown active interest in international financing schemes for commodity regulation and price stabilization.

For the period immediately ahead the Committee will give special attention:

- to a study of policies which developing countries might pursue to increase their growth,
- to means of improving the current situations affecting resource transfers,
- to a survey of the policies, programmes and capital resources situations of the various international and regional lending institutions to help avoid duplication of functions and to promote a co-ordinated approach to the problem of transfer of resources.

The next meeting of the ;Committee will be in Jamaica, January 9 - 10 1976.

1975 Annual Meeting of the International Centre for the Settlement of Investment Disputes (ICSID)

The Ninth annual meeting of the Administrative Council of ICSID adopted the budget of revenues and expenditure for the fiscal year 1976. The expenditure estimated at US$187,000 covers direct cost of operating the Centre and funds for this purpose are provided by the World Bank.

DAVID H. COORE
Deputy Prime Minister and Minister
of Finance

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