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Development Issues

Presentations to the 49th Meeting of the Development Committee

Madrid—October 3, 1994

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Joint Ministerial Committee of
the Boards of Governors of
the World Bank and the International Monetary Fund
on the
Transfer of Real Resources to Developing Countries
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Established in October 1974, the Development Committee is known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries. The Committee's members, usually Ministers of Finance, are appointed in turn for successive periods of two years by one of the countries or groups of countries represented on the Bank's or the Fund's Board of Executive Directors. The Committee is required to advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad questions of the transfer of real resources to developing countries, and to make suggestions for consideration by those concerned regarding the implementation of its conclusions.

The International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA), together constitute the World Bank. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are other affiliates of the IBRD.

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FOREWORD

The Development Committee held its 49th meeting in Madrid, Spain on October 3, 1994. There were two main items on the agenda: first, "Aid Effectiveness"; second, "The Impact of the Uruguay Round on the Developing and Transition Economies". The Committee based its discussion on joint issues paper and reports prepared by the World Bank and the IMF as well as supplementary papers provided by international organizations.

The first item gave the Committee an opportunity to concentrate on the issue of aid effectiveness in terms of achieving the ultimate objective of development; that is to reduce poverty and to improve living standards through environmentally sustainable growth and investment in people. The issues paper highlights the importance not only of the quantity, but also the quality of aid. Ministers recognized that improving the effectiveness with which aid resources are spent was essential, and that this would require partnership and closer collaboration between recipient countries, international organizations and donors. The goal for each partner should be to obtain results on the ground in each activity it undertakes.

On the second item, Ministers reviewed the results of the recently-completed Uruguay Round multilateral trade negotiations and their impact on the developing countries as well as on the future work of the World Bank and the IMF. The Committee noted that it was only possible to make a preliminary assessment of the likely effects. Ministers recognized that on the basis of the evidence available so far, it seemed likely that the existing instruments of the World Bank and the IMF would be adequate to deal with the negative effects of the Uruguay Round on some countries during the transitional period. They also requested the Bretton Woods institutions to assist developing countries to maximize new market opportunities through the provision of financing and of technical assistance.

Ministers also took note of the progress made on several other issues which were outlined in the reports of the Managing Director of the IMF and the President of the World Bank, such as the impact on developing countries of recent trends in the world economy; Resource Transfers; Global Environment Facility; Special Program of Assistance for Africa; Debt Strategy; and responding to challenges in Eastern Europe and the former Soviet Union.

In view of the broad interest in these subjects, the presentation made to this meeting of the Committee is now made available in this pamphlet in three languages -- English, French, and Spanish for a wider audience.

Peter Mountfield
Executive Secretary
October, 1994

PAPER BY THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE, MOURAD CHERIF, MINISTER OF FINANCE AND INVESTMENTS, MOROCCO

It will be a great pleasure for me to take the Chair of the Development Committee for the first time when we meet in Madrid on October 3, in the fiftieth anniversary year of the World Bank and the International Monetary Fund.

Economic Background

Mr. Preston's report, and Mr. Camdessus' expected presentation of the World Economic Outlook, will establish the context of this meeting. The prospects for the developing countries are a little brighter than they were when the Development Committee met in April. In particular it is encouraging to note the recovery in commodity prices. But none of us can be sure that this recovery will be sustained; and we would do well to be cautious before building our economic programs and budget plans on the basis of prices which may not last. On the other hand, world growth, and the prospect for the exports of developing countries, continues to look promising, although recent increases in interest rates in some industrial countries will raise the cost of borrowing.

Transfer of Resources to Developing Countries

Successful development is the responsibility of developing countries themselves. However, it is important to maintain the flow of funds into developing countries, to supplement domestic savings and make possible a higher level of investment and growth than we can achieve from our own resources. Total flows continued to break past records in 1993. In the last few years, the majority of these flows have come from the private sector; and despite recent setbacks, this is expected to continue. But such private flows are heavily-concentrated in a small number of recipient countries. More work is needed on ways of removing artificial barriers and improving these flows, perhaps on the lines discussed during the Committee's meeting in May 1993. We can also welcome the greatly increased role of MIGA during the last fiscal year, and the continued support of the IFC. Some of the proposals recently discussed within the World Bank Group on "Mainstreaming Guarantees" also deserve our support.

But many developing countries, particularly the poorer ones, continue to be dependent on official development assistance and on lending from the International financial institutions (including the multilateral banks). It is therefore disappointing that the level of Official Development Assistance (ODA) as measured by the World Bank remained almost unchanged in 1993. Indeed the Development Assistance Committee (DAC) of the OECD figures (which measure ODA going to the traditional developing countries excluding countries in transition) record a sharp fall in 1993. While recognizing the budgetary constraints on many donor countries, we must hope that these trends can be reversed next year; and in particular, that the negotiations on IDA-11 can be speedily and successfully completed, and that flows under the third Special Program of Assistance for Africa continue at their present level. Action is also needed to relieve the problems of severely indebted low-income countries.

Aid Effectiveness

However generous the donors may be, it is essential to improve the effectiveness with which aid resources are spent. The test will be success at ground level. This requires a partnership between donors and recipients. The valuable paper presented to us by the World Bank emphasizes the critical role of the recipient government and of conditions in recipient countries. There are three key factors:

- strong ownership, governance and participation;
- effective administrative and institutional capacity; and
- sound domestic policies and resource management.

The paper by the Chairman of the DAC reaches very similar conclusions. There are lessons here for all three sets of players: the industrial donor countries, the international institutions, and the developing countries themselves. I speak as the representative of a group of developing countries, and I am clear that we have a major responsibility here ourselves.

But donors also have an important role to play. I hope we can discuss ways in which they can foster these favorable conditions for using aid effectively and improve their own aid practices. We might aim to reach agreement on some or all of the following points and record them in our Communique:

- Participation by relevant stakeholders can improve the design of projects and ensure that they are properly implemented and operated. It is especially important to find ways to involve the poor and other groups, including women, who might otherwise be left out of the decision-making process.

- Conditionality cannot substitute for strong ownership, governance and participation. More attention should be paid to these issues before lending. If a consensus cannot be reached, both parties may be better to postpone lending, while working together to build the prerequisites for effective aid.

- Technical assistance (TA) is unlikely to be effective unless it responds to the needs of the recipient and takes place within -- rather than substitutes for -- an effective institutional environment. Progress on reforming TA modalities, along the lines discussed at the recent DAC/UNDP/World Bank Seminar, requires urgent attention.

- Multilateral agencies, including the IMF and the World Bank, normally take the lead in helping countries put in place a sound policy framework for private sector development and public sector management. Aid programs should be designed to be consistent with this framework and the country's development priorities. Innovative approaches to achieve this objective, such as the integrated sector approach, are to be encouraged.

- Wherever possible, aid procedures and practices should be harmonized and simplified. Donors should avoid setting up mechanisms which are inconsistent with the recipient's own efforts to manage aid. Recent progress on reducing the use of tied aid and mixed credits, in line with the DAC Principles, needs to be extended.

- DAC's Principles provide an appropriate framework for improving aid coordination. Consultative Groups and Roundtable Meetings are more effective when they draw on local participation as much as possible and form a useful part of the country's aid strategy. The agenda for Consultative Groups should cover issues of development strategy and aid utilization, as well as mobilization of financial resources.

- Recent efforts to improve the effectiveness of aid agencies, focussing on results in the field, need to be sustained and extended. Particular attention should be given to: shifting the focus from projects to country programs; improving the "quality at entry" of projects;

strengthening monitoring and evaluation; streamlining procedures; and changing incentives to focus on development impact.

Some aspects of these questions can be pursued in greater depth by the Task Force, which the Committee established in April, to review the development role of the multilateral development banks.

Trade After the Uruguay Round

But for almost all developing countries, trade is far more important than aid. We must therefore welcome the progress being made in implementing the results of the meeting which I attended in Marrakesh in April. This is the first meeting at which the Development Committee has had the benefit of a preliminary assessment of the results of that agreement. Clearly we must support the call for speedy ratification of the agreement, so that the new World Trade Organization can come into existence as planned on January 1, 1995. More important, so far as this Committee is concerned, we must insist on close collaboration between the two Washington institutions and the World Trade Organization. It seems to me that the main messages are these:

Developing and transition economies have made great progress in unilaterally liberalizing their trade systems, improving their ability to compete in international markets, and integrating themselves into the multilateral system;

The successful conclusion of the Uruguay Round will support these measures through increased market access, the integration of new and sensitive areas such as services into the system, and through strengthened rules and institutions;

The impact of the Uruguay Round on developing countries seems likely to carry substantial benefits, particularly to those countries which make the necessary macroeconomic and structural policy changes;

Some developing countries have considerable reservations about certain aspects of the Round, notably in agriculture, textiles and safeguards;

Others are concerned about the dangers of higher food import prices and the erosion of tariff preferences. Although on the evidence available so far, the World Bank and the IMF believe these dangers are likely to be fairly small, other studies now in hand will help to refine this analysis. The World Bank and the IMF must be ready to address these problems on a country-by-country basis in the course of normal business; the institutions believe that their existing instruments are adequate to deal with these problems.

Other recent developments

The Development Committee will wish to congratulate all concerned on the successful transformation of the Global Environmental Facility into a permanent institution. It will also want to take stock of the outcome of the Cairo Conference on Population and Development, which will take place just before we meet; the World Bank made an important contribution to this conference which the Committee discussed at its meeting in April. We may also wish to look forward to the UN Social Summit in Copenhagen in March 1995.

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REPORT BY LEWIS T. PRESTON,
PRESIDENT OF THE WORLD BANK

October 3, 1994

I. Introduction

1. This year we are commemorating the fiftieth anniversary of the Bretton Woods institutions. This milestone was an opportunity to take stock of development progress over the past 50 years, to reflect on the institution's past, to draw lessons, and to set out broad directions for its agenda and for the way it conducts its business. The outcome is set out in the paper entitled: *The World Bank Group: Learning from the Past, Embracing the Future.*

2. Progress in the developing world has been substantial: Compared to 1944, people in developing countries live 20 years longer, incomes have doubled, and one and one-half times as many children attend school. The Bank has contributed to this improvement in the quality of life through its support for over 6,000 operations in about 140 countries with more than $300 billion in financing. Yet enormous challenges remain. More than a billion people struggle to survive on about a dollar a day. Two out of five people in developing countries do not have basic sanitation or clean water. About half the people of Sub-Saharan Africa are trapped in poverty, and the challenges associated with the economic transformation of Eastern Europe and the former Soviet Union are much more complex than originally thought. Finally, there are new challenges, such as those presented by South Africa and by the West Bank and Gaza.

3. To assist developing countries in meeting these challenges, the Bank will continue to build upon its two main roles, financial assistance and technical advice. But the scale and complexity of the development agenda, the diversity and near-universality of our membership, and the more competitive environment that we face mean that we must carry out our activities in a significantly different context. To avoid spreading ourselves too thin, we will follow six guiding principles: increase the selectivity of our activities; strengthen our partnership with others; emphasize client orientation; increase our results orientation; ensure cost-effectiveness; and maintain strong commitments to financial integrity. Important changes are already occurring in the institution's culture and business practices, but the consistent application of these principles will require concerted efforts. I know that I can rely on your support in this process and I will be addressing these issues more fully during the Madrid Conference and at the Annual Meetings.

4. During the 1994 Spring meeting, the Development Committee discussed population and migration issues and also the key items on the agenda of the 1994 Cairo International Conference on Population and Development. When I address the Committee, I expect to present the main conclusions of the Cairo Conference. The agenda for this fall meeting focuses on the effectiveness of aid and on the impact of the Uruguay Round on developing countries-two important issues confronting the international community. I would like to draw your attention to a few salient points from the reports on these two issues.

5. One of the main conclusions of the paper on aid effectiveness is that aid is most effective in countries that (a) are committed to reducing poverty through sustainable economic development; (b) have strong institutions; and (c) have policies and procedures that lead to economywide efficient use of resources, and in particular have a sound budgetary process. The paper discusses what donors should be doing differently and better. Donors must help strengthen country commitment, for example, by supporting more participatory approaches to development. The donor community must help recipient countries develop critical policies and institutional capacity to use their resources efficiently. Donors also

can ensure that their own practices and procedures, including approaches to coordination, make the most of the available resources and do not undermine efforts of recipient countries.

6. The report on the Uruguay Round assesses selected aspects of the agreement that concern developing countries, and discusses the role of the Bank and the Fund in helping member countries make an orderly transition to the post-Uruguay Round trading system. Preliminary estimates indicate that most developing countries will gain from the Agreement and that in the aggregate the gains will be considerable. Net food importers may incur terms-of-trade losses from higher food prices, but costs are likely to be small and would be spread over at least six years. Appropriate policies to stimulate farm output can reduce these losses. The Bank and the Fund stand ready to address adverse effects on individual countries in ongoing policy dialogue and broad-based adjustment programs. Present analysis suggests that existing facilities in the Bank and the Fund appear adequate to meet any policy adjustment and resulting financing needs. However, should developments indicate the need for additional support, we will take up the matter promptly with the Executive Directors.

7. Before turning to aid effectiveness and the impact of the Uruguay Round, I want to discuss briefly key developments that have taken place since the Committee's last meeting, including the main messages from the Bank's 1994 World Development Report (WDR) on infrastructure. I also review developments in Eastern Europe and the Former Soviet Union (FSU).

II. Recent Developments in the Global Economy: Implications for Developing Countries

8. When we last met six months ago, global economic prospects were broadly favorable. Economic recovery in the U.S. was expected to spread to the rest of the G-7; the successful conclusion of the Uruguay Round and NAFTA was projected to boost world trade, and commodity prices were projected to stabilize.

9. I am pleased to report that this forecast stands and in fact the recovery now appears to be somewhat stronger than anticipated. In particular, stronger-than-anticipated growth in both the U.S. and Germany in the early part of this year improves the growth prospects for the other industrial countries. Trade volumes are also rising more rapidly than predicted, currently at an annual rate of over 6 percent. Buoyed by strong demand, non-oil commodity prices-led by coffee prices-were up 24 percent in June from a year ago. On the other hand, capital markets have tightened somewhat, causing long-term interest rates to rise in most industrial countries. Private capital flows to developing countries slowed in the second quarter of 1994, especially to Latin America.

10. Generally, however, the overall situation has benefitted the developing countries. East Asia, Latin America, and the coffee exporters of Sub-Saharan Africa have been especially favored. In East Asia, stronger growth in world trade, the appreciation of the yen and consequent greater exports to Japan, and a continuation of rapid growth in China all boost growth estimates. Strong terms-of-trade gains in Latin America have more than offset the effects of higher interest rates and the slowing of private capital inflows. Despite recent policy slippage in some large countries, strong terms-of-trade gains are expected to boost GDP per capita slightly in Sub-Saharan Africa in 1994-96, compared to an average decline of almost 2 percent annually over 1991-93.

11. Of course, there are always downside risks. Rising inflation due to strong U.S. growth, a soft dollar against the yen and the deutsche mark, and strong commodity prices could lead to a sharp rise in interest rates through end-1995, causing industrial country growth to stall in 1996. This slowdown could seriously affect developing countries, especially the more indebted Latin American countries. In this scenario, commodity prices would decline and export growth would stall. Erosion of creditworthiness

would lead to a sharp drop in private capital flows. Many countries in Latin America would undergo a hard landing, with rapid exchange rate depreciation, high inflation and interest rates, little capital inflow, and lower per capita growth. The impact on the Middle East and North Africa would be driven by lower demand for oil in the OECD. With exports strongly concentrated in Europe, Sub-Saharan Africa would suffer both from lower demand for exports and declining terms of trade. Europe and Central Asia would suffer from slower demand in the European Union, but with roughly constant terms of trade. East Asia would suffer the least owing to (a) reliance on its own savings; (b) the competitive position of its exports; and (c) continued strength of intraregional trade that helps to isolate it from developments in the G-7.

III. Recent Trends in Resource Transfers to Developing Countries

12. Preliminary estimates indicate that net total resource flows (including development assistance, other official flows, and private sector flows) to the developing countries from the developed world increased 35 percent in 1993, reaching an unprecedented $215 billion (at 1993 prices and exchange rates).

13. The big story in developing country finance is the spectacular surge in private capital. Portfolio equity investment (at 1993 prices and exchange rates) tripled in 1993 and total private capital flows reached an all-time high of about $155 billion in 1993 (See Annex Table 1). Foreign direct investment (FDI) has now become the single most important source of financing for developing countries, surpassing official flows. The overall increase in private flows is in large measure a response to the successful reforms and sound economic policies of a limited number of middle-income countries in East Asia, the Pacific, and Latin America. Investors perceive that these countries, with improved economic management and creditworthiness, offer good opportunities for high returns and portfolio diversification. The high volume of private capital flows raises the concern that they may be reversed and thus precipitate another financial crisis similar to that of the 1980s.

14. Bank analysis suggests that a sudden reversal of private flows is unlikely. Nearly half the flows are accounted for by FDI and about one-third by bonds. Private investors are responding to the market potential offered by rising developing country incomes, to the more welcoming trade and investment regimes in these countries, and to dramatic changes in telecommunications technology. These are structural, not cyclical, factors and are likely to be reinforced by implementation of provisions of the Uruguay Round. Underlying the renewed interest in bond issues from developing countries is the fundamental reform in economic and financial policies that some 15 developing countries, perceived by investors to be the more creditworthy, have undertaken over the 1980s. As long as the economic performance of these countries remains strong, a reversal is unlikely.

15. In addition, the combination of high interest rates, high inflation, and recession that precipitated the crisis of the early 1980s is unlikely to recur. Although international interest rates may rise in 1995, they are not expected to rise substantially and any increase is expected to be short-lived. The probability of a *large and prolonged* increase that would jeopardize continued growth in these flows is small in the medium term.

16. Although a dramatic reversal of private flows and an attendant financial crisis are unlikely, individual countries will find private capital to be volatile. Private investors have a low tolerance for poor policies or deteriorating prospects. Factors completely outside the control of recipient countries can also make a big difference, as illustrated by the slowdown in private capital flows so far this year in response to rising interest rates in the U.S. In recent months, some major recipient countries have experienced large swings in portfolio flows. Reflecting on these events, countries that receive large amounts of private capital flows need to take this volatility into account in their macroeconomic and financial sector policies. More than ever before, developing countries will find that events in the

international economy have a direct and often immediate impact on their own performance.

17. Bank estimates indicate that while private capital flows to developing countries increased by about $50 billion, official flows rose by about $5 billion in the past year. Measured at 1993 prices and exchange rates, this increase in official flows merely represents a return to a level attained in 1990. Bank estimates show that official development assistance (ODA), which accounted for 85 percent of all net official flows, increased by less than $3 billion.

18. Recent Development Assistance Committee (DAC) estimates point to a more sober picture of ODA flows. As of June 1994, a preliminary DAC report showed total ODA from the OECD/DAC member countries to developing countries and multilateral institutions at $54.8 billion in 1993 compared to $60.8 billion in 1992. While the short-term trends reflected in Bank and DAC figures are different,[1] the longer term implications are similar: the outlook for ODA continues to be unfavorable. Although the higher growth projected for the industrialized countries is a positive development, efforts to cut overall budget deficits in those countries still point to a slow growth in aid. As I pointed out in my last report to you, it is extremely important to fund fully both ongoing reform programs and new needs (especially those related to the environment, new recipients, and countries starting reform programs). With most of the private resources going to a handful of countries whose economic performance is already outstanding, aid is essential to slow the further polarization of growth. In view of the encouraging growth prospects, I entreat members to resist efforts to reduce the volume of aid and also to ensure that existing aid is directed toward the most urgent needs.

Global Environment Facility

19. The Global Environment Facility (GEF) is a concessional funding mechanism of great importance for protecting the world's environment. Its purpose is to help developing countries meet the incremental costs of projects designed to protect the global environment. The GEF was launched in 1991 as a pilot program-implemented jointly by the United Nations Development Programme (UNDP), the United Nations Environment Program (UNEP), and the World Bank-to provide grants to developing countries for projects and programs that address climate change, loss of biological diversity, pollution of international waters, and depletion of the ozone layer. In FY94 the Bank's GEF investment portfolio of approved projects increased by 17 projects, involving commitments of $137.8 million-a 73 percent increase over FY93. As of June 1994, 31 projects, entailing commitments of about $290 million were under implementation.

20. As I mentioned to you at the last Development Committee meeting, Participants agreed to replenish and restructure the GEF, pledging over $2 billion to be committed over a three-year period to a new GEF Trust Fund. The instrument establishing the restructured Facility has now been adopted by the governing bodies of the three implementing agencies. In addition to the original four areas of concern, land degradation-primarily decertification and deforestation-will also be eligible insofar as it relates to one or more of the main focal areas.

21. I wish to thank donors for their support of the GEF. The restructured GEF will make an important contribution toward helping countries achieve environmentally sustainable development.

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1 Several factors account for the difference between Bank and OECD statistics: Bank estimates include all of Eastern Europe and the FSU as recipients, and also flows to developing countries from non-DAC members. These two factors tend to make Bank estimates larger than OECD estimates. OECD estimates, however, are on balance higher in 1993 because they include flows to high-income countries and technical cooperation grants.

Special Program of Assistance

22. As you well know, Sub-Saharan Africa continues to be a particular source of concern for the donor community. The region has experienced two decades of stagnant or falling per capita incomes, and a third of the African countries are poorer today than at independence. In previous reports I have mentioned that only a small part of the explanation for Africa's poor economic performance can be ascribed to external events, such as the sharp decline in Africa's terms of trade. Many other developing countries also suffered such declines, but they managed to compensate for lower prices with higher volumes. The conclusion that most analysts have come to is that Africa's performance has been the result of deficient domestic economic policies and weak institutional capacity in the majority of African countries.

23. Towards the mid-1980s many African countries began to reform exchange rate and trade polices, domestic pricing policies, and other key areas of economic management. The pace of structural reforms has accelerated in the past two years. In more than a dozen African countries exchange rates and other prices are market-determined, and prudent fiscal and monetary policies have brought inflation and interest rates under control. The recent devaluation in the CFA area adds to this trend. In many of the African countries, a rethinking of the role of the state has resulted in curtailing and restructuring the plethora of public enterprises and bloated civil services, and has raised general awareness of the importance of competition in achieving efficient resource use. The environment for the private sector has improved and government budgets have been restructured to develop human resources and reduce poverty. Last but not least, emerging economic leaders are more aggressively confronting the problems facing Africa, and emphasizing that most of the elements of the solution to their problems must be found at home.

24. Donors have responded to these initiatives with substantial increases in net transfers of resources, largely on concessional terms. Since 1987, under World Bank leadership, 17 donors have been supporting the Special Program of Assistance for low-income debt-distressed Sub-Saharan countries implementing adjustment programs (SPA). For the past six years, SPA has succeeded in helping to mobilize additional resources despite the difficult environment for aid: real net ODA to SPA recipients rose from an annual average of $5.3 billion during 1981-86 to $9.1 billion during 1987-92.

25. I am pleased to report that the third phase of SPA got off to a strong start in 1994. The devaluation of the CFA and other policy changes made Cote d'Ivoire and Cameroon eligible for SPA assistance, with a concomitant increase in SPA financing requirements. The SPA donors pledged $1.1 billion in additional assistance over the $5.5 billion initially pledged for SPA-3. Resources, however, remain tight. It will be important to ensure that adequate resources are available to support reforms as well as to monitor recipient country adherence to agreed reforms.

26. Concerning our efforts to support development in Africa, total approved credits and loans in FY94 amounted to about $2.8 billion, nearly the same as in FY93. Implementation improved in the particularly difficult areas of agriculture and adjustment lending. There was also an increasing focus on using funds more effectively by developing institutional and technical capacities.

Progress in Reduction of Debt and Debt Service

27. The Bank's *Debt Reduction Facility* for IDA-only countries has provided grants to low-income countries for the reduction of commercial debt at an average buyback price of about 14 percent of face value. The most recent Debt Reduction Facility operation, for Zambia, was approved in May 1994. Preparations for an operation for Sao Tome and Principe were finalized in late FY94, with the approval of the operation expected in FY95. Additional operations are under preparation in Albania, Ethiopia, Guinea, Mauritania, Nicaragua, Sierra Leone, and Tanzania.

28. *The Fifth Dimension Program* provides supplemental IDA allocations to IDA-only countries that have outstanding IBRD debt and are implementing adjustment programs. The allocations are provided in proportion to their IBRD interest payments. In FY94, Fifth Dimension supplemental allocations totaled $265 million to 16 countries and were equivalent to 96 percent of the countries' IBRD interest payments. The substantially higher FY94 allocation (the FY93 level was $168 million) reflects the addition of Cote d'Ivoire and Cameroon to the list of eligible countries.

29. Activity in the *Paris Club* has been brisker in 1994 than in the second half of 1993. The increase is due principally to the reschedulings that became necessary following the devaluation of the CFA franc and the adoption of the comprehensive adjustments programs supported by arrangements with the IMF. In addition, the first Paris Club rescheduling agreement for Algeria took place in May, after Algeria entered into a broad-based reform program with the IMF. Russia's 1994 obligations to bilateral creditors were also rescheduled in June, on terms that approximate the 1993 agreement. Following the G-7 summit in Naples in July, the Paris Club discussed ways to give effect to the summit declaration on reducing the stock of debt, where appropriate, for those severely indebted low-income countries facing special circumstances.

IV. Aid Effectiveness

30. Recent changes in the global scene have forced a reexamination of the role of aid. Changes in Eastern Europe, the Middle East, and South Africa have increased global demand for development assistance. Greater peacekeeping and humanitarian needs have also led to a rise in the demand for resources. At the same time, donor countries have experienced growing constraints on the level of aid that they can provide, and also face increased public concern about the impact of aid. Thus the issue of enhancing the development impact of aid is receiving greater attention. The end of the Cold War opens a real opportunity to refocus attention on the development objectives of aid. There is also growing recognition that in addition to development, it is important to tackle global issues-AIDS, migration, the environment-and strengthen the global economy. All countries stand to benefit from progress in these areas.

31. A large amount of research suggests that the following elements are the most significant in determining the effectiveness of aid and should therefore be of particular concern to donors:

- *Commitment, Ownership, and Good Governance.* Commitment to a development strategy and to specific programs and projects is a key ingredient in making aid effective. Commitment, in turn, is heavily influenced by the extent to which the recipient country "owns" the strategy and the programs. Good governance is also important in making aid more effective.

- *Institutional Development.* Strong institutions are an important determinant of aid effectiveness. We need to be concerned not only with establishing and enforcing the

rules that make markets (and the private sector) work more efficiently, but also with the rules and incentives that affect performance in the public sector.

- *Sound Domestic Policies and Effective Resource Use.* Economy-wide efficient use of resources also contributes to the effectiveness of aid. The core elements of sound policy are macroeconomic stability, an open and competitive economy, a government that complements private sector activity, and investment in infrastructure and people including targeted measures for poverty reduction when necessary. While sound domestic policies help to set priorities for the use of resources, better public sector management helps ensure that these priorities are reflected in the allocation and efficient use of resources. The budgetary process, in particular, is a key element.

The Role of Donors

32. Donors have an important role to play in making aid more effective:

- By working with recipients to strengthen ownership, governance, and participation, donors can help build commitment and increase aid effectiveness.
- By working with recipients to strengthen administrative and institutional capacity through technical assistance, donors can help remove one of the main barriers to the effective use of aid.
- By encouraging recipients to address the balance between investment and recurrent spending within a medium-term expenditure framework that highlights the issue of affordability, and by improving aid coordination, donors can contribute to improving the budgetary process
- By bringing their aid programs in line with country and sectoral strategies, donors can avoid undermining sound in-country systems and procedures.
- By reviewing their own practices and procedures, donors can improve the efficiency and effectiveness of the aid they deliver.
- By untying aid, donors can reduce costs for recipient countries and improve the allocation of resources.

33. I urge donors to take steps in all of these areas. At the World Bank, the theme of "getting results in the field" is driving our work program, as we follow up on the findings of the Portfolio Management Task Force. At the same time, I urge recipient countries to improve governance and strengthen the policies that increase the effectiveness of aid.

34. I do not want to leave you with the impression that we have all the answers. We do not. The report on aid effectiveness identifies a number of areas that require further work.

V. Uruguay Round

35. The staffs of the Bank and the Fund have made a preliminary assessment of the impact of the Uruguay Round Agreement on developing and transition countries and have evaluated the capacity of the Bank and the Fund assist the countries that may be adversely affected. The report concludes that in the aggregate, the gains for developing countries will be considerable. The countries that stand to gain the most are those that position themselves to take advantage of the new opportunities through adroit economic management. A small number of countries may lose as a result of the agreement, but any losses are likely to be small. There are widespread concerns about the impact of rising food prices and the erosion of tariff preferences. Net food importers may face terms-of-trade losses from higher food prices, but costs are likely to be only modestly higher and to be incurred gradually, as the increase in food prices would be spread over at least six years. Moreover, appropriate policies to stimulate farm output can help reduce these costs. Finally, food aid recipients are not likely to suffer significantly because food aid is exempt from reductions in export subsidies.

36. The net aggregate loss from preference erosion is likely to be small, although for countries whose industrial exports are heavily dependent on preferential access and that need to improve their competitiveness-certain Mediterranean and North African states, especially-the erosion of tariff preferences could be significant. Together, the impact of higher food import prices and the loss of preferences is likely to be small and for most developing countries will likely be offset by the effects of the reduction in MFN tariffs. Present assessment indicates that the array of investment and policy-based lending in the Bank and the Fund are adequate to help countries reap the potential benefits of the post-Uruguay Round world. Existing financing facilities also appear adequate to meet financing needs that may arise in individual countries from the negative impact of the Uruguay Round.

37. One post-Uruguay Round issue of interest concerns environmental and labor standards. There is broad recognition that it is desirable to improve standards on both fronts. However, using trade restrictions for raising the standards is not an optimal strategy. In the interest of global efficiency, I urge your governments to resist increased protectionism under any guise and to move quickly to ratify the Agreement.

VI. Infrastructure

38. This year's World Development Report concludes that infrastructure has improved dramatically in recent years-for example, the share of households with access to clean water has increased by half and per capita provision of power production and telephone lines has doubled during the past 15 years-but inefficiency and waste are staggering. On average, 40 percent of power-generating capacity in developing countries is unavailable for production, twice the rate in the best-performing power sectors around the world. Half the labor in African and Latin American railways is estimated to be redundant. And in many countries, costly investments in road construction have been wasted for lack of maintenance.

39. In view of the sector's importance and poor performance-developing countries invest some $200 billion a year in new infrastructure-I would like to take this opportunity to share with you some of the main messages from the WDR:

- *Service is the goal and the main measure of development in infrastructure.* Major investments have been made in infrastructure stocks, but in too many developing countries these assets are not generating the quantity or the quality of services demanded. The cost of this waste-in forgone economic growth and lost opportunities for poverty reduction and

environmental improvement-is unacceptably high.

- *The incentives facing providers can determine whether performance is good or bad.* To ensure efficient, responsive delivery of infrastructure services, incentives need to be changed through the application of three instruments-commercial management, competition, and stakeholder involvement.

- *Manage infrastructure like a business, not a bureaucracy.* The provision of infrastructure needs to be perceived and run as a service industry that responds to customer demand. Poor performers typically have little autonomy or financial discipline. Private sector involvement is needed in most cases to ensure a commercial orientation.

- *Introduce competition-directly if feasible, indirectly if not.* Competition gives consumers choices for better meeting their demands and puts pressure on suppliers to be efficient and accountable to users.

- *Give users and other stakeholders a strong voice and real responsibility.* Where infrastructure activities involve important external effects or where market discipline does not ensure accountability, users and stakeholders should be represented in the planning, regulation, design, operation, and financing of infrastructure.

- *Public-private partnerships in financing have promise.* Private sector involvement in the financing of new capacity is growing, but investors' return should be linked to project performance and government guarantees carefully scrutinized.

- *Governments will have a continuing, if changed, role in infrastructure.* Governments still have important roles to play as direct providers, regulators, and legislators. As direct providers of services, governments are responsible for improving the performance of infrastructure under their control. As regulators governments have a duty to safeguard the interests of the poor, improve environmental conditions, and coordinate cross-sectoral interactions. As legislators, governments are responsible for developing the legal and regulatory frameworks to support private involvement in the provision of infrastructure services.

VII. Recent Developments in Eastern Europe and the Former Soviet Union

40. The performance of the transition economies in Eastern Europe and the FSU continue to elicit strong interest around the world. Bank efforts to help these economies make a successful transition are also the subject of great interest.

41. I am pleased to report that the emerging data for 1993 show some important positive trends, although there is still a large variability in economic performance across the region. Aggregate output has finally stabilized in Eastern Europe, with several countries experiencing growth. In these countries, the private sector is starting to more than compensate for the output declines in the state industrial sector. The rate of output decline has sharply slowed in the Baltic countries, although it has accelerated in Belarus and the Ukraine. Across countries there is evidence that the statistical underreporting of private sector activity-particularly in the services sector-has exaggerated the output decline and understated the output recovery. In addition, many countries, including the Russian Federation, have succeeded in making inroads against inflation. Whether such progress can be sustained will depend on further actions to address structural factors underlying fiscal deficits, banking sector reforms, and

pension systems.

42. During FY94, the Bank expanded its operations in these countries. Total approved operations amounted to $3.6 billion, a $0.3 billion increase over FY93. Even more significant was the greater diversity and coverage of the lending operations. The number of operations approved went from 26 in FY93 to 41 in FY94, while country coverage increased from 13 to 21. First operations were approved for Belarus, Croatia, Czech Republic, Kazakhstan, the Former Yugoslav Republic of Macedonia, Slovakia, Slovenia, and Uzbekistan.

43. Projects approved for the Russian Federation amounted to $1.5 billion and focused on agriculture, highway rehabilitation, energy, and financial/enterprise reform. In the latter area, two projects simultaneously provided technical assistance to the emerging commercial banking sector and provided a line of credit to be intermediated by these banks to the private sector. Equity capital and technical assistance cofinanced by IFC, EBRD, the European Community, and other donor countries supplemented the Bank's credit line and helped broaden the support to the private sector.

44. In support of privatization, the Bank focused its operations on provision of credit to the private sector, financial sector reform, and enterprise governance in the Kyrgyz Republic, Romania, the Russian Federation, Slovakia, and Slovenia. To prevent key infrastructure from becoming a bottleneck to economic recovery, the Bank has remained active in the area of transport, highway maintenance, and telecommunications. As trade in energy moves toward world prices, energy conservation and institutional and incentive reforms in the sector become increasingly important. Projects in these areas were approved for Estonia, Hungary, Lithuania, Romania, and the Russian Federation, and project preparation is nearing completion in other countries. Agriculture lending also rose: six operations were approved in five countries, supporting policy reforms, technical assistance, and forestry management.

45. The Bank further intensified its environmental work. By the end of FY94, national environmental strategies were completed in all Central and Eastern European countries, and new initiatives were launched in the Kyrgyz Republic and Moldova. In collaboration with other agencies and nongovernmental organizations, the Strategic Action Plan was completed for the Danube. With other donors, the Bank has identified a portfolio of urgent investment for the seven riparian states of the Black Sea and is carrying out preinvestment studies. A donor meeting-organized in association with UNDP/UNEP-marked the launching of the Aral Sea program, which includes approximately 20 national projects in irrigation, water and sanitation, and health. In response to a request by countries around the Caspian Sea, the Bank has agreed to develop an environmental program with other agencies and the private sector.

46. In collaboration with OECD, The Bank issued a major analytical work, the *Environmental Action Programme for Central and Eastern Europe*, which was endorsed by the 50 countries participating in the Lucerne Conference on the Environment in April 1993 (the main report has been edited and translated into 20 Eastern European languages). This work formed the basis for reaching a consensus on priorities and instruments: an emphasis in the near term on human health and preventing irreversible damage to ecosystems, and in the long term on the integration of environmental objectives into economic restructuring, to achieve the greatest environmental improvements with the scarce resources available. The Lucerne process has resulted in a range of follow-up activities involving donor coordination, institutional development, and policy support.

47. Work is also being accelerated in areas critical for women in transition, especially with respect to unemployment, child care, maternal health, education, and training. Finally, the Bank continues to mobilize and coordinate external assistance to the region. Since May, it has organized Consultative

Group Meetings for Bulgaria, Kazakhstan, Kyrgyz Republic, the FYR of Macedonia, and Romania. Furthermore, the Bank hosted donor meetings on public investment priorities in Estonia, Latvia, and Lithuania, and a meeting for prospective private sector investors in energy for Turkmenistan.

VIII. Conclusion

48. The global economic outlook for developing countries is more favorable now than at the time of our last meeting. For countries in need of adjustment, these circumstances provide a window of opportunity to correct their domestic policies and partake in accelerated global growth. The central message of this report is that domestic policies are crucial in enabling countries to take advantage of the opportunities opened by the successful conclusion of the Uruguay Round Agreement, the increase in private flows to the developing countries, and other developments. Changes in domestic policies are likely to be less disruptive while the external circumstances are favorable than when a crisis is at hand. It is important to take the appropriate measures now and thus avoid more painful adjustment in the future. For developed countries, it is important to provide aid in a way that fosters rather than hinders development. I am confident that we can work with our borrowers to help them adopt the policies and procedures that will accelerate their growth and reduce poverty.

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This report was drafted by Pedro Belli, Economic Advisor (OPRPG), in consultation with staff members of other departments of The World Bank.

Annex Table 1. Long-Term Aggregate Net Flows of Resources to Developing Countries[1]
($ billion, 1993 prices)

Type of Flow	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993[2]
Official Development Finance	43.3	51.9	55.7	51.2	44.7	44.4	60.7	64.4	55.2	60.0
ODA	27.7	34.9	35.3	37.4	34.6	36.5	44.9	47.9	48.8	51.4
Official Grants[3/4]	16.2	20.4	20.3	19.4	20.0	20.5	29.2	33.7	34.8	35.5
Official Concessional Loans	11.5	14.5	15.0	18.0	14.6	16.0	15.7	14.2	14.0	15.9
Official Nonconcessional Loans	15.6	17.0	20.4	13.7	10.1	7.9	15.8	16.5	6.4	8.6
Private Flows	47.5	41.9	25.3	27.8	36.4	41.5	44.0	59.7	104.0	155.0
Private Loans[5]	35.3	27.0	11.7	10.0	12.0	11.0	13.2	14.1	42.1	43.8
Foreign Direct Investment[6]	12.1	14.8	12.8	16.9	23.2	26.7	26.9	37.8	47.7	65.0
Portfolio Equity Investment[7]	0.1	0.1	0.8	0.9	1.2	3.8	3.9	7.8	14.2	46.2
AGGREGATE NET FLOWS	90.8	93.8	81.0	78.9	81.1	85.9	104.7	124.1	159.2	215.0
Memorandum Items:										
Interest Payments	72.3	77.7	73.0	67.8	72.4	65.1	60.6	61.1	57.6	61.5
Profits on Foreign Direct Investment	16.0	15.5	14.4	14.4	14.7	18.4	17.9	17.5	20.1	23.6
Private Grants[3]	3.4	3.8	4.2	4.7	4.7	4.3	5.0	5.3	5.5	5.9
Related Data:										
IMF - Net Flows[8]	5.8	-0.3	-3.7	-7.3	-6.0	-2.5	0.1	3.3	1.2	0.4
Technical Cooperation Grants[3]	9.5	11.5	11.5	12.8	13.4	13.2	14.5	15.8	16.3	16.7
World Bank - Net Flows[9]	7.7	6.9	7.1	5.6	3.2	3.1	5.2	2.6	0.1	4.2
IDA - Net Flows[9]	3.2	3.7	3.9	4.4	4.1	3.7	4.2	4.4	4.8	4.1

As of August 1994

1. One hundred and forty-eight (148) developing countries for which data are reported in the 1993-94 edition of the World Debt Tables.
2. International Economics Department, Debt and Finance Unit (IECDF) preliminary estimates, except the IMF, World Bank and IDA net flows, which reflect actual Debt Reporting System working base data.
3. OECD data (through 1992).
4. Excludes technical cooperation grants.
5. Includes bonds.
6. IMF balance of payments data which include reinvested profits, supplemented by World Bank estimates and OECD data.
7. World Bank staff estimates, which are derived from reported market transactions and are often available only on a gross flow basis.
8. Includes IMF Trust Fund, SAF and ESAF.
9. The World Bank and IDA net flows data are on a calendar year basis. The historical data differ from more widely reported fiscal data only because of the different aggregation period.

THE WORLD ECONOMIC SITUATION AND ECONOMIC TRENDS IN DEVELOPING COUNTRIES
STATEMENT BY MICHEL CAMDESSUS
MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

September 26, 1994

Growth in the developing countries as a group is projected to remain robust this year and next (see table). This continued strong performance masks considerable diversity, however; growth remains weak and standards of living continue to stagnate or decline in many countries; while others are among the most dynamic economies in the world, with rapid increases in per capita incomes. To an important extent, the divergences in economic performance are related to the varying degrees of success that countries have had in implementing appropriate macroeconomic and structural reform policies. With economic expansions now firmly established in almost all of the industrial countries, the external economic environment facing the developing countries has improved.

World Economic Outlook

The external environment facing developing countries has varied considerably in recent years. During the recession in the industrial countries, export markets for the developing countries remained weak and for much of the recent period commodity prices were depressed, although world interest rates were at relatively low levels. The external environment has been particularly unfavorable for many countries that are heavily dependant on commodity exports and have relatively undiversified export bases. In contrast, many other countries that have undertaken reforms and established or maintained macroeconomic stability have prospered despite the weakness in the external environment, as the slowdown in the industrial countries was offset by large capital inflows, increased trade with other developing countries, and lower interest rates.

With the strengthening and broadening of recovery among the industrial countries in 1994-95, the external environment for the developing countries is generally expected to improve. Higher commodity prices will also boost export earnings for commodity producing countries, and progress on trade negotiations has improved confidence and removed an important source of uncertainty in the near term. There are, however, offsetting factors. Long-term interest rates have risen since the end of 1993, and capital inflows have moderated somewhat during 1994, in part because of the rise in world interest rates, although they are still expected to be sustained at relatively high levels in 1994-95.

Looking further ahead, the planned entry into force of the Uruguay Round trade agreements on January 1, 1995 will help to extend and reinforce the dynamic relationship between the growth of trade and output that has characterized international economic relations since the setting up of the Bretton Woods institutions fifty years ago. The multilateral trade liberalization efforts will be complemented by the growing trend toward regional integration, including the planned enlargement of the European Union. At the same time, the creation of the World Trade Organization will promote a more predictable, rules-based global trading environment. The benefits for developing countries include increased efficiency in the use of domestic resources as tariffs and nontariff barriers are reduced or removed, economies of scale in production are realized, and technology transfers resulting from increased openness and global cooperation are increased. Some developing countries may be adversely affected by the erosion of some trade preferences, increased intellectual property rights, and adverse terms of trade effects, particularly for net food importers. These negative effects are likely to be

Major Economic Indicators

(Annual percent change, except where noted)

	1991	1992	1993	1994	1995
World					
Real GDP growth	0.9	1.7	2.3	3.1	3.6
Trade Volume	2.6	4.7	4.0	7.2	5.9
Trade Prices					
Fuel	-17.0	-0.5	-11.5	-6.0	-0.0
Nonfuel primary commodities[1]	-4.4	-0.1	-3.8	13.6	6.5
Manufactures	-0.7	3.7	-5.1	4.5	4.1
Six-month dollar LIBOR (percent)	6.1	3.9	3.4	5.0	6.0
Industrial countries					
Real GDP growth	0.8	1.5	1.3	2.7	2.7
Inflation	4.5	3.3	2.9	2.4	2.6
Import volume growth	2.2	4.3	1.8	7.2	6.8
Developing countries					
Real GDP growth	4.5	5.9	6.1	5.6	5.6
Per captia GDP growth	2.5	3.3	4.1	3.6	3.5
Inflation	36.0	38.7	46.2	47.5	13.2
Inflation (median)	11.9	9.4	7.6	9.3	6.7
Current account (in billions of U.S. dollars)	-86.7	-77.4	-106.4	-104.7	-101.1
Current account (in percent of exports)	-8.1	-6.6	-8.5	-7.6	-6.5
Export volume growth	7.4	7.8	8.9	9.1	8.7
Import volume growth	10.1	11.2	9.3	7.2	7.9
Terms of trade	-3.0	0.0	-1.5	-1.7	-0.4
Export unit value	-2.2	1.5	-2.1	1.3	3.3
Import unit value	0.8	1.4	-0.5	3.0	3.8
Debt (in billions of U.S. dollars)	1375	1440	1545	1675	1749
Debt (in percent of exports)	127.7	122.2	123.6	121.4	112.6
Debt service (in percent of exports)	15.0	14.5	15.4	15.3	13.6
By region					
Africa					
Real GDP growth	1.4	0.2	1.0	3.3	4.5
Per captia GDP growth	-1.3	-2.3	-1.6	0.6	1.7
Inflation	32.6	40.6	32.6	39.3	14.3
Current account (in percent of exports)	-4.4	-8.9	-8.2	-10.7	-7.3
Export volume growth	2.0	-0.5	3.6	3.9	2.2
Import volume growth	1.2	4.0	-0.9	1.3	3.7
Terms of trade	-2.6	-3.7	-3.7	-5.6	2.7
Debt (in percent of exports)	231.1	226.1	235.9	247.0	229.0
Asia					
Real GDP growth	6.2	8.2	8.5	8.0	7.3
Per captia GDP growth	4.5	6.5	6.8	6.3	5.6
Inflation	8.7	7.3	9.7	10.3	7.4
Current account (in percent of exports)	-0.2	-0.4	-3.3	-2.6	-1.7
Export volume growth	10.9	9.4	10.1	11.0	11.1
Import volume growth	11.9	12.0	12.9	10.4	9.9
Terms of trade	0.8	2.6	0.5	-0.1	-0.5
Debt (in percent of exports)	68.4	66.0	67.7	66.9	62.3
Middle East and Europe					
Real GDP growth	1.9	7.0	4.8	1.4	2.5
Per captia GDP growth	0.0	-0.3	1.9	-1.3	-0.2
Inflation	24.7	24.2	24.7	27.0	15.0
Current account (in percent of exports)	-29.6	-13.5	-13.4	-11.5	-11.1
Export volume growth	1.7	7.3	7.9	6.1	2.1
Import volume growth	3.9	6.6	1.5	-3.1	2.6
Terms of trade	-10.9	-3.2	-7.2	-7.2	-0.8
Debt (in percent of exports)	138.5	137.1	150.2	153.7	146.9
Western Hemisphere					
Real GDP growth	3.4	2.5	3.4	2.8	3.3
Per captia GDP growth	1.4	0.5	1.5	0.8	0.6
Inflation	136.2	165.8	236.4	244.8	28.5
Current account (in percent of exports)	-12.3	-20.7	-24.3	-23.0	-22.4
Export volume growth	4.9	7.1	7.9	6.0	8.0
Import volume growth	17.2	18.1	8.9	7.4	6.2
Terms of trade	-5.2	-3.9	-2.2	0.2	-1.1
Debt (in percent of exports)	265.0	262.2	260.7	255.1	240.3

[1] In U.S. dollars. Averages weighted by 1979-81 commodity shares in exports of developing countries or groups of countries.

outweighted in the medium to longer run as access to industrial country markets increases and efficiency gains are realized.

World economic activity is projected to expand by 3 percent in 1994 and by over 3½ percent in 1995, close to the trend rate of growth over the past two decades. The broadening and strengthening of the recovery marks the end of a protracted slowdown that at various times affected virtually all industrial countries. The economic expansions in the United States, the United Kingdom, and Canada remain on track. In continental western Europe, output is projected to expand by 2¼ percent in 1994 and 2¾ percent in 1995. Conditions for a gradual turnaround in Japan now appear to be in place and growth is projected to pick up from just under 1 percent in 1994 to 2½ percent in 1995. Continued strong performance in many developing countries, particularly in many Asian and some Latin American countries, is expected to sustain aggregate growth close to the high levels experienced in recent years. The decline in output during the early part of the transition process in central Europe and the Baltic countries has bottomed out and economic growth has resumed in some of these countries. In Russia, Ukraine, Belarus, and the Transcaucasian and central Asian countries in transition, however, the economic situation continues to be difficult. Although a number of these countries have made some progress toward stabilization and reforms, most have yet to reduce government budget deficits sufficiently or to bring inflation under control.

Substantial progress in the implementation of policies consistent with the strategy for sustained global expansion adopted by the Interim Committee in April 1993 has helped to strengthen conditions for a revival of world activity. In the industrial countries economic policy has played an important role in alleviating recessionary tendencies and in stimulating the natural forces of recovery. Further efforts will be necessary, however, to promote financial stability and economic prosperity over the medium term. A critical policy requirement in many countries is the need to deal with large fiscal imbalances to reduce the absorptions of private sector saving and alleviate pressures on real interest rates. Further structural reforms would also help to increase economic flexibility and promote high levels of employment. Policymakers will also need to ensure that price stability is maintained--the success during the past decade in reducing inflation to only 2½ percent for the industrial countries overall has re-established a key precondition for sustained growth. Among the developing countries, structural reforms to enhance the role of market forces and increase efficiency in resource allocation will help to promote stronger growth and attract foreign investment; such reforms will also help to increase the resilience of developing countries to adverse external disturbances.

The recovery of world trade became more firmly established during the first half of 1994 and world trade is expected to rise by over 7 percent this year and by almost 6 percent in 1995. This is well above the 5 percent average rate of increase during the past two decades. The pickup in world trade reflects increased activity in the industrial countries, stronger import demand in countries in transition, and continued rapid growth in developing countries. Trade among the developing countries is also expanding strongly; exports of developing countries in the Western Hemisphere to others in the region have risen from 14 percent of total exports in 1986 to over 21 percent in 1993. Intra-regional trade will be given added impetus by further trade liberalization and increased foreign direct investment, particularly in Asia and Latin America.

The aggregate terms of trade of developing countries fell by 1½ percent in 1993, reflecting significant declines in the prices of primary commodities and also the decline in oil prices. Lower oil prices led to a substantial decline in the terms of trade--over 7 percent--of the Middle East and Europe

region, while countries in Africa continued to be adversely affected by weaker commodity prices. The pick up of growth in the world economy and higher commodity prices are expected to broadly stabilize the terms of trade of developing countries in 1995. Stronger commodity prices in 1994-95 will improve the terms of trade of economies heavily dependent on commodity exports, especially for several countries in Africa. The IMF's world export weighted index of nonfuel commodity prices at mid-year was up 17 percent in SDR terms from a year earlier. Even more striking is the 32 percent increase in the twelve months up to July 1994 of *The Economist*'s widely-cited commodity price index, which weights prices by the value of imports into industrial countries. Although temporary influences may account for some of these increases, the broadening of recovery among industrial countries seems to have been the most important factor. For oil-exporting countries of the Middle East, the recent increase in oil prices will improve their short-term prospects.

The sharp rise in long-term interest rates in many industrial countries since the end of 1993 may be attributed, in part, to the general strengthening of growth and the firming of expectations that the recovery is broadening and becoming self sustainable. In view of the strength of the expansions in many countries, such a rise in world interest rates is not of immediate concern, except in countries where recoveries are still fragile. That real long-term interest rates are now close to levels prevailing throughout most of the 1980s, however, points to a renewed intensification of competition for financial resources, both among private investors and between private and government borrowers. This underscores the need for governments to reduce progressively their absorption of private sector saving in order to lower the path of real interest rates, promote greater private investments, and permit an adequate flow of financial resources to the developing world and to the transition countries.

Economic Trends in the Developing Countries

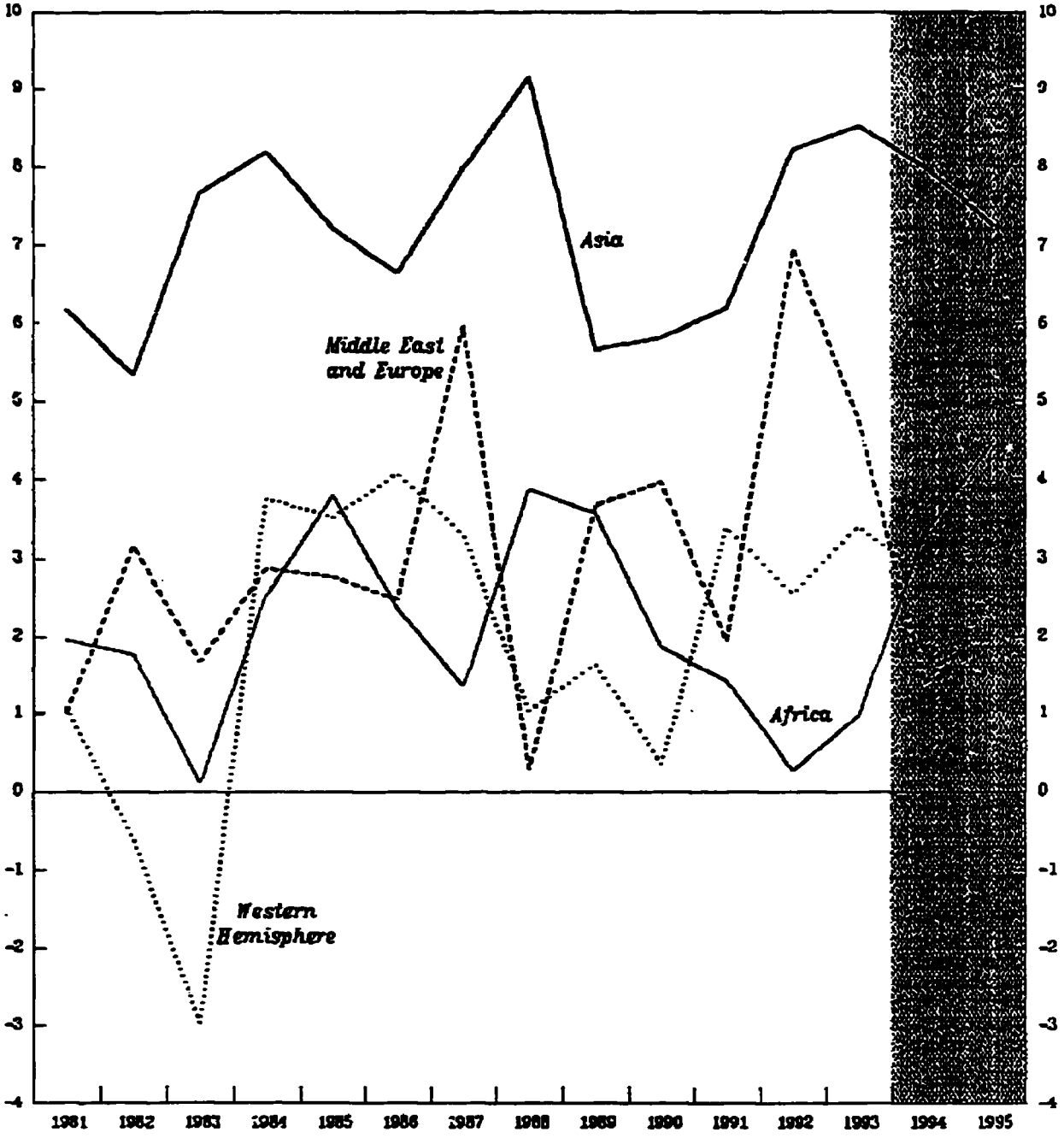
Growth in the developing countries is expected to average 5½ percent in 1994-95, close to the rate of expansion in 1992-93. The favorable outlook for growth in the developing countries as a group continues to mask considerable divergence within and across regions, although the expected pickup of growth in Africa and a slowdown in other regions imply a slight narrowing of the substantial growth disparities among developing country regions in the early 1990s (see chart).

The short-term outlook for many *African* countries is beginning to improve—a welcome development following a decade in which growth has averaged just 2 percent. The recent pickup of commodity prices will raise export earnings and broad moves toward exchange market liberalization in many African countries are expected to improve resource allocation and economic performance. The countries of the CFA franc zone continue to adjust to the devaluation in January, with support from multilateral and bilateral donors. In these countries, improved export and investment opportunities should support stronger growth, and signs of a rebound in the tradable goods sector are already emerging. There are also signs of stronger growth in the African countries that had arrangements at end-1993 under the IMF's structural adjustment facility (SAF) or enhanced structural adjustment facility (ESAF). Notwithstanding these positive developments, the projected moderate firming of growth in the period ahead rests on the crucial assumption that policy reform programs remain on track. Moreover, the projected improvements in growth will only result in a modest rise in living standards, and almost certainly will not be shared by all countries.

The growth of output in *Asia* is projected to decline slightly in 1994, primarily because of an expected moderation of growth to a more sustainable pace in China. Renewed efforts since late 1993

Developing Countries: Real GDP[1]

(Annual percent change)



1 Shaded area indicates IMF staff projections.

to reduce overheating in China are expected to limit the rise in inflation while growth for the year is projected to slow to 11 percent from 13 percent in 1992-93. The challenge for the authorities is to ensure the achievement and maintenance of macroeconomic stability while continuing with structural reforms needed to transform the Chinese economy to a market-based system. In India, where capital inflows have remained significant, there are signs of some modest recovery in domestic investment, compensating for a moderate slowdown in export growth. In the Philippines and Thailand, strong export performance and some strengthening of domestic demand are projected to boost output growth in 1994.

Average growth in the developing countries of the *Western Hemisphere* is projected to slow to 2¾ percent in 1994, mainly reflecting a slowdown of growth in Brazil and Chile and a further, sharper contraction of output in Venezuela, which more than offsets stronger projected growth in Argentina, Mexico, and Peru. In Argentina, growth is expected to be 6 percent in 1994, with domestic demand--mainly investment--expanding strongly. In Brazil, where growth for the year is projected at 3 percent, policymakers will need to ensure the continued implementation of the stabilization plan together with further structural reform to achieve sustained growth.

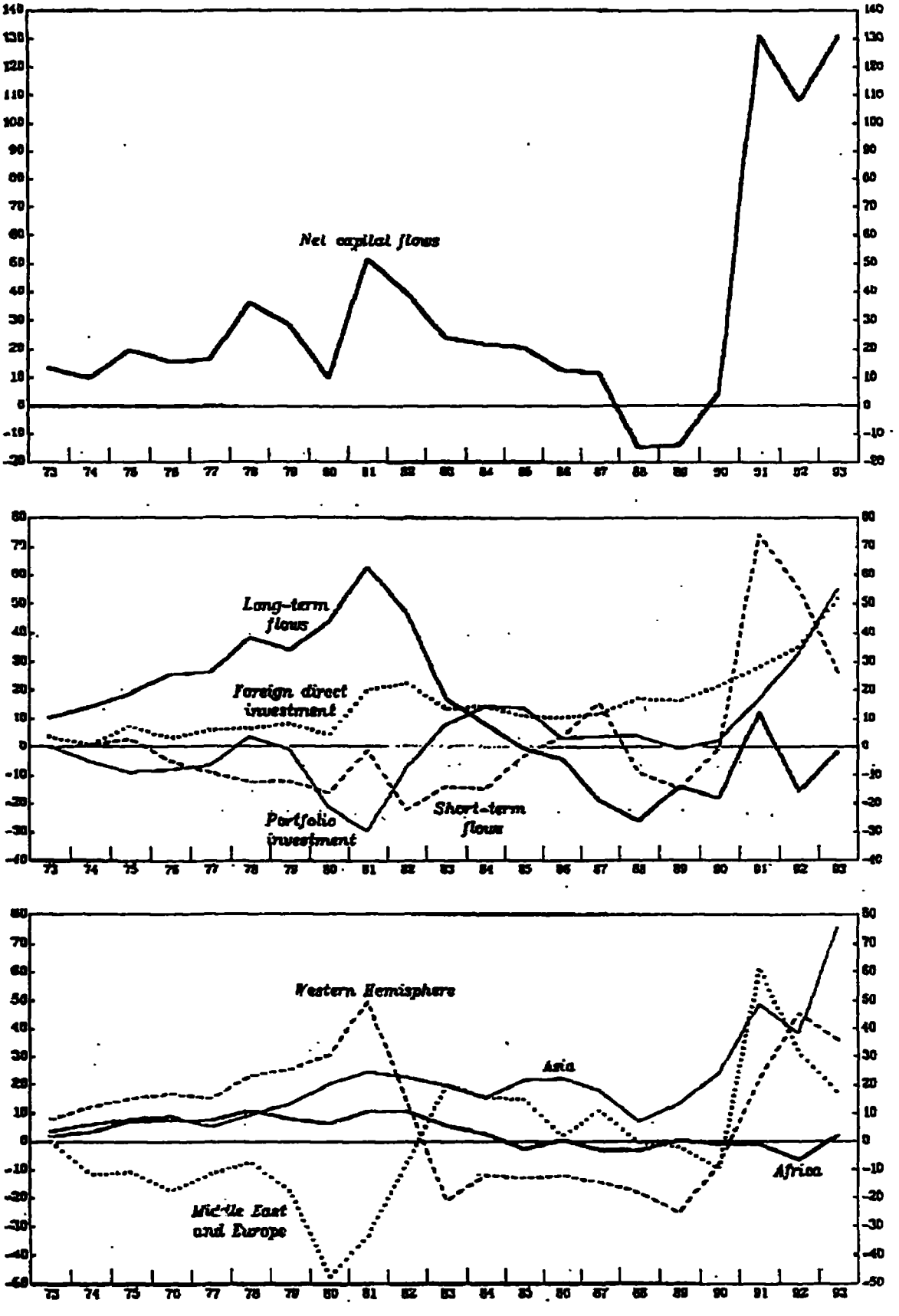
Growth for the *Middle East and Europe* region as a whole is projected to decline further in 1994, to 1½ percent, but then to recover to 2½ percent in 1995. For the oil-exporting countries in the region, the improvement in their terms of trade as a result of the rise in oil prices was moderated somewhat by the depreciation of the U.S. dollar and the rise in non-oil commodity prices. In Turkey, economic and financial conditions deteriorated sharply in the first half of 1994, in part due to a large fiscal deficit, but the adoption of a stabilization program in mid-1994 should allow growth to resume in 1995-96.

Average inflation in developing countries is expected to rise marginally in 1994, following the relatively sharp jump in 1993 due to large price increases in a small number of countries. However, both average and median inflation is projected to fall significantly in 1995. Inflation in the Western Hemisphere is expected to decline markedly in 1995 based on the assumption that the stabilization plan in Brazil is sustained and that other countries in the region make further progress in reducing inflation. Inflation in Asia is projected to rise slightly in 1994, reflecting continuing demand pressures in China and India; in 1995, inflation should return to single digit levels providing financial policies are further tightened in China and the relatively large fiscal slippages in 1993-94 in India are reversed. Although inflation has remained relatively high in the Middle East, in part because of the adverse effect of lower oil prices on government revenues in the oil-producing countries, it is expected to fall markedly in 1995. In Africa, inflation is projected to decline substantially in 1995 owing to sustained reform programs in a number of countries, including the countries of the CFA franc zone.

The renewed confidence of international investors in the outlook for many developing countries has been reflected in the dramatic rise of private capital flows in recent years (see Chart). The surge in capital inflows mainly reflects the successful adjustment and stabilization efforts of a large number of developing countries, although the inflows may also have been boosted by the sluggishness of activity in the industrial countries in 1991-93 and the associated decline in interest rates. The moderation of such flows in the first half of 1994 seems mainly to reflect the rise in interest rates worldwide, although concern about the emergence of financial imbalances in some developing countries may also have contributed. In a few cases, the rise in capital flows appears to have reflected the general enthusiasm for emerging financial markets, rather than well founded confidence in the economic

Developing Countries: Net Capital Flows

(In billions of U.S. dollars)



Sources: IMF. *Balance of Payments Statistics Yearbook*; and IMF staff estimates.

prospects of specific countries receiving the flows. In a number of other countries, capital flows have been attracted by high short-term interest rates resulting from an inappropriate mix of loose fiscal policies and tight monetary policies. For these countries, the risk of sudden changes in market sentiment is particularly serious.

The surges in capital inflows have important implications for policies in many of the recipient countries. The inflows have often complicated economic policy management because of possible risks of overheating and real exchange rate appreciation. However, most countries have managed the inflows much better than in the 1970s, when capital inflows took the form of increasing foreign indebtedness, in contrast to today's largely nondebt-creating flows. In addition to substantial flows into emerging equity markets, many countries--which are often near to, or are potentially themselves, large markets--have benefited from large inflows of foreign direct investment, which are contributing directly to strengthen longer-term growth prospects and are less vulnerable to changes in market sentiment. For the developing countries, the key lesson from earlier episodes of capital inflows is that foreign capital can complement domestic resources but cannot substitute for sustained efforts at mobilizing and efficiently investing domestic savings.

The counterpart to the surges in capital flows to developing countries in recent years has been a sharp increase in current account deficits in most regions, although many countries have also seen a substantial build up of foreign exchange reserves. Foreign direct investment and a competitive exchange rate have raised export growth in China, and the current account deficit is expected to decline to just over 1¼ percent of GDP in 1994-95. India's current account deficit has narrowed considerably in the past several years, and it is projected to remain relatively small as a ratio to GDP in 1994-95. Significant foreign investment in Latin America has eased financial constraints on imports and has contributed to a widening of current account deficits--particularly in Mexico where the deficit as a percent of GDP was 7½ percent in 1992 and is expected to be about 6½ percent in 1994. In a number of countries in the region, external positions have deteriorated, in part because capital inflows have contributed to appreciations of real exchange rates. African countries, which have attracted very little private capital recently, continue to rely on official transfers and net external borrowing. Recent increases in commodity prices should, however, contribute to some improvement in their export earnings. Relatively large current account deficits are expected in Cameroon and in Côte d'Ivoire in 1994, but these are projected to narrow considerably by 1995. In the Middle East, Kuwait's current account balance is projected to move into surplus in 1994-95, from a small deficit in 1993. The large surpluses prevailing in Egypt in the early 1990s are expected to decline considerably in 1994-95, reflecting in part a real appreciation of the currency.

Aggregate measures of developing country debt burdens and debt-service-to-export ratios are projected to show further improvement in the period ahead, although the increase in long-term interest rates since early in 1994 poses a risk for those developing countries that have substantial debt burdens. The consequences for individual indebted countries will vary, depending on the speed with which changes in long-term interest rates are passed through to debt-service payments. Debt and debt-service ratios for developing countries in the Western Hemisphere remain well above the developing country average, although these ratios have declined considerably from the peak reached in the mid-1980s. Debt ratios in Asia and in the Middle East and Europe region, which are considerably lower than elsewhere, have changed little during the last four years. Average debt ratios in Africa have remained at the very high levels of the 1980s--by 1993 the debt-export ratio in sub-Saharan Africa was three times the developing country average--and only modest improvements are projected for 1994-95; debt-

service ratios in sub-Saharan Africa are projected to continue to rise through 1995. Prospects for realistic debt relief for the poorest and most indebted countries have improved as the major industrial countries now appear willing to consider reducing, where appropriate, the stock of debt to official creditors and to increase concessionality for those countries facing special difficulties.

Over the past few months, a number of important commercial bank debt restructuring agreements have been concluded. In April this year, Brazil completed an agreement with commercial bank creditors on a debt reduction package, and in May Ecuador concluded negotiations with commercial bank creditors on a debt-service reduction package. Zambia recently concluded a debt buy back agreement under the aegis of a World Bank program to clear the bank debt of the world's poorest countries. Bolivia completed a US$31 million debt-for-aid swap organized by the Debt for Development Coalition. In August, Iran rescheduled $8 billion of short-term commercial bank debt, Saudi Arabia obtained partial agreement on a two-year deferral of repayment on commercial bank balance of payments loans, and the Dominican Republic completed final arrangements on a plan that reduces by half the existing $1 billion external debt of public sector borrowers. Commercial bank debt negotiations on behalf of Vietnam, Côte d'Ivoire, Panama, and Peru are continuing or are planned. Arrangements are under way to distribute the commercial bank debt of the former Yugoslavia, and London Club agreements with regard to Croatia and Slovenia are pending.

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The recent strong performance of many developing countries in the face of adverse external conditions underscores the importance of persevering with sound macroeconomic and structural policies. Experience indicates that the successful countries are those that have created a stable macroeconomic environment, encouraged domestic saving, and implemented structural reforms that increase efficiency. With the expected improvement in the external environment, conditions are now ripe for stronger reform efforts in those countries that have thus far lagged behind. The international community can support these efforts through technical assistance and timely financial assistance on appropriate terms, and through realistic debt relief for the poorest countries facing special difficulties.

STATEMENT BY THE CHAIRMAN OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS
WILLY WALDEMAR ZAPATA Sagastume
PRESIDENT, BANK de GUATEMALA
Madrid - October 3, 1994

At the outset, I should like to refer to some of the issues of governance of the international monetary and financial system, which have been addressed by the Group of Twenty-Four as a component of the discussions which have taken place in connection with the commemoration of the 50th Anniversary of the Bretton Woods institutions.

The Group of Twenty-Four considers that the mandate of the Bretton Woods institutions remains valid. Nonetheless, the Group pointed out that both the International Monetary Fund and the World Bank should evolve in order to adapt to changes in the international economic environment.

The Group of Twenty-Four also laid stress on the limited representation of the developing countries in the decision-making process of the Bretton Woods institutions, notwithstanding their sizable involvement in the global economy in recent years.

In addition, the Group of Twenty-Four considers that the IMF and the World Bank should make greater use of local capabilities and contemplated establishing regional research and advisory offices. This, inter alia, would allow the developing countries to benefit from strengthened research and economic policymaking mechanisms, while reducing operating costs for the Bretton Woods institutions themselves.

Turning now to the transfer of resources to the developing countries, we are concerned over the decline which has been observed in Official Development Assistance (ODA) flows, not only in real terms but also as a percentage of the GNP of industrial countries, which is particularly unfortunate at a time when the number of countries seeking such resources has been on the rise. And it is for this reason that we reaffirm our appeal to the industrial countries to assign priority in their budgets to the channeling of aid resources to the developing countries, in particular those with the lowest income levels.

We are aware that aid must supplement the domestic efforts of the recipient countries in order to achieve sustainable growth and to eliminate poverty. This notwithstanding, in order to achieve aid effectiveness, such aid must be geared to the real needs of the recipient countries.

The Ministers of the Group of Twenty-Four pointed out that the effectiveness of aid necessitates better coordination between the donor countries and the aid agencies in respect of that aid.

Concerning the post-Uruguay Round trade issues, the Ministers of the Group of Twenty-Four reaffirmed their commitment to promote the establishment of the World Trade Organization as agreed in Marrakesh (Morocco) while expressing their optimism at the determination of the G-7 countries to accelerate the ratification of the Uruguay Round agreements by January of 1995.

Furthermore, the G-24 noted its concern over the danger of industrial countries seeking to link up trade issues with those environmental sustainability and labor and social issues in the developing countries so as to use these as a pretext to impose protectionist barriers.

The G-24 considers that the World Bank and the IMF should provide adequate and timely financial assistance to developing countries facing difficulties in the implementation of the Uruguay Round agreements, as they will have to make adjustments in their economies in order to achieve appropriate integration and inclusion in the global environment. They felt that the existing financial facilities in those institutions could provide assistance to the developing countries during the transition period. Nonetheless, the Ministers of the G-24 also pointed out that the timely and adequate availability of resources from both institutions requires a speedy adaptation of the existing facilities, and that there might also be a need to expand such facilities.

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ISSUES PAPER: AID EFFECTIVENESS
(Prepared by the staff of the World Bank in collaboration with staff of the International Monetary Fund)

The attached paper, prepared by the staff of the World Bank, in collaboration with the staff of the International Monetary Fund, considers how aid can be made more effective in terms of achieving the ultimate objectives of development. The paper notes the critical importance of the commitment to development and the policy and institutional environment within the recipient country. A broad consensus has now been reached on the importance of a sound macroeconomic and structural policy framework for the effective use of both domestic and external resources. The paper focusses on how the World Bank, the IMF and aid agencies can work with recipient countries to develop these favorable conditions for using aid effectively. It also looks at ways that aid agencies--including the World Bank--can improve their own efficiency and effectiveness. The main conclusions are summarized in the following issues for discussion.

Issues for Discussion

(i) Research carried out in the World Bank and elsewhere lends support to idea that aid is most effective when it supports programs and projects that are "owned" by the recipient country. Experience shows that conditionality cannot substitute for local ownership and commitment. Careful attention needs to be paid to these issues before lending. If a consensus cannot be reached, both parties may be better to wait, while working together to build the prerequisites for the effective use of aid resources. Participation by relevant stakeholders can also improve the design of projects and ensure that they are properly implemented and operated. The World Bank has recently completed progress reports on both governance and participation, with the objective of achieving a more systematic treatment of these issues in Bank operations. Ministers may wish to discuss ways in which donors can work with recipients to strengthen ownership, governance and participation, and the implications for the approach to these issues in the World Bank and other donor agencies.

(ii) Weak administrative and institutional capacity acts as a major barrier to the effective use of aid. Donors have devoted considerable resources to building capacity through technical assistance (TA). However the results, especially in Africa, have often been disappointing. In 1991, DAC elaborated Principles for a New Orientation in Technical Cooperation and a recent DAC/UNDP/World Bank High-Level Seminar discussed measures to improve the effectiveness of TA. Proposals included: making TA more demand driven; proper country programming of TA; and strengthening the local management of TA, including budgeting and accountability. In addition, proposals were made to shift the focus away from specific efforts to improve the effectiveness of TA packages toward improving the institutional constraints that pose obstacles to effective TA. There are still differences of views among donors and recipients on the merits of these proposals. However, a DAC process has been put in place for further analysis and discussion of the issues. Ministers may wish to exchange views on the effectiveness of their own TA programs and proposals for making TA work better.

(iii) There has been much discussion of measures to improve aid coordination. While recipient countries are ultimately responsible for the management of the aid resources they receive, there are actions that donors may take that would contribute to better coordination and to the more effective use of aid. DAC's Principles provide an appropriate framework for improving aid coordination. The World Bank plays a lead role through Consultative Groups (CGs). Experience suggests that CGs are more effective when preparations involve the active participation of the recipient government and consultations

with other donors. The agenda for CGs should cover issues of development strategy and aid utilization, as well as mobilization of financial resources. Donors should ensure that their aid programs are consistent with the budget processes and public expenditure priorities of the recipient country. Recent progress on reducing the use of tied aid and mixed credits, in line with the DAC Principles, needs to be extended. Ministers may wish to discuss the issues they face in bringing their aid programs in line with country and sectoral strategies, and steps that can be taken to improve the effectiveness of existing mechanisms for aid coordination.

(iv) Many aid agencies have embarked upon efforts to improve their own efficiency and effectiveness. The World Bank is currently implementing a program to follow up on the recommendations of the "Wapenhans Report". Actions are being taken to strengthen the country focus of portfolio management, improve the quality of projects entering the portfolio, simplify procedures, focus staff incentives on results in the field, and strengthen evaluation and disclosure policies. While progress has been made in each of these areas, more remains to be done and it is still too early to assess the impact on results. Regional development banks have undertaken similar reviews and are at various stages of implementation. Ministers may wish to comment on the World Bank's follow-up to the "Wapenhans Report" and progress on similar initiatives in their own aid agencies.

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This paper was prepared by Mark Baird and Deborah Wetzel (DECVP)
with contributions from Roberto Mosse (OPRPG) and Graeme Hunter (consultant)
(The World Bank); and in consultation with Matthew Fisher (PDRD-IMF).

I. INTRODUCTION

1. The ultimate objective of development is to reduce poverty and improve living standards through sustainable growth and investment in people. This paper looks at the effectiveness of aid in terms of achieving these objectives. While the emphasis of the paper is on aid, which is traditionally defined as concessional financing, most of the findings are relevant to non-concessional official financing as well. The focus is on what donors[1] can do to support the effectiveness of aid, though the efforts of recipient countries to improve the effectiveness of aid are also critical. Donors can help recipient countries to develop the programs, policies and institutional environment necessary for getting the most out of the available resources. Donors also need to ensure that their internal business practices and procedures support the effective use of resources and do not impede efforts in this direction by the recipient countries.

Table 1. Official Capital Flows to Developing Countries

	1980	1985	1990	1991	1992	1993 /a
Net Official Capital ($b at 93 prices)	42.2	51.9	60.7	64.4	55.2	60.0
of which: ODA /b	28.8	34.9	44.9	47.9	48.8	51.4
Net Official Capital as Percent of: /c						
Recipient Country GNP	1.4	1.3	1.4	1.5	1.2	1.3
Total Resource Flows	40.7	55.3	57.9	51.9	34.6	27.4

/a Estimates.
/b As recorded by the World Bank. Differences with DAC data are explained in the President's Report to the Development Committee.
/c Based on current price data.

Source: World Bank.

2. Although on average aid is only a small portion of GNP, it does play an important role in many developing countries. On average, net official capital flows are equivalent to only 1-2 percent of recipient country GNP (see Table 1). Moreover, since 1990, with the sharp increase in private capital flows to China and many middle-income countries, there has been a decline in the share of resource flows to developing countries from official sources. However, many low-income countries have not yet benefitted from the resurgence in private capital flows. Indeed, in Sub-Saharan Africa (excluding South Africa), the importance of official capital flows has been rising and exceeded 10 percent of GNP and more than 90 percent of net resource flows in 1993. Yet, for many African countries, high aid dependency has gone hand in hand with mixed results. While in the long term there is no inherent trade-off between the quantity and quality of aid, in the short term two tensions may arise. First, donor desires to speed up

1 In the interest of simplicity, the term "donors" in this paper covers official agencies providing both grant and loan assistance, and is sometimes used to encompass the role of the IMF in providing policy advice, and financial and technical assistance.

implementation and disbursement may often conflict with ownership, institutional development and capacity building goals. Second, while the immediate resource needs of countries may be large, the conditions for effective absorption of such resources may not be in place.

3. There has been increasing focus on the development effectiveness of aid in recent years. Yet the policies and actions of donor governments have not always been consistent with this concern. Political and commercial interests continue to influence the levels and allocation of aid budgets. And other donor policies—designed to promote their own exports or restrict imports from developing countries—often undermine the recipient country's ability to use aid resources effectively. Substantial progress in improving aid effectiveness will require that these basic issues are addressed. With the end of the Cold War, there is now a real opportunity to refocus attention on the development objectives of aid. There is also growing recognition that development, per se, is important to tackle global issues—such as AIDS, migration and the environment—and to strengthen the global economy. All countries stand to benefit from progress in these areas.

4. Global changes have also placed new demands on aid resources. Historic developments in the Former Soviet Union, Eastern Europe, the Middle East and South Africa have generated substantial resource requirements for reconstruction. Peacekeeping and humanitarian needs are also on the rise. At the same time, major development challenges remain in many low-income countries which have limited access to private capital flows. Coming at a time when many donors are facing fiscal constraints on their aid budgets, these competing demands have reinforced the importance of ensuring that available resources are used effectively. Demonstrated progress on improving aid effectiveness will also be essential to support the case that continued spending on aid programs is indeed justified.

5. Ultimately, the effective use of aid comes down to a partnership between recipient country governments, those affected by aid and aid agencies. The recipient country is responsible for establishing a commitment to and the momentum for development, using both its domestic and external resources to best advantage, and establishing a participatory approach to development. Those affected by aid-financed projects have an important role to play in providing information that can assist project design, helping with project implementation and operation, and in providing feedback on the success of aid programs. Donors help by providing finance and advice.

II. AID AND THE COUNTRY CONTEXT

6. There is a substantial body of research on aid effectiveness[2] and, while not conclusive, it suggests that the commitment to development, strong administrative and institutional capacity, sound domestic policies, and systems for the effective management of resources have a particularly important influence on the effectiveness of aid. While these factors will hold to varying degrees in developing countries, their combination makes for the most effective use of aid. Donor efforts at helping countries move towards these broad conditions will thus improve the effectiveness of aid.

Commitment to Development

7. The commitment of the recipient country to poverty reduction through sustainable development is an important indicator of how effectively aid will be used. Donors look to three concepts for assessing recipient country commitment: ownership, good governance, and participation. "Ownership" reflects the extent to which a given program or project has emanated from the recipient country as opposed to having been imposed from abroad. Recent studies have found a very high correlation between borrower ownership and the success of adjustment programs.[3] Programs and projects that are "home grown" are generally more effective in incorporating institutional constraints and in addressing the needs of domestic constituencies. Good governance, which reflects efficient public sector management, a sound legal framework, accountability and transparency, is also an important indicator of the effectiveness with which aid resources will be used. It also assists in consensus building and developing greater ownership of development initiatives. Corruption, on the other hand, not only reduces aid effectiveness but also undermines support for aid in donor countries. Finally, there is increasing evidence that extending the level of participation to relevant stakeholders can contribute to more sustainable programs and broaden ownership and commitment. It is especially important to find ways to involve the poor and other groups, including women, who might otherwise be left out of the decision-making process. While further research is needed to establish the direct link between participatory approaches and the poor, it is clear that participation can make a large contribution to getting good projects implemented, operated, maintained and evaluated. Box 1 presents some suggestions on how participation can be promoted.

Institutional Development and Capacity Building

8. Weak institutional development and limited capacity pose a major bottleneck to the effective use of aid in many countries. Traditionally, technical assistance (TA) has been used to address these bottlenecks. However, the results, especially in Africa, have often been disappointing. Much of the discussion of TA (see Annex I for further elaboration of the points made here) has focused on the specifics of technical assistance. In many cases TA is donor driven and on a scale that is beyond what

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2 See Overseas Development Institute (forthcoming).

3 See Johnson and Wasty (1993). The study constructed an independent ex poste measure of ownership based on four criteria. First, the extent to which the initiative for formulating and implementing the assistance program comes from the recipient country is an important indicator of ownership. Second, the degree of consensus among key decision makers concerning the assistance program gives an important indication of the extent to which the government "owns" it. Third, the willingness of the Government to show public support and take up-front action on behalf of the assistance program also reflects the extent to which it internalizes an assistance program. Finally, involvement of political and social groups beyond a small core of high-level government officials is also an important indicator of a broader base of support and ownership.

Box 1 Promoting Participation

The Bank's Learning Group on Participatory Development (see World Bank 1994i) suggests a number of measures that could be put in place in the shortrun in order to promote participation:

- Support government efforts to promote a more enabling environment for participatory development within client countries, by addressing participation in policy dialogue, capacity-building programs, and public sector management activities.
- Establish procedures and allocate resources for sharing responsibility for economic and sector work (ESW) with government and a wider range of stakeholders.
- Encourage review processes that ensure that lending operations and ESW include a process for identifying (i) who the relevant stakeholders are; and (ii) how they will be involved in the activity. Documentation of projects and ESW would include brief descriptions of the participatory process.
- Strengthen the Bank's capacity to support participation by providing participation-related training programs for Bank staff.
- Maintain innovation, learning and mainstreaming of participation by appropriate use of the Fund for Innovative Approaches in Human and Social Development and expansion of funding for such purposes; and providing incentives and recognition for staff who undertake participatory initiatives.
- Provide institutional arrangements to oversee and support the Bank's adoption of participation by reaffirming the roles of the Human Resources Development & Operations Policy Department, the Environment Department and the Bank-wide Learning Group to continue providing leadership and promoting participatory initiatives; and supporting the establishment of an inter-organizational collaborative learning group on participation.

recipient countries can accommodate effectively. Some secondary factors that pose difficulties include problems with design, implementation, monitoring and evaluation; incentives faced by the individual providing TA to produce reports rather than to train; and incentives for those trained through TA to pursue more lucrative positions after training. The Development Assistance Committee (DAC) has set out a series of Principles for New Orientations in Technical Cooperation in order to address these issues[4] and a recent High Level DAC/UNDP/World Bank Seminar discussed measures to improve the effectiveness of TA, including: making TA more demand driven, improving the delivery of TA, proper country programming, and strengthening local management of TA.

[4] See OECD (1991). These principles include: setting long-term capacity building as the objective of capacity building rather than short-term improvements in performance; placing greater emphasis on the central role of recipient countries in planning, design and management of technical cooperation; stressing the use of a program approach (rather than project-by-project); encouraging the responsibility and control of technical cooperation programs and projects at all stages by the intended beneficiaries through participatory approaches, including local NGO participation; taking into account the new recognition of private sector needs for technical cooperation; encouraging greater use of local expertise; defining objectives in terms of outcomes to be achieved rather than inputs to be provided; and, stressing the need to pay greater attention to the costs and cost effectiveness of technical cooperation activities.

9. However, much of the reason for the poor impact of many technical assistance programs is due to institutional environments in which the minimum conditions of good governance do not prevail.[5] The incentives for improving public sector capacity may not exist and efforts to improve capacity through technical assistance are unlikely to be effective without: transparent rules and their fair enforcement; the proper incentives; the basic systems for decision making, resource allocation, and accountability; and the free flow of information. Establishing such an institutional environment is likely to entail civil service and other reforms and is a long-term process. While some consensus has been reached on reforming the specific modalities of technical assistance programs (Annex I), a recent UNDP paper recommended a four pillar approach to institutional development and capacity building incorporating the overall institutional environment (see Box 2).

Box 2 UNDP's Four Pillars for Capacity Building

Positive experiences with technical assistance (TA) tend to be in countries where the overall institutional environment has not deteriorated and may not be replicable in situations where the minimum conditions of good governance do not prevail. Improving the effectiveness of TA may require improvements in the institutional environment. The UNDP Regional Bureau for Africa suggests a four pillar approach to capacity building:

- Empowerment of people and ownership of the people primarily concerned should be a key goal for capacity building strategy.
- Good governance should be promoted through measures such as support to the judiciary, mass media, democratic institutions, etc.
- Do not equate capacity building with training, education and technology transfer. We should shift our attention to the environment in which people apply their skills. An environment conducive to mobilizing social groups and motivating individuals are basic requirements for promoting capacity utilization and retention. The focus should also particularly be on strengthening management systems for improved capacity utilization.
- Capacity building for sustainable human development includes not only public sector management but strengthening of civil institutions and investments in social capital.

See: UNDP Regional Bureau for Africa (1994).

Sound Domestic Policies

10. It has been well-established that domestic policies have an important impact on economic growth, development and the effective use of aid. Over the past decade there has been an increasing consensus on the conditions necessary (but not always sufficient) for obtaining the objectives of reducing poverty and improving living standards. The key elements to a sound policy framework include: macroeconomic stability; an open and competitive economy; government roles that focus on activities that complement the private sector, such as provision of public goods and addressing market failures; and investment in

5 See UNDP Regional Bureau for Africa (1994), p. 4.

basic infrastructure and in people, including targeted measures for poverty reduction where necessary.[6] The World Bank and the International Monetary Fund support improved domestic policies through research on country policy experience, dissemination of lessons through country dialogue and by financial support for structural adjustment lending. Reviews of adjustment lending have found that the results with respect to inflation, the resource balance, the fiscal deficit, removal of price distortions, liberalizing trade and growth have generally been favorable.[7] However, savings and investment responses have been relatively disappointing and progress in public enterprise, financial sector and regulatory reform has been slower than anticipated. There also may be short-term declines in the welfare of some groups that need to be specifically addressed as part of the adjustment program.

11. Recent studies have shown that good domestic policies not only contribute to poverty reduction and improved living standards, they also are associated with higher rates of return on project finance. One study found that an undistorted policy environment is associated with economic rates of return (ERRs) at least five percentage points higher than in a distorted policy environment. Reductions in the parallel premium and opening up of the trade regime can translate into an improvement of nine percentage points in the ERRs.[8] Later work focused on the social sectors found similar conclusions.[9] Efforts to improve the domestic policy framework through policy advice and program lending therefore help to contribute to more effective project assistance.

The Effective Use of Resources

12. Aid effectiveness requires that aid resources should be placed within the context of an overall expenditure framework that is clearly tied to the development objectives of the recipient country and that it is fully consistent with the macroeconomic framework and an integrated budgetary process (see Box 3).[10] Once overall allocative decisions have been made, efficient execution of the budget is also required.

13. Among the many considerations that arise in allocating expenditure, two are particularly important: the functional composition of expenditure and addressing the sustainability of expenditure. Governments sometimes do not make the most effective use of their resources because they are spread too thin. Unproductive expenditures, including for military purposes, and expenditures in areas best left to the private sector often crowd out priority areas for public involvement. In prioritizing public expenditure there are two areas that stand out in terms of their impact on development and their contribution to the effective use of aid. The first is the provision of basic social services (primary education and health) and the second is in the provision of basic infrastructure. Research has found that

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6 See Bruno (1994), Lindauer and Roemer (1993), World Bank (1991e), World Bank (1993e), World Bank (1994a).

7 See International Monetary Fund (1993), Mosley et al (1991), World Bank (1992a), World Bank (1992d), World Bank (1994a) and references within.

8 See Kaufman (1991) and Pohl and Mihaljek (1992).

9 See Kaufman and Wang (1992).

10 One complication in assessing the effectiveness of aid financing is the issue of fungibility, i.e. the aid financed project may not be the marginal project. It is therefore important to look at the impact of aid on overall investment levels and patterns. Further research on this complex issue is warranted.

Box 3 Lessons from Successful Aid Managers

A review of aid coordination and management (see Lister and Stevens (1992)) found that countries that have built up reputations as successful managers of external assistance have some common factors. These include:

- Government consensus on national objectives, clear policies and well-ordered expenditure priorities.
- A well-staffed and centrally located aid coordination unit, in regular contact with sector departments and aid agencies.
- Deliberate aid strategies, for the magnitude of assistance, for the type of external resources sought and the terms and conditions deemed acceptable. Strategies also cover the targeting of donors and the allocation of projects. Clear procedures for handling missions and a firm resolve to control the process.
- Expertise in depth, the product of training strategies to build up a technocratic cadre.
- Planning, budgeting, and external resource management in most cases in the same institution. Close links between the core economic management agencies, and effective high level machinery for policy coordination.
- Regular production of realistic plans or rolling PIPs, as a means to coordinate and make known government policies, and to provide a medium-term framework for programming expenditure priorities.
- The inclusion of all aid-funded investment projects in the annual budget, separate development and recurrent budgets, and well functioning government financial management systems.
- Close attention paid to project screening and monitoring.
- Competency in external debt management, based on good record keeping and cash flow forecasting. Location within the core group and coordination with other management functions.

the return to basic education (particularly of girls) and to expenditure on basic health are high.[11] One study found that if Korea had the low school enrollment rate of Pakistan in 1960 its GDP per capita by 1985 would have been 40 percent lower than that actually attained.[12] The 1993 World Development Report (WDR) focused on health issues and argued that governments in developing countries should spend about 50 percent less than they do now on less cost-effective interventions and instead should double or triple spending on basic public health programs such as immunization and AIDS prevention and on essential clinical services. Investment in basic economic infrastructure also delivers major benefits by helping countries to diversify production, expand trade and cope with population growth. Infrastructure such as clean water and sanitation systems contribute to improved standards of living and environmental sustainability. However, as highlighted in the 1994 WDR, major infrastructure investments in many developing countries are not generating the quantity or quality of services demanded. Managing infrastructure like a business—with attention to costs and service—can help to reduce

11 See Psacharopoulos (1993) and Summers (1992).

12 See Birdsall et al (1994).

inefficiencies which are a burden on public resources. In many cases, private sector participation can help encourage a commercial orientation. By introducing competition, pressure will be placed on suppliers to be efficient and accountable to users. As institutions and capital markets develop, governments can also look to the private sector to finance infrastructure projects.

14. While sectoral allocations are being determined, governments also need to consider the sustainability of their choices. Experience has shown that both governments and donors often over-estimate the sustainability of projects. The primary reason that investment programs are found to be unsustainable is due to miscalculation of incremental recurrent costs and poor integration of recurrent costs into the budget. In addition, the financing for recurrent costs such as operations and maintenance (O&M) is often squeezed by increasing wage costs and interest payments. However, such expenditure has high returns. For example, the expected return to efficient non-wage O&M in the Indonesian irrigation sector in the mid-1980s is estimated at 117 percent in Java and 90 percent off Java. A Bank report found that in the Indonesian transport sector, the return to specific road improvements was 13 times the amount spent.[13] Another reason that projects are often found to be unsustainable is that project appraisals fail to incorporate into their sensitivity analyses the potential for foreign shocks and their impact. The lessons of the commodity booms of the seventies and their impact into the eighties indicates that in choosing, designing and implementing projects, the sensitivity of project success to external shocks should be weighed as much as possible.[14]

15. Improved public sector management systems and processes are also required for improving the effectiveness of aid. Once budgetary priorities and allocations have been set, efficient systems and processes for implementing the budget are important for translating those priorities into results on the ground. In some countries actual budgetary releases may have little to do with budgetary allocations. Budgetary processes may also be fragmented and suffer from a lack of complete information. In some cases, systems and procedures need to be reformed. In others, the systems and processes exist, but need to be properly implemented. Creation of an institutional environment that provides incentives for efficient implementation and execution of the budget can help to improve the effectiveness of resource use.

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13 See World Bank (1992a), p. 57.

14 See Little et al (1993).

III. AID AND THE DONORS

16. Donors can increase the effectiveness of aid through the promotion of commitment, institutional development, good policies and the effective use of resources. However, donor practices and procedures also have a real impact on the effectiveness of aid. Efforts to improve aid coordination and to refocus business practices within aid institutions have made some progress but more should be done.

Aid Coordination

17. Ultimately the recipient country is responsible for coordinating its aid flows, but donors can ease their task, particularly in countries where capacity is weak (see Annex II for a more detailed review of aid coordination). Donors play different roles in recipient countries: the multilateral agencies normally take the lead on policy discussions, while the bilateral agencies focus more on project and program issues. Coordination of these activities can make aid more effective. At the country level, a country's ability to coordinate its aid will be related to its public sector management capabilities. Clear lines of responsibility for decisions concerning aid are required, and while no blueprint can be applied to all countries, most countries where aid is significant create an aid coordination unit that has an overview of aid resources and ensures that they are effectively integrated into the budget. However, many donor agencies over the years have created mechanisms—such as dedicated project implementation units and the earmarking of counterpart funds from import support—for working around government institutions. Both mechanisms can be helpful in the short run to speed up project implementation. However, if they become widespread, they can also complicate aid management within the recipient country and undermine longer-term efforts to strengthen the civil service and budget processes. The tying of aid to specific commodities or services or to the country or region where procurement has to take place, may also undermine government's efforts to manage its aid. Estimates of the excess costs of tied aid to recipients range between 10 and 30 percent.[15] Standard procurement procedures have to be suspended, cost estimates changed and budgets revised upwards. If the equipment is non-standard, special arrangements for maintenance will have to be made.

18. At the level of interaction between donors and recipients, Consultative Groups and Roundtable Meetings ("CGs") are the most prevalent form of coordination. Such meetings have helped to increase commitments, improve information flow and build consensus. Some improvements could be made by assuring that documentation requirements are at a level that the recipient country can meet and that such documentation will contribute to the government's own programming. Many CGs benefit from special sessions on aid coordination and on technical assistance. Adherence to priorities set out in the CGs can also make a contribution to the more effective use of aid. Earlier consultation between the multilateral and bilateral agencies could also improve the effectiveness of these meetings and coordination in general. Recent experiences of coordination using an integrated sector approach have been very promising (Annex Box II.2).

19. Donors have agreed on Guiding Principles for Aid Coordination set out by DAC (see Box 4) and greater attention should be paid to their implementation and evaluation.

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15 See Jepma (1991).

Box 4 DAC's Guiding Principles for Aid Coordination with Developing Countries

While there are some discussions of improving coordination and standardization among donors at CGs and regional meetings, the center of efforts to coordinate donor aid policies and actions is the Development Assistance Committee (DAC), whose members have agreed to secure an expansion in the aggregate volume of resources made available to developing countries and to improve their effectiveness. Through consultation with the multilateral institutions and bilateral members DAC has established "Principles for the Effective Use of Aid". Aid coordination is an important part of DAC's mandate and in 1986 DAC members agreed on the following principles concerning coordination:

- Central responsibility for aid coordination lies with each recipient.
- Developing countries need well designed policies and carefully appraised investment and expenditure programs for effective and coordinated use of both their national and external resources.
- There is a need for aid agencies to help developing countries strengthen their analytical and management capacity to design and implement effective policies and programs.
- There is a need for continuing discipline by both recipients and donors in adhering to carefully appraised and productive investment programs.
- There is a need for close cooperation between recipient governments and the multilateral lead agencies, but the processes of consultation and coordination should provide an opportunity for bilateral donors to express their views during the formative stages of policy and program consultations.
- Full and frank exchanges of pertinent information on on-going and planned activities among donors, and between donors and recipients are essential for effective coordination and the effective use of aid.
- There is a need to strengthen aid coordination at the local level and to establish greater links between central and local coordination arrangements. Central coordination arrangements should give the lead to local and sectoral coordination. Recipient governments should be at the center of the process.
- Effective participation both in the policy dialogue and in aid programming at the local level will be facilitated by the presence of policy-oriented staff stationed in individual countries.

See: OECD (1992).

Improving Donor Efficiency[16]

20. Attention has recently been focused on the measures that donor institutions can take to improve their effectiveness through changing their internal business practices and processes. Task forces have carried out reviews at the World Bank,[17] each of the regional banks and in many of the bilateral agencies (see Annex III for a more detailed discussion). The conclusions of the different task forces focused on many of the same themes and, while implementation of recommendations has begun, there is still work to be done to ensure that the changes required are fully implemented. A theme of many of the reviews was reorienting the institutions from a focus on measures of success based on inputs, such as the number of loans newly approved, to measures based on progress as measured in the field. This requires a shift in focus from individual projects to the overall country portfolio and measures that might improve its implementation. Many of the reviews also called for increasing emphasis on the quality of projects through better project appraisal, greater participation of stakeholders where appropriate, and devoting sufficient time to project or program preparation. Improvements were also called for in the management of projects including increased accountability on the part of project managers, better project supervision, and streamlining and simplifying of procurement procedures. The reviews also recommended better monitoring and evaluation and measures to assure that evaluation results are fed back into current operations. Measures have also been recommended to assess how institutional factors, such as levels of bureaucracy, systems of institutional directives, etc, affect how the institutions deal with recipient countries. In some instances, recommendations have focused on better implementation of the existing institutional system, in others they have focused on streamlining and simplifying current institutional procedures. At the most fundamental level, the task forces called for changes in the incentive system which influences how staff of the institutions carry out their jobs.

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16 The Development Committee agreed in April 1994 to appoint a Task Force to review the development role being played by the Multilateral Development Banks. That Task Force will be able to build on the work described in this section.

17 For a broader discussion of how the World Bank is responding to the changing world and the challenges of development see World Bank (1994h).

IV. IMPLICATIONS FOR DONORS

21. Improving the effectiveness of aid requires the efforts of all parties involved in the development process. In the recipient country, improving aid requires building up a commitment to development, creating the right policy environment and the effective use of all resources—domestic and external. Donors have a role to play both through fostering those conditions and by ensuring that their own processes are efficient. Experience gives us some guidance as to the basic requirements for improving aid effectiveness, but further research in many areas is needed to clarify how individual factors promote the effective use of aid. The basic messages that come out of the analysis, which apply to aid agencies generally and to the World Bank in particular, are as follows:

- **Ownership by the recipient government and participation by affected people are essential.**

22. In the first instance, donors can place a premium on ownership by being selective and financing those programs with strong ownership. From experience it is clear that providing financing when there is weak ownership usually leads to poor utilization of resources. But in cases where ownership is weak, donors should not play a passive role. Rather, through the use of analysis, dissemination of information and by responding to concerns, donors can help to build ownership.

23. Donors can also contribute to the ownership of projects in a number of ways. Recipient countries should be in the "driver's seat," taking the lead. Where capacity is weak donors should guide and assist countries without dominating them. This may require donor agencies to extend their timetables, but will in the end allow for greater capacity building and a more sustainable development impact. Donors can also improve the effectiveness of their aid by promoting participatory approaches to development. This involves: directly addressing participation issues in policy dialogue, capacity building programs and public sector management activities; collaborative economic and sector work; including a process for helping the government identify the relevant stakeholders and how they will be involved in an activity; strengthening the agencies' capacity to support participation by providing training programs and adjusting skill mixes; establishing the incentives and funding to allow staff to pursue a participatory approach; and encouraging borrowers to evaluate their experience.[18] With recipient countries taking the lead, increased ownership and participation, the nature of "conditionality" will change. If there is substantial disagreement over a government-owned program, then a consensus needs to be reached through dialogue. If a consensus cannot be reached, donors should reconsider whether it is appropriate to lend.

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18 See World Bank (1994b).

- **Weak administrative and institutional capacity is a major barrier to the effective use of aid.**

24. Recipients and donors are well aware of the bottlenecks that weak administrative and institutional capacity can create. Many donors already spend significant resources on technical assistance trying to address these problems, with mixed results. While there is no single blueprint for improving aid aimed at capacity building and institutional development, a number of measures could be taken to improve the effectiveness of these efforts.

25. First, the focus of work on institutional development needs to shift toward a consideration of the environment within which institutional development and capacity building are supposed to occur. If the institutional environment is one in which the rules are either unclear or do not provide incentives for building public sector capacity, then piecemeal measures to improve capacity are unlikely to have a sustainable impact. A minimum level of efficient public sector management and "good governance" is required for targeted efforts to be sustainable. While further work is needed to fully understand the processes of institutional development, donors can consider measures to strengthen the judiciary, information and communications, processes for decision-making, budgeting, personnel management and accountability.

26. Second, with regard to traditional TA activities, the most important measure for improving effectiveness is to avoid supply-driven programs. This implies adopting an approach in which technical assistance needs are determined by the local stakeholder. This could be carried out in the context of a country program approach to technical assistance. Other measures include: delivering existing technical assistance packages more effectively, giving more time to project preparation, seeking greater local participation, avoiding overambitious projects, carefully selecting both advisors and counterparts and establishing better supervision of TA projects. In addition, donors need to carefully consider the method of delivery of technical assistance. Donors can also improve the effectiveness of technical assistance by unbundling the traditional packages of personnel, equipment and training; untying technical assistance; and improving transparency.

27. Finally, donors can also promote more effective technical assistance by agreeing on a time frame for full implementation of DAC's Principles for New Orientations in Technical Cooperation.

- **Sound policies and good public sector management are essential for the effective use of resources.**

28. Donors can contribute to improved domestic policies through the dissemination of their research and lessons from country policy experiences and through their policy-based lending. Because focussed programs are more effective than overambitious ones, donors can help to make policy lending more effective by: making sure that there is thorough preparation and well-directed economic sector work in setting out and designing an adjustment program; and ensuring that policy conditions are clear and prioritized and have been fully discussed and agreed upon with the government. Donors can help to ease the costs of adjustment by ensuring that their support for adjustment programs recognizes the need to address short-term costs, particularly of the poor.

29. Donors can continue to assist recipient countries in improving resource allocation. The International Monetary Fund assists countries in setting expenditure envelopes and the World Bank helps

governments to establish expenditure priorities through public expenditure reviews. These analyze public expenditure programs to provide recommendations to governments on the size and composition of their expenditure programs.[19] Frequently they provide advice on where expenditure cuts might be focussed. Bilateral donors often advise on sectoral expenditure issues. In turn, there is a need for governments, the Fund and the Bank to be fully informed of donors' aid programs in formulating expenditure envelopes and expenditure priorities.

30. Donors can also assist countries in strengthening their ability to appraise projects. While governments need to assure that adequate recurrent funds are available for aid-financed projects by either appropriate cost recovery measures or by improved resource mobilization, donors can assist sustainability by assuring that project appraisals realistically assess the recurrent cost components and that the balance between investment and recurrent spending is addressed in a medium-term framework. Donors can also incorporate transitional measures for covering recurrent expenditures on a temporary basis, until the recipient country builds a strong enough revenue base to cover these costs.

31. Donors should also place more emphasis on helping recipient countries to improve their budgetary systems and processes. In part this calls for promoting the elements of good governance as discussed above. It also calls for advising on the specifics of a particular budgetary system and how its operation might be improved.

- **Lack of coordination in donor activities reduces the potential impact of aid.**

32. At the country level, donors can help to alleviate the administrative burden imposed on governments by specializing in a limited number of sectors, by encouraging cofinancing in which one donor takes the lead, and by harmonizing and simplifying procedures as much as possible. The integrated sector investment programs (Annex Box II.2) provide a good example of how such measures can be implemented. Donors can support and help to implement processes which help recipients manage their aid, such as aid coordination units, and they can pay particular attention to public sector management issues. Donors can support aid coordination simply by assuring that the aid coordination machinery in a recipient country is fully informed and by beginning and ending missions with meetings with the aid coordination unit and the ministry of finance. Donors should also work with recipient countries to establish methods for implementing their own projects which are consistent with broader efforts to strengthen the civil service and budget processes. Finally, while the donors have made progress in reducing the tying of aid, greater efforts should be made to reduce this practice. In particular, the use of mixed credits—which combine tied ODA with export credits and nonconcessional official loans—should be strictly limited in accordance with the DAC Principles for Effective Aid.[20]

33. At the level of CGs, multilateral agencies can contribute to improved coordination by including bilateral agencies in preparatory meetings and also by improving consultation with bilateral agencies at an early stage in the development of a program. These meetings can also contribute to greater aid effectiveness by assuring that the documentation prepared for the meetings draws on local participation as much as possible and will form a useful part of the country's aid strategy. The agenda of CGs should

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19 See de Melo (1988).

20 See OECD (1992), pp. 121-125.

allow discussion of strategy issues in addition to the mobilization of financial resources. It should often also include a session on aid coordination, which could focus on common problems of aid utilization and how they might be resolved, and a session on technical assistance. Donors also need to be disciplined in adhering to the investment priorities set out in the public investment program.

- **Aid agencies need to continue to improve their own business practices in order to obtain better results in the field.**

34. Many agencies have embarked upon efforts to improve their practices with the ultimate goal of improving the development impact of their operations and making aid more effective. Most agencies are: intensifying their country focus; taking measures to improve the quality of projects and programs from the outset; and placing more emphasis on monitoring and evaluation, and on the quality of their loans as opposed to quantity. Although the World Bank has made much progress in implementing the specific tasks recommended by the Portfolio Management Task Force, the Bank will not know for some time whether in practice the actions taken will yield more expeditious implementation and improvements to the health of the portfolio, and to eventual improvements in results on the ground. The Bank is determined to maintain its current momentum and commitment to carrying out the actions required as the surest means to achieve the desired success. All aid institutions should build upon efforts to assure that they are making the most of their development resources.

35. Among donors, there has been much talk and discussion of the measures necessary to improve the effectiveness of aid. DAC has enumerated a whole series of principles for effective aid and indebtedness. The challenge for donors is to turn these words into actions.

ANNEX I IMPROVING THE EFFECTIVENESS OF CAPACITY BUILDING AND INSTITUTIONAL DEVELOPMENT

1. Weak institutional capacity presents one of the greatest bottlenecks to the effective use of aid. On one level, institutional development concerns the establishment of transparent rules and their enforcement. Such rules provide the incentive framework within which both public and private agents operate. When they are not clear or enforceable, institutional development may be impeded. On a second level, institutional development and capacity building focuses on organizations and providing specific assistance to address a capacity constraint. Donors most frequently promote institutional development at the second level, through the supply of technical assistance (TA).[1] Examples of such activities include implementing better accounting, budgeting or evaluation procedures; training and developing staff; and strengthening organizational structures and inter-organizational relationships. When effective, technical assistance may lead to more efficient delivery of services by government agencies, better policy analysis and formulation, more sustainable and effective public sector projects, and better coordination between the public and private sector.

2. In recent years, efforts to promote institutional development through the use of technical assistance have undergone considerable evaluation. A review of 1,170 World Bank projects with institutional development objectives found that only 29 percent of these projects were considered to have had substantial institutional development achievements, while the remaining 71 percent of projects had only partial or negligible achievements.[2]

3. Until recently, much of the discussion on the effectiveness of TA has focused on issues related to the implementation of TA activities. Explanations for why TA has been less effective than anticipated include: the supply-driven nature of TA; the difficulty of institutional development project design, implementation and supervision; a lack of indicators to measure progress; difficulties with the "expert-counterpart" approach to TA; and difficulties in retaining counterparts.[3] Those receiving technical

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1 Technical assistance (TA) accounts for about 25 percent of total net official development assistance (see OECD. Geographical Distribution of Financial Flows. various years). The World Bank provides TA through three broad avenues: loans and credits; the administrative budget (including ESW and EDI); and trust funds administered by the Bank. Total TA provided by the Bank grew by 45% in FY93 to $3.1 billion (see World Bank (1994g) p.1). About 70 percent of all TA lending by the Bank is used for institutional development (see Buyck (1991) p.11). The Fund has responded to the increased demand for TA in recent years by raising its own resources devoted to this task; stepping up efforts to secure external financing of this work; and enhancing cooperation and coordination with other multilateral and bilateral providers of TA. Fund TA has increasingly encompassed various forms of capacity building: strengthening of legal frameworks; modernization and reform of key institutions (such as central banks, tax and customs administrations, treasuries and social security administrations); foreign exchange and financial markets; improvements in statistical systems; and training of government officials involved in macroeconomic policy and management.

2 See World Bank. (1993b). p. 90.

3 Cohen (1992) notes that it is primarily the donors who poach economists whose skill levels have been raised through training funded by TA. For example, of the 26 economists seconded by Kenya's Ministry of Planning and National Development's Scheme of Service and trained to MA level, 15 have left the Government to work for the donors and international aid agencies (p. 500).

assistance frequently have an incentive to move positions once skills are improved and higher wages may be obtained elsewhere. There are also instances when resentment builds, as in cases where an expatriate is not perceived to add much value although he or she may be paid significantly greater amounts than the local counterpart.

4. In 1991, a DAC High-Level meeting agreed on a number of principles for improved technical cooperation (see footnote 4 in main text). In a recent DAC/UNDP/World Bank High-Level Seminar, measures to improve the effectiveness of technical assistance were again discussed. Proposals included:[4]

- Deliver the package more effectively by addressing the deficiencies of project design and implementation. Give more time to project preparation, seek greater local participation, avoid overambitious projects, and define the terms of reference with greater care. Improve implementation through more careful recruitment of personnel, more systematic search of counterparts and better supervision and evaluation.

- Change the mode of delivery by reducing the reliance on long-term resident advisors and increasing reliance on short-term advisors and "coaching methods", making greater use of local consultants, making greater use of institutional twinning, and gap-filling of empty posts where necessary by long-term personnel.

- Adopt a program approach in which technical assistance needs (most often by sector) are determined by the local stakeholder, comprise all donor activities, have common implementation arrangements and involve minimal resort to long-term assistance.

- Strengthen the local management of technical assistance resources by transferring responsibility and authority at the project level, strengthening the units responsible for management of TA, and introducing technical assistance programming as a way of simplifying administrative demands.

- "Marketize" technical cooperation by unbundling the traditional packages of personnel, equipment and training, untying technical cooperation and improving transparency. Here issues arise concerning administrative feasibility, symmetry in treatment of aid flows and equity.

5. There are still differences of views among donors and recipients on the merits of these proposals. However, a DAC process has been put in place for further analysis and discussion of these issues. Recent discussions have also reoriented the debate to consider the institutional environment necessary for TA to be effective. Box 2 in the main text sets out UNDP's approach to addressing some of these broader institutional issues.

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4 See Berg (1994a) and Berg (1993), UNDP Regional Bureau for Africa (1994).

ANNEX II IMPROVING AID COORDINATION

1. Ultimately the recipient country is responsible for the coordination of donor activities but donors can ease their task, particularly in countries where institutions are weak. Aid needs to be coordinated at three levels: among institutions within the recipient country, between donors and recipients, and among donors. Due to different objectives and incentives the coordination of aid is extremely difficult. However, efforts to coordinate have taken many forms including: Consultative Group meetings organized by the World Bank and Roundtable meetings organized by UNDP (hereafter referred to as CGs), co-financing arrangements, ad hoc meetings between donors and recipient governments, as well as special initiatives such as the Special Program of Assistance for Africa and guidelines set out by DAC. While these efforts have been useful, problems have still arisen and there are some steps that the donors might take to increase the effectiveness of aid by improving coordination.

2. In the 1986 study of aid effectiveness, Cassen et al argue, "...[T]he role of the recipient is crucial. Unless the recipient has a firm grasp of the aid process, coordination will not take place or will at best reflect only the donors priorities."[1] The recipient's ability to coordinate aid is closely tied to the effectiveness of its public sector management (see Box 3 in main text). In particular, the development of an aid strategy and strengthening of the institutional capacity for aid management are important. Within countries there may be many different institutions involved in the aid process and it needs to be clear who has responsibility for overall aid policy, where the authority resides within government to make day-to-day decisions, and what the channels of communication between aid agencies and the government should be. While no single institutional configuration can serve as a blueprint for all countries, most countries where aid is significant create an aid coordination unit that has an overview of all aid activities and can assist both in the implementation of projects and in assuring that aid is effectively integrated into the government budget.[2]

3. An important part of the difficulty that developing countries face in managing aid, however, comes from the heterogeneity of aid and the institutional and administrative processes that go along with it. Each of the donor agencies has developed its procedures over many years to meet its particular needs, and while the rationale for these different procedures may continue to exist, harmonization, and simplification of the procedures for utilizing aid and for reporting on it could contribute to more effective coordination and use of aid. A number of measures on the part of donors could facilitate aid coordination within countries. The first is the reduction of tied aid. Aid tying poses particular costs for developing countries (see para. 17 in the main text). Special disciplines for the use of tied aid have been set out by DAC and some efforts to untie aid have been successful under the Special Program of Assistance for Africa, but greater progress in this area could enhance aid effectiveness.[3] Second, donors can help to alleviate the administrative burden imposed on governments by: specializing in a limited number of sectors; encouraging cofinancing in which one donor acts as a lead agency; and by harmonizing and simplifying procedures as much as possible. In addition, informal contacts among donors working in an individual country can go along way to assist governments in their coordination efforts. Finally, donor

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1 Cassen and Associates (1986) p. 227.

2 For further detail on the creation of effective aid coordination units see Lister and Stevens (1992), p. 62-63.

3 See OECD (1992), pp. 121-125.

agencies should support the aid coordination machinery by keeping it fully informed on discussions with sector ministries, and by beginning and ending missions with joint meetings with the aid coordination unit and finance ministry.

4. In countries with weak institutional capacity, donors often undertake measures to protect and support their own programs. For example, some donors create dedicated units, outside the normal civil service structure, to implement their projects while others earmark the counterpart funds from import support to finance the local costs of their projects. Both mechanisms can be helpful in the short run to speed up project implementation. However, if they become widespread, they can also complicate aid management within the recipient country and undermine longer-term efforts to strengthen the civil service and budget processes. Therefore, such "short cuts" should normally be avoided.

5. Concerning coordination between donors and recipients and among donors, the most prevalent of arrangements have been the Consultative Groups and Roundtable Meetings ("CGs"). In 1988 it was estimated that there were CGs for at least 70 countries worldwide.[4] In FY94 there were 25 country meetings and at least 12 sector strategy meetings chaired or co-chaired by the World Bank and at least 6 other formal coordination meetings chaired by other donors.[5] CG meetings were organized to attract specific indications of additional aid by discussing a recipient government's overall economic policies and programs. A special effort for coordinating resource mobilization and procedures for Africa has been established through the Special Program of Assistance for Africa (see Annex Box II.1).

6. CGs have been effective in increasing information flow, both between the governments and respective donors and between the donors themselves. The result has usually been an increase in the level of commitments. Between 1985-87, 20 of 23 countries in Sub-Saharan Africa which conducted CGs had increased aid in the next year.[6] The informational flow also seems to have assisted in reducing donor repetition in project selection. While donor assistance indications are not binding, as these meetings have become more prevalent and established, they have been more successful in convincing donors to meet the goals set by Bank or the UNDP. Some recent CGs, such as the India Development Forum, have also incorporated discussions with the private sector. This has led to a greater consensus on country strategies for economic reform.

7. While these meetings have been very effective, four points concerning the process need to be made.[7] The first concerns documentation. A great deal of time is spent preparing documentation. In countries with limited capacity, consultants are frequently employed to help countries prepare, but with tight deadlines local staff may not be included in every stage of preparation, which reduces ownership and limits the transfer of skills. A special effort should be made to ensure that CG documentation is prepared by the recipient country, even if this means less comprehensive coverage. In addition, documentation for CGs should serve as an input into the government's own programming. Second, it would be useful at many CG meetings to have a special session on aid coordination, which would focus

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4 Barry (1988), p. 32.

5 From World Bank, FRMRO.

6 See Killick (1991), p. 52.

7 See Lister and Stevens (1992), p. 42.

Annex Box II.1 The Special Program of Assistance for Africa

In December 1987, the World Bank launched the Special Program of Assistance for Africa (SPA) in order to mobilize extra resources for the low-income, heavily-indebted countries of Africa so that these countries could adjust and grow while restoring and maintaining normal debtor-creditor relationships. It provides for substantially increased, highly concessional, quick-disbursing financing and for debt relief on softer terms to expand import capacities in eligible countries.

In addition to mobilizing extra financial support, the SPA has also developed several procedures to strengthen aid coordination and donor support for policy reform. These include: (i) designating working level contacts; (ii) identifying donors' particular geographic and operational priorities; (iii) exchanging documentation on eligible countries and on proposed adjustment operations; (iv) having donors take part in selected appraisal negotiation and supervision missions; (v) holding regular biannual multi-donor meetings to discuss aggregate process in implementing the SPA, as well as special meetings on individual countries or issues; (vi) recommending standard procurement and disbursement procedures; and (vii) monitoring donors' commitments and disbursements earlier and more completely. The results of the SPA on this front have been encouraging:

Untying. To speed disbursements and increase the efficiency of aid, pooling arrangements require each donor participating in the arrangement to untie at least 50 percent of its SPA pledge. By the end of 1988 eight SPA donors (Finland, France, Germany, Japan, Norway, Sweden, Switzerland and the United States) had indicated that they would untie at least 50 percent of their pledges for worldwide procurement. Spain and the U.K. agreed to untie at least 50 percent for procurement for pool members and Part II countries. Approximately 90 percent of the balance of payments assistance provided under SPA-2 has been reported as untied.

Standardizing Procedures. The SPA has recommended and encouraged standardization of procedures among donors. Donors have agreed on a standardized terms of reference for the audit of import support programs in order to ease the administrative burden for the recipient country. Donors have also standardized procedures for depositing and allocating counterpart funds and have in principle agreed to end the earmarking of counterpart funds.

Joint activities. Joint evaluation missions of import support programs carried out under the SPA have proven to be a very effective mechanism for donors to have open and frank discussions with recipient countries on how to liberalize their foreign exchange allocation and trade regimes and also how to liberalize donor import financing in support of these reforms. SPA is also extending its efforts to coordinating donor support for sector investment programs (see Annex Box II.2).

See: World Bank (1994f).

on common problems of aid utilization and how they could be solved by both government and donor actions. Third, a basic assumption of the discussion of assistance priorities at CGs is that only public investment program projects will be financed by donors and implemented by governments. The experience in many countries, however, is that due to commercial or political pressures, donors frequently do not adhere to the priorities set out at the CG. Such activities defeat the central purpose of CGs and undermine the position of government counterparts who have put together a careful program of priority requirements. Finally, while CGs are useful to most countries, they shift the balance of power in favor of the donors and may make governments feel that they are in a subordinate position and no longer in the "driver's seat" concerning their own aid program. Some countries experienced in aid coordination and in the presentation of their policies have been able to avoid this. Others have

deliberately eschewed large-scale donor meetings and have conducted all aid discussions on a strictly bilateral basis.

8. A slightly different arrangement is a regional aid group meeting, which operates similarly to a consultative group meeting but for a group of recipient countries rather than a single country. The most notable example is the Caribbean Group for Economic Development. There are regional, country and program level consultations. The arrangement helps to facilitate the identification and implementation of development assistance projects, as well as assisting in co-financing arrangements. This group has also instituted "work sharing" among donors, which divides up labor for some development efforts. For instance, the Caribbean Development Bank will coordinate energy sector programs, the UNDP will coordinate TA, the World Bank will take care of country reports, etc. This saves resources, lets the most appropriate agency (the one with comparative advantage) do certain work, and helps to ensure that work is not duplicated. Other regional groupings such as the Club du Sahel and the Southern Africa Development Coordination Conference have also assisted in coordination activities but to a lesser degree.

9. At the level of coordination among donors, the DAC has elaborated guidelines for improving aid coordination (see Box 4 in the main text). Specific measures to meet these principles include: participation of bilateral donors in the consultations preceding CGs, revising the format of CG meetings to facilitate more frank and substantive exchanges of views on key policy issues and more careful review of recipient investment plans; greater use of co-financing; exploring the prospects for more sector grouping of aid to improve its efficiency (see Annex Box II.2); and more focus on identification and programming of technical assistance needs and priorities with greater participation of UNDP. While acknowledging that effective action to streamline the administration of aid will not be easy, DAC members agreed to seek opportunities to harmonize and simplify the requirements they exact from recipient countries. Part of such efforts includes improving transparency and accountability in donor country procedures.

10. The implementation of measures to improve aid coordination has been hindered by obstacles on the side of both recipients and donors. Recipients might be wary of improved coordination and the potential for donors to "gang up" on them. They also may have developed skills at playing one donor off another. In addition, internal coordination in recipient countries could be hindered by the differences between parts of the recipient governments: finance ministers focus on financial control whereas sectoral ministers have an interest in enlarging the flow of resources to their sectors. Internal coordination may be difficult to achieve both administratively and politically. For the donors, improved coordination may reduce their ability to pursue commercial and political interests through their aid programs. There may also be difficulties in reconciling different views on the correct approach to development assistance. In addition, coordination is administratively difficult and time consuming to achieve. While these obstacles make aid coordination difficult, the challenge of improving aid effectiveness can at least partly be met by fostering the changes in culture and practices of the donor agencies.

Annex Box II.2 The Integrated Sector Approach: A Promising Avenue for Improving Aid Effectiveness

One approach to avoid the sometimes fragmented or piecemeal nature of development assistance is the integrated sector approach*. Such an approach is intended to make project assistance more coherent, more intelligible, and ultimately more manageable.

The approach consists of five major characteristics: (1) It should be sector-wide in scope, i.e. parts of a country facing identical circumstances should not be implementing different -- and sometimes conflicting -- policies or strategies for development. (2) Sectoral policies and programs should be prepared by local stakeholders. Local ownership must be built in from the beginning, with the active participation of local government officials and beneficiaries in project preparation. (3) The approach should comprise all donors active in the sector. Donors which require conflicting conditions, disrupt sector coherence. (4) The approach should involve common implementation arrangements. While each set of donor requirements can be justified on their own grounds, the resulting myriad of requirements facing the recipient government usually can not. (5) Development assistance should involve minimal use of long-term foreign technical assistance, to avoid the stifling of implementation capacity.

These conditions may seem a tall order for donors but progress has been made on these fronts, especially in the Tanzania Integrated Roads Program, and more recently in the Mozambique Roads Program and the Zambia Agriculture Sector Investment Program. However, none of this will be possible unless certain conditions and attitudes in the donor community prevail. First and foremost, for all donors, ensuring results in the field must take precedence over all other objectives not central to achieving development. Also, the recipient government must be put back in the driver's seat. Donors are driven by good intentions but the resulting efforts can often suppress existing local capacity. The integrated sector approach is one of genuine empowerment which, when set in motion, can unleash the latent talents and capacities in the government, as is evidenced by the Tanzania Roads Program. In the end this requires donors to stand back, providing only those resources that are needed and allowing the government to think through its own priorities and policies for development.

*See Denning (1994) and Berg (1994b).

ANNEX III IMPROVING DONOR EFFICIENCY

1. In the past few years, a great deal of attention has focused on the measures that the donor institutions can take to improve their effectiveness through changing their internal business practices and processes. Ensuring that the donors themselves are efficient and effective is fundamental to improving aid's effectiveness. The World Bank and the regional development banks have all launched programs to improve their business procedures and the quality of their work. Many bilateral agencies have also evaluated their practices in order to improve the results of their development work. In most institutions the efforts being made are wide ranging and by their very nature are cumulative and on-going.

2. At the **World Bank** a program of actions put into place to follow up on the Portfolio Management Task Force Report.[1] The work under this program aims at rebalancing internal priorities, processes and incentives to emphasize improved implementation of lending operations and thereby increasing the development impact of Bank operations. Seven major areas that affect portfolio performance were identified under the "Next Steps" program. There has been action taken under each area and progress has been achieved, although it is still too early to assess the impact on results. The activities being implemented are as follows:[2]

3. Link country portfolio performance to the Bank's core business practices. The Bank is tying borrower portfolio performance to the development of operational strategies through two new mechanisms: the Country Portfolio Performance Reviews (CPPRs) and an Annual Review of Portfolio Performance (ARPP). The CPPR assesses the condition of program activities, looking at commitment and implementation problems. The results of these reviews are incorporated into comprehensive country assistance strategies, departmental business plans, and budgeting processes. Broad-based participation in the CPPR and the development of the Country Assistance Strategy ensure that the strategy and work program are suited to the borrower's needs and implementation capacity. The ARPP will evaluate the Bank-wide portfolio, including assessments of progress in poverty reduction and the environment. Both the CPPR and ARPP help the bank to recognize systematic problems in project implementation at the country, regional and institutional levels.

4. Provide for more active project and portfolio restructuring. The Bank has put formal instruments in place at the Regional Vice President level for identifying projects that may benefit from restructuring. Problem projects are reviewed at this level twice yearly.

5. Improve the quality of projects entering the portfolio. The Bank has been pursuing several steps to ensure that projects which enter the portfolio are of high quality from the start. The first of these is ensuring the level of country commitment and enhancing the degree of stakeholder participation at all stages of project work. The Bank has instituted a participation fund to finance innovative approaches and joint work with non-governmental organizations (NGOs) and community representatives. A participation learning group has also been established to examine participation issues in project implementation and design (see Box 1 in the main text). In addition regional efforts to promote participation have increased.

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1 See World Bank (1992b) and World Bank (1993d).

2 See World Bank (1994d) for further detail on progress in implementing the "Next Steps" program of actions.

The Southern Africa Department has produced a guidebook on conducting beneficiary assessments and carries out participatory assessments in all its operations. The Europe and Central Asia Region holds information workshops with stakeholders and government representatives, discussing project objectives and design options in advance of project preparation. The Latin America and Caribbean Region has experimented with joint preparation of project appraisal reports. Finally, in order to assist participation the Bank has approved a new information disclosure policy that makes project-related information more widely available.

6. Other efforts to ensure quality at entry include: improved efforts to assess project risks and incorporate sensitivity analysis; emphasis on implementation plans at the design stage; incorporation of implementation plans in loan documents to emphasize their importance; strengthening cofinancing arrangements; and improved evaluation of the Bank's use of financial covenants in loan agreements.

7. Define the Bank's role in, and improve its management of, project performance. Efforts are underway by both staff and management to improve accountability in project management and to adopt more client-oriented processes. This again involves considering the role of borrowers, project implementation agencies, beneficiaries, NGOs, the broader donor community, and others in project design and management. In addition, the Bank is improving the methodology with which it monitors and rates project performance in order to enhance project supervision. This includes the introduction of performance indicators that become increasingly necessary as the Bank finances more projects that do not lend themselves to an economic rate of return analysis. Resources provided for project supervision have been increased as have the number of mid-term reviews in order to set out corrections for problem projects. Many country departments are also expanding the role of field offices in the management and supervision of projects.

8. Considerable attention is also being paid to improvement of procurement procedures and guidelines. With the objective of reducing the time spent on review of bidding documents, and improving the quality of such documents, use of Bank-issued Standard Bidding and Contract Documents by all borrowers has been made mandatory for international competitive bidding since May 1993. Bank procurement guidelines have also been reviewed to address concerns expressed by the business community, and to address procurement issues related to social sector lending, adjustment lending, and private sector procurement. Advantage has been taken of this review to simplify some procedures and to enhance procurement transparency. Revised guidelines are expected to be in place by the end of 1994.

9. Enhance OED's role as an instrument of independent accountability and give greater emphasis to ex-post evaluation. The Bank has remade the Project Completion Report into the Implementation Completion Report. The new report is more forward looking and focuses on the borrower's plans for maintaining and operating the project. The Bank is also increasingly relying on OED Country Assistance Reviews, which look at the design and implementation of country strategies, and Impact Evaluation Reports, which look at a project five to ten years after it has been completed in order to evaluate the long-term impact and effectiveness of the project (see Annex Box III.1).

10. Create an internal environment that is supportive of better portfolio management. The Bank has begun to emphasize on-the-ground success of projects rather than the number or size of projects approved in creating incentives for Bank staff. The reward and incentive system has been refocused towards client-orientation, staff continuity, better leadership and improved teamwork. Bank managers are being held more accountable for project success and the Bank is putting more effort into recruitment and training

Annex Box III.1 Assessing the Development Impact of Projects

One tool the World Bank's Operations and Evaluation Department uses to assess the development impact of Bank projects is the Impact Evaluation Review (IER), which considers the impact of a project some five to ten years after a loan has been closed. The Bank has been undertaking these reviews since 1979 and is increasing the number of IERs undertaken (there were 9 issued in 1994, 22 scheduled for 1995, and 28 scheduled for 1996).

IERs address some of the same issues as the Project Completion Reports (PCR) and the Project Performance Audit Reports (PPAR) in reviewing and drawing lessons from implementation experience. However, the IER is better able to address questions of sustainability and replicability. This is because issues of sustainability as well as the economic rate of return and institutional impact will often change between the close of the loan and full project maturity. The IER is also valuable in its ability to examine the longer-term impact of projects on beneficiaries, poverty and the environment. Most IERs approach the social impact of a project on beneficiaries (an impossibility under the short time frame of the other review mechanisms) by undertaking surveys. This allows for measurement of both the impact on beneficiaries and a survey of the constraints to development as perceived by beneficiaries.

New efforts are also being made to integrate impact evaluation techniques into project design at an early stage. A recent Bank research project, "Impact Evaluation of Education Projects: Decentralization and Privatization Issues," aims to develop a link between research and project operations and to develop in-country capacity for carrying out their own impact evaluations. This approach is being applied to Bank education projects in Tanzania, Peru, Colombia and Pakistan. Each project couples strong monitoring and process evaluation components with rigorous impact evaluation methods (such as using control group or before-after approaches). The monitoring and process evaluations allow for the progress of the education reform to be tracked during the course of its implementation, while the impact evaluation will study final outcome measures as indicators of the development impact of each project.

activities. The Bank has taken efforts to fill gaps in staffing and in training existing staff. Regular training has included enhanced orientation periods for new staff and workshops which draw on successful practices around the Bank.

11. Give attention to generic and institutional factors that affect portfolio performance. The Bank has begun to evaluate systematically its general operating procedures and review their effects on project performance. The Bank is also taking steps to simplify the operational directives system; reassess the use of field offices; improve the Bank's use of technical assistance, creating a grant facility for institutional development objectives; introduce an independent inspection panel to evaluate claims that Bank policy has not been followed; and assess budgetary implications of the "Next Steps" program and maintain a high level of support for "Next Step" activities.

12. As the Bank is taking actions to become more client- and results-oriented, increase its effectiveness on the ground, and become more efficient in delivering development assistance, other multilateral agencies have also embarked on similar actions.

13. **The Asian Development Bank** (ADB) issued a report in January 1994 entitled *Improving Project Quality*. The report reflects the findings, conclusions and recommendations of the ADB task force whose objectives were similar to those of the World Bank's Task Force on Portfolio Management. The ADB Report generally follows the same framework and themes as the World Bank's report and the

recommendations are similar to those made for the World Bank. The ADB's task force report incorporates a program of action to be taken within the twelve months beginning in March 1994. The principal thrust if the ADB report is on improving the ADB's development impact through the way that it does business. The efforts are summarized under three major objectives:

- To improve the quality of projects entering the portfolio, beginning with clarity and "implementability" of project design. Like the Bank, the ADB considers that good project design rests on a high level of borrower/beneficiary ownership and commitment, rigorous analysis of project sensitivity to various factors, and a comprehensive understanding of, and attention to, macroeconomic and sectoral issues as well as borrower absorptive capacity.
- To improve the management of project performance to obtain better results on-the-ground. ADB intends to achieve this objective by adopting more efficient and client-oriented business practices, addressing key internal accountability issues, and gaining a more precise understanding of how to measure development impact.
- To create an internal environment that is supportive of better portfolio management by facilitating a change from what is perceived as an "approval" culture (a key variable affecting project quality) to a "results-oriented" culture. This change will involve strengthening ADB's own institutional capacity and reorienting incentives and resources to moderate the present emphasis on achieving annual levels of programmed lending.

14. The **Inter-American Development Bank** (IDB) issued a report in October of 1993 entitled *Managing for Effective Development*. This report, which puts into a broader perspective the World Bank's work on "Next Steps," reflects the findings, conclusions and recommendations of an IDB task force. This task force has identified three areas of broad concern. First is the control mentality that runs through much of IDB's operations and discourages innovation and risk-taking. It omits from the rewards system any initiatives that are aimed at results rather than rigid adherence to the rules and regulations, and thus has an adverse impact on project implementation and execution. Second, IDB's board and management need to rethink and agree upon their respective roles. Management must be allowed to manage. Staff need to be given direct responsibility, and performance should be judged on results, that is, on meeting development needs. Third, IDB's present organizational structure and personnel policies, and the lack of clear lines of authority, responsibility and accountability for decision making stand in the way of improving both the quality of the portfolio, and systems established for its management.

15. The recommendations of the IDB task force will not only improve portfolio management, but also should help create an environment that will enable all those with a stake in IDB to reorient it toward a newly emerging development mandate. To successfully meet the future development needs of its client, IDB is directing itself toward:

- focusing much more broadly on quality and impact of lending in managing its portfolio;
- instilling in staff greater concern and support for implementation activities;
- reexamining its original arrangements to provide for a greater country focus with clearly defined responsibility and accountability;
- delegating increased authority to management and the country offices; and
- strengthening reporting and evaluation.

16. As of March 1994, IDB had completed 10 of the 27 distinct operational, institutional, management and personnel tasks identified by the task force. The 17 remaining tasks are at varying degrees of completion.

17. A review of the **African Development Bank** (AfDB) entitled *The Quest for Quality* was issued in April of this year. The task force identified three main issues to be addressed. First, it found that the that the AfDB is pulled in different directions by differing perceptions of the mandate for the AfDB. This means that the AfDB spreads itself too thin over too many activities and hinders effective allocation of human and financial resources. Second, the task force found that there is a gap between the AfDB's lending policies and its practices. Policies and procedures are basically sound, but they are not applied consistently. Third, the AfDB needs to play a greater role on the ground, in helping member countries to design policies, in identifying and implementing sound projects, in supervising them and in providing feedback on progress.

18. To address these issues the task force recommended actions on three fronts:

- Allocation of more budgetary resources to the AfDB's operational departments in order to provide the staff and resources necessary for implementing policy. This also entails using resources more efficiently.
- Steps to change the AfDB's culture from one based on the quantity of lending to one based on the quality of lending. A comprehensive reporting system to monitor projects and to assess the status of the portfolio should be put into place to strengthen both portfolio management and board oversight of policy and results. This includes implementing current policies on operational reporting, initiating a program of country portfolio reviews, strengthening the internal audit of projects and expanding ex post evaluation of projects.
- Resolving weaknesses that make it difficult for both the Board of directors and the president to discharge their responsibilities effectively.

19. The task force recommended the development and implementation of an action plan to address these issues.

20. Most of the **bilateral development agencies** have also recently undertaken exercises (in some cases very extensive ones) to reassess their priorities and to evaluate the performance and effectiveness of their aid as well as the effectiveness of their institutional arrangements. As part of these exercises, many agencies are narrowing their focus, either to a smaller range of countries or to a smaller number of sectors. They are also placing greater emphasis on monitoring and evaluation. In addition, the bilaterals are assessing their business practices. Some have made a commitment to reduce their operating budgets and many are assessing current staffing needs. Some bilateral donors have also made substantial progress in incorporating social, environmental and gender issues into their institutional procedures. Almost all bilateral agencies see improved coordination, with the multilateral institutions taking the lead on policy issues, as a means to improving the effectiveness of aid. This being said, the bilaterals are also clearly subject to a diversity of objectives. Among all institutions the guiding theme has been to improve the quality of service as well as accountability and transparency in order to achieve an improved development impact.

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JOINT ISSUES PAPER: THE IMPACT OF THE URUGUAY ROUND ON THE DEVELOPING AND TRANSITION ECONOMIES

(Prepared jointly by the staffs of the
International Monetary Fund and the World Bank)

I. Issues for Discussion and Summary

1. Issues for discussion

a. The preliminary assessment of the economic impact of the Uruguay Round (UR) agreement points to significant benefits for developing countries especially if appropriate policies are adopted; but there could also be transitional costs stemming from higher food import prices and the erosion of preferences. Ministers may wish to comment on the net benefits of the agreement for developing countries.

b. Existing facilities in the World Bank and the IMF appear adequate to address the policy adjustment and financing needs which may arise in the transitional phase. This would be supplemented by policy advice and technical assistance aimed at helping countries adapt to the post-UR environment. Ministers may wish to explore ways in which the World Bank and the IMF in cooperation with the WTO can assist developing countries to adjust to the effects of the agreement and align their policies to benefit from the opportunities it offers.

c. On post-Uruguay Round issues of importance for developing countries, the paper cautions that concerns about the environment and labor standards should not become a pretext for increased protectionism. Other key areas in which negotiations may be taken up or continued include trade in services, investment issues, competition policy, and regionalism. Ministers may wish to give their assessment of the main post-Uruguay Round concerns for developing countries, and the ways in which these concerns might be addressed.

2. Summary

This paper makes a preliminary, qualitative assessment of selected aspects of the UR agreement of particular interest to developing economies and economies in transition. 1/ It also considers the roles of the World Bank and the IMF in assisting these countries to manage the transition to the post-UR trading system.

Major features of recent trade policy developments in developing and transition economies have been these countries' unilateral liberalizations of their trade systems, and the extent to which they have taken other steps to improve their ability to compete in international markets and to integrate themselves more fully in the multilateral trading system. The successful conclusion of the UR will support these measures through increased market access, the integration of new and sensitive areas into the multilateral system, and strengthened rules and institutions.

1/ Issues raised by accession of new members to GATT/WTO which are especially important for transition economies desiring to become members are not dealt with in this paper.

Existing estimates of the impact of the UR on developing countries point to substantial potential benefits, particularly to those countries which make the macroeconomic and structural policy changes that would position them to exploit the new opportunities. However, developing countries have expressed a number of concerns about certain aspects of the UR; for example, what they perceive to be inadequate market access in the agricultural sector, too slow liberalization in the textiles sector, and insufficient tightening of rules on safeguards. They have also raised the possibility that higher food import prices and the erosion of tariff preferences could adversely affect certain countries. Preliminary estimates suggest that the impact of higher food import prices and the loss of preferences is likely to be small, and for the great majority of developing countries, would be offset by the positive effects of the reduction in most-favored-nation (MFN) tariffs. It cannot be ruled out, however, that a number of countries could suffer mild adverse consequences as a result of the UR. This prospect will be addressed by the Bank and the Fund on a case-by-case basis in the context of ongoing policy dialogue and comprehensive adjustment programs. At this juncture, existing facilities in the Bank and Fund appear appropriate to address external financing and policy adjustment needs arising from the implementation of the UR.

Collaboration with the GATT is undertaken on both formal and informal levels. For example, the Fund participates formally in the consultations of the GATT Committee on Balance of Payments Restrictions. Informal staff-level collaboration has worked well in the past and is likely to intensify in the future. Formal mechanisms of collaboration with the WTO will evolve as that organization becomes established, and should build on existing forms of cooperation.

II. Recent Trade Developments

In 1990-93, the annual average rate of growth in export volumes of developing countries was lower than in the preceding four-year period (7.8 percent, compared with 9.7 percent in 1986-89) partly because of slower growth in industrial countries; nevertheless, it outpaced by far the rate of export growth in industrial countries (3.2 percent). Most of this growth reflected the performance of the manufacturing sector, and the regions experiencing the fastest rates of export growth were Asia and the Western Hemisphere. Trade among the developing countries in these regions increased particularly rapidly. Overall export growth in sub-Saharan Africa was negligible, although export performance improved for some countries undertaking wide-ranging economic reforms. Reflecting this strong growth in the aggregate, the share of exports from developing countries in total world exports rose from 26 percent in 1990 to 31 percent in 1993.

The strong growth in trade was importantly associated with autonomous trade liberalization, often as part of comprehensive Bank/Fund supported programs of macroeconomic and structural reform. 1/ These reforms were associated with increased capital flows, particularly to Asia and Latin America, and helped boost productivity, exports, and growth. Net direct investment flows to developing countries more than doubled between 1990 and 1993.2/ Unilateral trade reforms were also a feature

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1/ For a review of experiences of trade reform under trade sector adjustment loans by the World Bank see V. Thomas, J. Nash, and others: Best Practices in Trade Policy Reform, Oxford, Oxford University Press, 1991; and M. Michaely, D. Papageourgiou, and A. Choksi (eds): Economic Liberalization in Developing Countries, Oxford, Basil Blackwell, 1991. Trade reform in the context of Fund-supported adjustment programs in 1990-93 was reviewed in Comprehensive Trade Paper, Sup. 2, SM/94/192, July 20, 1994.

2/ See IMF: World Economic Outlook, May 1994.

in many transition economies in Central and Eastern Europe, the former Soviet Union, and Asia following the breakup of the Council for Mutual Economic Assistance in 1990-91.

A key feature of all these reforms was the very significant progress in removing quantitative restrictions (QRs), including quotas, licensing and foreign exchange allocation schemes. Progress in liberalizing tariff regimes has been less consistent, but still substantial. Despite episodes of slowdown and reversal of trade liberalization, stemming from fiscal and protectionist pressures and appreciation of real exchange rates, the overall direction and achievements of reform have been maintained in developing and transition economies, establishing, within these reforming countries, a good foundation for continued trade liberalization.

During 1990-93 exports from developing countries continued to face tariff and nontariff barriers in industrial country markets. Tariff escalation and tariff peaks 1/ adversely affected "sensitive" sectors such as agriculture, textiles and clothing, and steel. Regarding nontariff barriers, UNCTAD Secretariat estimates indicate that these had adverse effects on exports of agricultural products (including sugar), seafood, textiles and clothing, steel, footwear, and consumer electronics. Also, the use of antidumping and countervailing measures initiated by industrial and developing countries against developing countries' exports intensified, with the number of these actions initiated rising from 67 in 1988/89 to 136 in 1991/92. 2/

III. Overall Assessment of the Uruguay Round Results

Developing and transition economies would gain from the UR agreement through increased access to export markets, strengthened rules providing greater security of market access, and more efficient use of resources. To date there have been several preliminary assessments of the qualitative and quantitative impact of the UR on global incomes, and those of developing countries. 3/ These estimates point to a permanent increase in global income (in constant 1992 dollars) from full implementation of the agreement of between $212-$274 billion (equivalent to about 1 percent of world GDP in 1992) of which $80 billion a year would accrue to developing countries (about 1.7 percent of their GDP in 1992). 4/ Taking into account the dynamic effects, the total gains are likely to be substantially higher.

1/ Tariff escalation occurs when more processed products face higher tariffs than do raw materials. Tariff peaks are defined as tariffs in excess of 15 percent.

2/ See UNCTAD, Trade and Development Report, 1993.

3/ For a partial list of these studies see IMF: World Economic Outlook, May 1994. In addition, a paper titled The Uruguay Round: A Preliminary Assessment was presented by the World Bank as background information to the Development Committee meeting held in Washington D.C on April 26, 1994; and a report, Conclusion of the Uruguay Round - An Agreed Final Act (SM/94/56) was issued for the information of the Executive Board of the Fund on March 1, 1994. This subject was discussed by the Fund's Executive Board on August 24, 1994, based on the Comprehensive Trade Paper (SM/94/192 and Supplements 1, 2, and 3).

4/ See Ian Goldin, Odin Knudsen and Dominique van der Mensbrugghe: Trade Liberalization: Global Economic Implications, OECD Development Center, Paris; and World Bank, Washington D.C, 1993. This estimate might have overstated the static benefits of the Round because of optimistic assumptions (compared with the final results) about the extent of liberalization in the agricultural sector.

Over the coming months, studies by a number of international institutions of the Round's economic impact, based on details on the final outcome, should become available. These institutions include the GATT Secretariat; 1/ the World Bank, in connection with its conference on the UR scheduled for January 1995, and, together with the OECD Development Center, an update of their earlier (1993) study on the global economic implications of the UR; the OECD, which will examine the impact of the UR on the agricultural sector; the UNCTAD Secretariat, for the fall 1994 meetings of the Trade and Development Board; the Arab League; and the OAU. The discussion below presents a largely qualitative assessment of the UR agreement which should be considered preliminary, pending release of the more detailed data. It focuses on those aspects of the agreement which are likely to be most significant for developing and transition economies.

Liberalization of market access for most manufactured goods will be achieved within a five-year period. It is estimated by the GATT Secretariat that the import-weighted average bound industrial country tariff will decline from 6 percent to 3.6 percent; 2/ the proportion of goods entering industrial country markets at zero duty is expected to rise from 20 to 43 percent; and increased tariff bindings have been undertaken, particularly by developing and East European countries. 3/ In addition, tariff escalation will generally be reduced, and "grey area" measures such as voluntary export restraints (VERs) and orderly marketing arrangements eliminated. 4/

The largest cuts in industrial country tariffs on manufactured goods (ranging from 40-70 percent) were made on those products on which tariff rates were already modest (notably tropical industrial, and natural resource-based products, including wood, paper, furniture, metals, and mineral products). More limited cuts were agreed for "sensitive" products (such as textiles and clothing, transport equipment, leather goods, footwear); these products also remained subject to tariff peaks and (albeit reduced) tariff escalation.

The inclusion of agriculture and textiles in the UR will initiate a process of reducing distortions caused by domestic market supports, export subsidies and quotas. 5/ The agreed reforms in agriculture are expected to benefit developing countries as a group through increased market access and higher export prices for such commodities as cereals, meat and dairy products, and sugar. In the textiles and clothing sector, quantitative restrictions such as those imposed under the Multifibre Agreement (MFA) are to be progressively liberalized over a ten-year period. However, liberalization

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1/ The GATT Secretariat is expected to present a paper to the October meeting of the Development Committee.

2/ To bind a tariff in the GATT is to make a commitment not to raise the rate above the bound level without consulting and compensating trading partners. The decline in actual tariffs will be less than that in bound tariffs because some tariffs are levied at less than their bound rate.

3/ Some developing countries (for example, Argentina, Brazil, Colombia, Jamaica, Uruguay) and many east European countries have raised the proportion of tariffs that are bound from relatively low levels to 100 percent.

4/ In 1992, nearly one-tenth of developing countries' exports to industrial countries was covered by grey area measures. Sectors most affected were fish and fish products, footwear, iron and steel, textiles and clothing, and agriculture. P. Low and A. Yeats: Nontariff Measures and Developing Countries, The World Bank, 1994, estimate that the average coverage ratio of all NTMs (mainly price controls, quotas, grey area measures) against developing country manufactured exports to industrial countries will fall from 19.5 percent to 5.1 percent after full implementation of the UR.

5/ Developing country concerns related to the impact of the UR in these two sectors are discussed in Section IV.

is heavily backloaded. With some lightly restricted products being integrated into the GATT first, the 49 percent of trade being liberalized in the tenth year may include most of the seriously restrictive quotas.

The UR agreement also includes a framework for opening up the services sector to multilateral rules based on nondiscrimination and transparency, and also new rules on trade-related intellectual property rights (TRIPS) and on trade-related investment measures (TRIMs). In services developing countries increased their share of world trade from 11 percent to 15 percent between 1970 and 1992, and stand to benefit from further liberalization in this area. 1/ A significant number of developing countries (77) have already made specific commitments to open certain services sectors to access by other countries, while transition economies who are members of GATT have made commitments in almost all services sectors. Although in most cases these commitments bind existing access rather than provide increased access, the agreement extends the scope of multilateral rules to the services sector and provides for continuing negotiations for liberalization of trade in services. Areas which will be of most interest to developing and transition economies will likely be maritime transport, financial services, and the movement of people.

As regards intellectual property (IP), increased protection of IP rights in developing countries may induce larger inflows of foreign investment because, by reducing the risk of piracy, it increases the expected return on such flows. Concerns that patent protection would result in higher prices for pharmaceutical products in developing countries should be alleviated by the fact that the full impact of the TRIPS agreement will not be felt until 2015. Also, affected countries will retain the right to remedial measures in the event that the patent owner charges very high prices.

The agreement on trade-related investment measures (TRIMS) limits the use of local content and trade balancing requirements on foreign investment and should help encourage foreign direct investment flows to developing countries.

For developing and transition economies, the clarification and strengthening of rules on safeguards, antidumping, subsidies and countervailing measures, and dispute settlement are among the most significant achievements of the UR agreement. The most important are probably (a) on safeguards, the elimination of grey area measures such as voluntary export restraints in industrial countries within four years, (b) greater clarity in defining subsidies that are prohibited or against which countervailing or other action can be taken, and (c) strengthened dispute settlement arrangements, including through removing the ability of parties to a dispute to veto the adoption of the conclusions of a panel. However, despite these improvements, GATT/WTO rules still permit latitude on the part of contracting parties in the application of safeguard measures, antidumping, and certain subsidies. On safeguards, for example, in certain circumstances (such as in the Textiles Agreement) measures may be taken against specific exporting countries in cases where exports increase disproportionately. To avoid undermining the benefits of the Round, countries will need to exercise restraint in the use of these measures.

1/ Some developing countries are major exporters of services. This covers not only the traditional sectors of tourism and labor services, but also financial, construction, film and other video, and consulting and professional services.

IV. Selected Areas of the Uruguay Round Agreement of Particular Interest to Developing Countries

1. Agriculture

As noted above, reforms to reduce agricultural protection would reduce world market distortions and improve market access. They could also lead to increases in world prices of previously subsidized agricultural products, including cereals, meat and dairy products, and sugar. These changes would benefit developing and transition economies which are important exporters of these products--such as members of the Cairns Group, 1/ Bulgaria, and Poland. Some studies have concluded that prices of some previously subsidized products could rise by 4 to 10 percent in total when the full effects of the Round are felt. 2/ However, this could be an overestimate because these calculations were based on the text of the Draft Final Act of the UR, or other, more general assumptions, which imply a higher degree of liberalization in industrial countries than was finally agreed.

A number of developing countries which are net importers of food, including some African and Mediterranean countries, have expressed concern about possible higher food prices. Provided that higher prices are passed on to farmers, any such effect will be mitigated by the stimulus to agricultural production, both in the net importers' domestic agricultural sectors and in developing countries which are net exporters of previously protected commodities. Nevertheless, if world food prices do rise overall individual countries that remain net importers of commercial food will face increased costs. 3/ Such terms of trade losses, however, are most likely to be offset by gains in other areas of the Round such as from increased market access for manufactured goods, including textiles and clothing. Moreover, to the extent that higher food prices occur as a result of the UR, they will be distributed over a six-year implementation period, allowing time for adjustment.

2. Textiles and clothing

The UR agreement provisions to eliminate quotas both under the MFA and similar arrangements will provide significant benefits for those countries whose textile and clothing sectors are internationally competitive. According to preliminary GATT estimates, 4/ developing country exports to major OECD countries could increase by 82 percent for textiles and 93 percent for clothing over the 10-year implementation period. Another study estimates that the elimination of protection in Canada, the U.S and the EU could result in a gain of about $8 billion (in 1986 prices) for the 34 developing countries included in the study. 5/ Most of the benefits will likely accrue to the more efficient producers, while those less efficient exporters whose exports depend on MFA quotas based on historical shares or who have preferential access to specific markets will need to restructure their industries, reduce costs, and improve quality in order to maintain sales in the post-UR period. The gradual phasing-in of the agreement over ten years will allow the less efficient producers time for needed

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1/ Developing country members of the Cairns Group are Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, the Philippines, Thailand, and Uruguay.

2/ See, for example, A. Brandão and W. Martin: Implications of Agricultural Trade Liberalization for the Developing Countries, Agricultural Economics, Vol. 8, 1993.

3/ The quantitative impact of the UR agreement on the terms of trade will be assessed in the forthcoming analyses by various institutions, noted above.

4/ See GATT Secretariat, An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Countries, 1993.

5/ See I. Trela and J. Whalley: Global Effects of Developed Country Trade Restrictions on Textiles and Apparel, The Economic Journal, December 1990.

restructuring. Developing countries' concerns with the liberalization in this sector relate mainly to (a) the heavily-backloaded schedule for eliminating all MFA quotas--with 49 percent of textile trade remaining under the MFA until the final year of the phaseout period, 2005, (b) the continuation of high tariffs and tariff peaks, and (c) that under "transitional safeguards", exports of products not currently subject to quotas could be restricted, and quotas applied selectively to particular exporters.

3. Preferences

Some developing countries are concerned that reductions in MFN tariffs will erode the margins of preference that they receive in industrial countries through schemes such as the Generalized System of Preferences, the Lomé Convention and the Mediterranean agreements. Any resulting losses of rents or exports to these countries will need to be addressed on a country-by-country basis.

For those countries whose industrial exports are heavily dependent on preferential access (including certain Mediterranean and North African states) the impact of an erosion of preferences (for example, under the Mediterranean Agreements) could be significant. 1/

For other developing countries, preliminary analysis suggests that net losses from preference erosion are likely to be modest. The largest beneficiaries from the General System of Preferences (GSP) schemes have generally been the group of more advanced developing countries in Asia and Latin America for whom reduced preferences are expected to be offset by MFN tariff cuts, and liberalization in other areas of the UR agreement, including textiles and clothing. In any event, a number of these more advanced developing countries face the prospects of being graduated out of GSP schemes because of their rising income levels.

For most preference receiving developing countries in Africa, the Caribbean and the Pacific, initial estimates indicate that the impact of preference erosion is unlikely to be large. This is because their margins of preference are relatively small which, in turn, is because their exports, comprising mainly tropical agricultural and other primary goods, typically face low MFN tariffs. 2/ It should also be noted that for all groups of countries, the full impact of the erosion of preferences will be spread over a considerable period of time, five years for industrial products, and six years for agricultural products. 3/

Donor assistance and support from the Bank and Fund, in the form of sectoral and comprehensive structural adjustment programs, will be helpful in reducing countries' dependence on preferences, and placing them on a path to more sustainable strategies.

1/ The Mediterranean Agreements are currently being renegotiated. Agricultural preferences are generally less significant.

2/ See A. Yeats: What are the OECD Preferences Worth to Sub-Saharan Africa, mimeo, OECD, Paris, 1993.

3/ Furthermore, levels of access in agriculture can continue to be preserved under the UR. The requirement in the UR agreement on agriculture to guarantee a certain amount of imports as a share of domestic consumption can be met by providing market access to preference-receiving countries in line with their current market shares. It appears that this option will be adopted by many preference-giving countries.

4. Integration into the multilateral trade system

The UR negotiations provided the opportunity for additional steps by developing countries toward greater integration into the multilateral trading system. This was evidenced by the higher degree of participation by developing countries in the UR compared with earlier Rounds, and in the final agreement these countries greatly increased the extent to which their domestic protection will be subject to the discipline of tariff bindings. Developing countries agreed to raise the proportion of industrial product lines subject to bindings from 22 percent to 72 percent, while for agricultural products, the proportion was raised from 18 percent to 100 percent. 1/ This acceptance of GATT discipline by developing countries reinforces their extensive unilateral liberalization even though many bindings are above currently applied rates. The greater participation has enabled developing countries to more effectively influence the negotiations in order to increase their benefits. The process of fuller integration will be further strengthened through the forthcoming accession of several developing and transition economies to the GATT/WTO. 2/

5. Post-Uruguay Round Issues

The list of post-UR issues of interest to developing countries is extensive. It includes further liberalization in agriculture and the reduction of tariff peaks on textiles and clothing products. Further, negotiations are expected on liberalization in the services sectors (including maritime transport and financial services, and the movement of people).

The interfaces between trade and the environment and social/labor standards have implications for developing countries. While acknowledging the desirability of improving global standards, many developing and developed countries consider the speed and extent with which these standards can be improved to depend to a large extent on progress in achieving sustainable development. In discussions on these two areas in the post-UR period, 3/ key issues for developing countries would be to stress that the use of trade restrictions for achieving environmental and labor standards is not an optimal strategy (because trade restrictions do not directly address the issues at stake), and to ensure that concerns about these standards do not become a pretext for increased protectionism.

V. Implications for the World Bank and the IMF

A key role for the World Bank and the IMF in the post-UR period will be to assist developing countries to take advantage of new market opportunities, particularly through encouraging the macroeconomic and complementary structural policy reforms needed to maximize these benefits. In

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1/ The extent to which developing countries chose to use bindings to effect and lock in a significant degree of liberalization varied considerably. Some countries (for example, Bangladesh, Brazil, and Colombia) have introduced "ceiling" tariff bindings at levels far above the levels of protection prevailing during the 1986-88 benchmark period for tariffication. A few others (such as Chile) by contrast, have offered bindings at or below the rates of protection applying in the base period, and committed to further reductions in protection on some commodities. In this way, countries like Chile have used the GATT process to consolidate and to lock-in unilateral liberalization.

2/ As at July 1994, the process of accession to the GATT had been initiated for eleven developing countries together with Bulgaria, and nine FSU countries, including Russia.

3/ A new Committee on Trade and the Environment will be established under the WTO, with a mandate to examine a wide range of issues and to report to the first biennial meeting of the WTO.

addition, the Bank and Fund may be called on to provide financial support to affected individual countries to help them manage the transition to the post-UR period in an orderly manner, or, in the case of the Bank, to help countries strengthen particular sectors, such as agriculture or textiles, so that market opportunities presented by the UR agreement could be fully realized. At this juncture, existing facilities in the Bank and the Fund appear adequate to address policy adjustments and financing needs which might be associated with the implementation of the UR agreement. Further analysis of the implications of the Round for developing countries is being undertaken in both the Bank and the Fund, with a number of studies being presented at a Bank conference in January 1995.

1. The World Bank

The World Bank can assist developing countries to adjust to the post-UR environment through lending and policy advice. Investment lending might be used to support infrastructure and human resource development and technical assistance to respond to the post-Uruguay Round environment. Together with policy lending and IFC investments in the private sector this would assist developing countries to take advantage of the opportunities created by the UR agreement. Policy advice to assist countries in reformulating development strategies in the post-UR environment may be more important than Bank lending.

Adjustment lending can assist countries in dealing with possible transitional strains resulting from the implementation of the Uruguay Round. General structural adjustment lending might be used to allow the economy to undertake a wide range of policy reforms needed to adapt to the post-Uruguay Round environment. If the adjustment pressures, or opportunities, are concentrated in a particular sector, a Sector Adjustment Loan (SECAL) might be an appropriate instrument; for example, to increase agricultural output in response to new market opportunities. Hybrid loans involving a mixture of investment and adjustment lending seem likely to be appropriate to the needs of countries wishing to implement more efficient policies in a particular sector, and to provide improved infrastructure to support its expansion.

2. The International Monetary Fund

In its surveillance in the context of Article IV consultations, and in its financial assistance, the IMF provides policy advice to member countries on macroeconomic policies conducive to strengthening external positions and achieving sustainable growth. Where appropriate, and often in collaboration with World Bank, the IMF staff identify structural impediments to growth in developing countries, including trade policy impediments, and assist the authorities to design policies to remove these barriers.

Regarding financial assistance, the IMF can provide support through its existing facilities to countries which encounter balance of payments difficulties and transitional costs associated with the implementation of the UR. Since the implementation periods for the UR agreements are long (with, for example, liberalization in the agricultural sector in industrial countries to be phased over six years) and the type of adjustment required in adversely affected countries likely to be of a structural nature, the Fund's Extended Fund Facility (EFF) or Enhanced Structural Adjustment Facility (ESAF) would seem to be particularly appropriate mechanisms for addressing such balance of payments difficulties. Both facilities have as a primary objective the removal of structural impediments to balance of payments viability and growth.

The Fund's Compensatory and Contingency Financing Facility (CCFF) is designed to deal with the short run balance of payments difficulties associated with commodity market instabilities. The CCFF can play a role in dealing with instability during the transition phase but would not be

appropriate to tackle the structural changes in relative prices resulting from the phased reduction in agricultural subsidies under the UR agreement.

3. Collaboration with the GATT/WTO

In their work in the area of trade policy, the IMF and the World Bank staff collaborate closely with the staff of the GATT in order to exchange views and information, aimed at ensuring that trade policy advice to member countries is consistent with their GATT obligations. This close informal collaboration supplements more formal mechanisms, such as the Fund's participation in the consultations of the GATT's Committee on Balance of Payments Restrictions. 1/ The UR agreement provides for cooperation between the WTO and the IMF and retains the primary role of the IMF in exchange rate matters.

A Ministerial Declaration in the Final Act of the UR calls for the Director-General of the WTO " to review with the Managing Director of the International Monetary Fund and the President of the World Bank, the implications of the WTO's responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policy making." Consideration of the forms of future cooperation is still at a very preliminary stage, and will evolve as the WTO takes shape, aided by regular contact both at staff and head of institution level. The agreement establishing the WTO itself does not specify any formal mechanism for collaboration.

Future collaboration should build on existing mechanisms. Informal collaboration has worked well in the past, and is likely to intensify in future in view of the broader range of international transactions (including services and certain aspects of direct investment) to be monitored by the WTO. These topics are also of considerable interest to the Bank and the Fund, and will require consistency of policy, while avoiding duplication of effort. Intensified staff contacts could be facilitated through greater frequency of visits among the heads and the staff of the three institutions, more systematic sharing of information and views, and participation in joint studies on problems of common interest.

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This Joint Issues Paper was prepared by Naheed Kirmani, Michael A. Da Costa (Policy Development and Review Department-IMF); L. Alan Winters, William J. Martin and Patrick Low (International Trade Division of the International Economics Department-The World Bank) with the contributions of several staff members in the Fund and the Bank.

1/ The Fund's input helps this latter Committee to form a view on the appropriateness of trade restrictions for balance of payments purposes.

IMPROVING AID EFFECTIVENESS

NOTE PREPARED FOR THE DEVELOPMENT COMMITTEE BY JAMES H. MICHEL,
CHAIR, DEVELOPMENT ASSISTANCE COMMITTEE,
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Introduction

This brief note addresses the question of what constitutes effective aid, considers what might be done to make aid more effective, and describes some current efforts toward that end. Intended to complement the Secretariat's comprehensive paper on the same subject, it reflects the author's individual perspective as Chair of the OECD Development Assistance Committee and his observations and experience in managing and co-ordinating programmes of development co-operation.

Aid is one of many instruments available to influence the evolution of human society toward sustainable development. It is focused on the poor countries where most people live in poverty, without access to adequate income to satisfy their basic needs. It is in these countries where a billion people go hungry every day. It is in these countries where the vast majority of almost 100 million new inhabitants are added to the world's population each year. It is in these countries where most of the world's biodiversity is to be found, and is under intense pressure from burgeoning populations. And it is in these countries where frustration over a lack of opportunity and vulnerability to human and natural disasters is producing a growing volume of alienation, conflict, epidemic disease and migration.

Sustainable economic and social development is not just an aspiration of people who live in poor countries. It is equally important to the inhabitants of the industrialised counties. The consequences of the growing disparity in living conditions and the absolute pressure on the earth's regenerative capacity threaten the quality of life in all countries. On the other hand, sustainable development opens up enormous new opportunities for international co-operation, including economic co-operation, that is mutually beneficial to developing and industrialised countries..

Effective Aid and Effective Development

When we speak of effective aid we should be thinking of aid that is effective in contributing to sustainable development. If development does not occur it makes no difference how well the projects are designed or managed or how impressive the statistics of roads paved, civil servants trained or institutions reformed. The test by which we measure the effectiveness of aid should be whether development was facilitated because of it.

If the standard for evaluating the effectiveness of aid is whether it has a positive impact on "sustainable development", it is important to explain what is meant by that term. There are as many definitions of sustainable development as there are authors on the subject. In this note, the concept envisions a continued process of both growth and increased participation that can be maintained even after the aid has come to an end. Capacity to continue such a process embraces considerations of social, economic and political as well as environmental sustainability.

At the national level that means a society that is capable of continuing along a path in which there is --

(1) diminished poverty and increased access by people to the means to satisfy their basic needs and improve their standard of living, including access to quality health, family planning, education and other social services that will help enable them to realise their full potential; and

(2) greater opportunity by people to participate in the political and economic processes and decisions that affect them and to pursue their interests with confidence that their rights will be respected and protected.

At a global level, sustainable development should be characterised by increased integration of developing countries into the global economy. It should contribute to an expanded range of shared interests and values that will diminish risks of conflict and facilitate co-operation among developing and industrialised countries in addressing global issues of common concern, including the interrelated issues of environmental degradation, high rates of population growth, epidemic disease, conflict, and international migration.

There is a broad international consensus that sustainable development is most likely to occur in an environment of political and economic stability that is sustained by good governance, popular participation, investing in people, reliance on market forces, concern for the environment and a vigorous private sector. This consensus can be described in various ways, and there is room for debate about the relative importance of various elements in particular cases. But the consensus is genuine.

There is also broad agreement that nations embark on a path toward sustainable development primarily for internal reasons. Development tends to occur when the elements within a society come to support agreed strategies that are reinforced by dynamic interaction at all levels among a committed political leadership, competent public and private institutions, and a public who demand performance and have the power to hold their government leaders and institutions accountable. In these circumstances external actors can help to strengthen capacity, augment resources, cushion the shocks of transition, and accelerate the realisation of benefits. No amount of external political will, determination or resources can serve as a substitute for local initiative to produce sustainable development.

A third consideration on which there is broad agreement is that sustainable development takes a long time. The process is characterised by lags between the taking of policy decisions, the implementation of those

decisions and the appearance of results. These lags often lead to confusion and debate about cause and effect relationships between policies, actions and consequences. Moreover, truly sustainable development means human development and broad participation, including learning from experience. While dramatic changes have become evident in many developing countries in a few decades, comparable to evolutions that required much longer in Europe and North America, we are still dealing with periods that exceed the normal political attention span. Sustaining momentum for development co-operation efforts over several decades is a major challenge.

Effective aid must take into account these three factors:

-- the importance of stability and a sound policy environment;

-- the need for local ownership, reinforced by dynamic interaction among committed political leaders, competent institutions and informed public opinion; and

-- the long-term nature of the development process.

This creates something of a paradox for the external donor. In many poor aid-dependent countries political and economic instability perpetuate uncertainty and inhibit initiative. Often, weak or corrupt institutions are incapable of maintaining a sound policy environment. In a vicious circle, the people don't expect much of those weak institutions and, therefore, don't demand reform and improvement. Political leaders, not being under strong public pressure for institutional reform, give this low priority. Without attention and the investment of resources from political leaders, the country's institutions remain incapable of performing well.

If the donor does nothing while waiting for a propitious environment and local demand to manifest themselves, the result may be continuing deterioration which will further complicate later development efforts. On the other hand, if the donor attempts to be prescriptive in advancing projects and activities for which there is insufficient local demand or capacity the results will probably be equally futile. Moreover, the limited prospects for successful donor-driven development efforts mean that those efforts are unlikely to produce credible evidence of progress that would help to maintain long-term support in the donor country.

Breaking Out of the Vicious Circle

All of this suggests that development co-operation should begin with supportive activities that foster the degree of trust, sense of shared interests and confidence within the developing country that are necessary to the design and implementation of locally-owned development strategies. The specific activities, of course, would vary considerably from country to country and from region to region, but would concentrate on building local capacity and demand. Priority areas for concentration of efforts and resources should be chosen with due regard for those factors mentioned above as important for success -- stability, good governance, popular participation, investing in people, reliance on market forces, concern for the environment and a vigorous private sector. The programme should evolve as the parties gain confidence and

as the recipients (both governmental and non-governmental) gain in capacity to take more and more of the lead responsibility in a genuine partnership. Over time, sound economic and social policies implemented through competent institutions and broad participation should enable the recipient country to build domestic savings and attract private capital in international markets, lessening aid dependence and permitting a further evolution in the development co-operation relationship.

The international community has learned that, from the developing country side, development is more than aid projects. The recipient country's economic and social policy environment and the political dynamics which produce that environment are crucial factors. In the same way, we are coming to recognise the importance of coherence in donor policies, both at the national level and between donors. An integrated approach to encouraging the conditions conducive to sustainable development is important. The multiplicity of each donor's policies in its relations with developing countries and multiplicity of policies among donors are central to the consideration of aid effectiveness.

Examples of internal inconsistencies within donor governments are well known -- the government that reduces development aid to countries that spend large amounts on arms, but also finances arms sales to such countries; the government that assists in strengthening capacity to produce goods for export and then erects barriers to its own country's importation of those goods; the government that assists small farmers to increase productivity and then sells competing products at subsidised prices in the same markets. These kinds of inconsistencies cannot help but to undermine the effectiveness of aid. They result from policies not under the control of aid agencies and greater coherence will require higher priority for sustainable development in inter-agency deliberations. Perhaps the Development Committee, with the strong representation of Finance Ministers within its ranks, could help to diminish these kinds of inconsistencies.

The other kind of inconsistency might be described as a weakness of international co-ordination. When the aid recipient has not yet acquired the capacity to take the lead in managing development co-operation relationships there is a high risk of chaos. Each donor is free to offer advice, establish conditions of performance, insist on compliance with its own accounting procedures, and otherwise make demands of usually weak host-country institutions without regard for the simultaneous actions of other donors in the same country. The recipient country tends to accept these burdens, even though they impose major distractions on limited management resources and institutional capacity. This kind of inconsistency is more within the control of the aid agencies and they bear much responsibility for diminishing it.

Addressing the individual and collective inconsistencies of donors would be facilitated more than anything by increased recognition of the central importance of development for the security and well being of the people of the industrialised countries. Aid cannot be treated in isolation from issues of debt, trade and investment, and indeed the entire panoply of global issues -- from the environment to AIDS to conflict resolution to migration. Aid agencies need to accept that their work is relevant to that of other ministries and other ministries need to elevate the importance of development objectives and development co-operation. We are seeing more integration of aid efforts into policy decisions in the international responses to complex emergencies. We

need to extend that integration into an international strategy of crisis prevention and sustainable development if relations with developing countries are to be maintained on a more constructive basis than the present emphasis on crisis management.

Human Security as a Unifying Rationale

The citizens of the industrialised countries have repeatedly demonstrated their humanitarian compassion and their concern for the disadvantaged. The challenge now is to move beyond those motivations to a new vision of a mutually beneficial development partnership. Of course, citizens and political leaders in the industrialised countries should care about greater equity and reduced suffering for other human beings. But they should also care about sustainable development because without it many interests of the industrialised countries will suffer and their own people will be less secure. Human security should be a uniting objective that joins governments and peoples in support of sustainable development.

The people of the industrialised countries are concerned about preserving the environment, limiting population growth, controlling the production and transit of drugs, and discouraging conflict that produces suffering and mass migration. Sustainable development -- development that diminishes poverty, improves access to the means to satisfy basic needs and increases opportunities to participate in economic and political processes and decisions -- is a direct and effective response to these concerns. Greater human security in the developing world thus translates directly into greater human security in the industrialised world as well.

The shared objective of human security would thus seem the most powerful argument in favour of increased recognition of the central importance of sustainable development on the international agenda. Moreover, concentrating on human security as the predominate shared objective seems most likely to shape development co-operation in ways that will command greater prominence in international relations, broader popular support and better results. Development co-operation that is focused on human security can be expected to be people-centered. Efforts that are people-centered, in turn, tend to be more credible and popular. What we have learned over several decades of progress and setbacks about the importance of popular participation in development suggests that people-centered development efforts are also likely to be the most effective.

Current Efforts

It is satisfying to be able to report that some useful work is underway under the auspices of the Development Assistance Committee of the OECD to improve the effectiveness of aid.

The DAC has developed an extraordinary body of work in the form of the "Principles for Effective Aid." These DAC Principles, addressing such diverse themes as aid co-ordination, technical co-operation, environmental impact assessment, women in development, and evaluation, provide authoritative policy orientations and operational guidance for Member countries. Each set of

Principles is the result of extensive staff work, deliberations by experts from Member countries and (in recent years) from developing countries as well, consultations with multilateral organisations (especially the IMF, World Bank and UNDP), and review and approval by senior policy officials of the DAC Members. Published in 1992 as the "Development Assistance Manual", the Principles have since been augmented by the adoption of two sets of orientations of fundamental importance. These are the Orientations on Participatory Development and Good Governance, adopted in December 1993, and the Orientations on Co-operation in Support of Private Sector Development, adopted in June 1994.

The emphasis of work in the DAC is increasingly on outcomes -- what is happening in individual countries and regions, what impact programmes of international co-operation are having, and how international programmes might help achieve more positive development outcomes. With this sharpened focus, the DAC Principles are taking on increased prominence in the regular peer reviews of the performance of Member programmes. The publication of these peer reviews, a practice initiated this year, should provide an additional incentive for greater coherence and consistency.

The Principles are also being accepted as a point of reference for collaboration with multilateral organisations to further aid efficiency and effectiveness. An example is the use of the DAC Principles on Technical Co-operation by the informal network that was established this year, with representation from several DAC Members as well as from the World Bank and UNDP, to devise and recommend ways to improve the management of this important development resource.

The DAC is now disseminating the Principles to developing countries as indications of the best current thinking and practice of DAC Members. A workshop organised early this year in co-operation with the Government of Turkey used the DAC Principles as a basic instructional material for engaging policy leaders from the Central Asian republics on development issues. This kind of activity, which we intend to continue, has the combined advantages of helping the participating developing countries to manage development co-operation activities and also reminding the participating donors of standards to which they had agreed.

In addition, the DAC is working closely with multilateral donors and international experts on the study of indicators of development needs and progress. This work is expected ultimately to enable us to provide Member countries with more specific information that they may find useful in making decisions about the volume, allocation and content of their aid programmes. And we are looking to initiate a pilot activity in 1995 that will augment our traditional donor-based aid reviews with an examination of the impact of all donors in selected developing countries. These studies should prove instructive as to our understanding of the key issues of donor coherence and co-ordination.

One broader current effort within the OECD should also be mentioned. That is the Secretary-General's linkages study. Undertaken by the Development Centre under the personal direction of Deputy Secretary-General Makoto Taniguchi, this exploratory effort examines the implications of linkages with OECD Members for sustainable development. The study explores a broad range of

linkages for fourteen major developing countries* and includes contributions from many directorates and offices within the OECD Secretariat. It is focused on results and views development as an integrated process. These features should make it an important resource in efforts to shape effective development co-operation strategies and to broaden international understanding of the links between sustainable development and human security.

Conclusion

Aid can be effective for advancing sustainable development. In order to fulfil that role, it must be integrated into the entire range of issues and instruments that enter into relations between industrialised and developing countries. It must be used, within the framework of coherent donor policies, to encourage and support locally-owned participatory development efforts. Most important of all, the objective of sustainable development must be given a more central and prominent place on the international agenda. Current efforts to increase the effectiveness of aid need to be continued and expanded so that the relevance of sustainable development and increased human security to the interests of the industrialised countries and their people will become more broadly apparent, and so that the potential contribution of aid within a broader framework of development co-operation will be better understood.

None of this is easy. But none of it is impossible. The question then is whether it is worth the effort. As we commemorate the fiftieth anniversary of the Bretton Woods institutions we can imagine what the world would have been like without the development progress that we have witnessed since those dark days of World War II. With the same kind of vision in the far less dark days of 1994 we can act to consolidate progress and preserve opportunities for future generations. Effective aid can be a useful tool in this work. It is up to all of us to make it so.

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* The countries studied are Algeria, Bangladesh, China, Colombia, Egypt, India, Indonesia, Iran, Nigeria, Pakistan, Peru, Philippines, Saudi Arabia, and Venezuela.

OUTCOME OF THE URUGUAY ROUND FOR DEVELOPING COUNTRIES[1]

Paper prepared by the GATT Secretariat for the
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I. Overview

For all small and medium sized trading nations, conducting trade according to multilaterally agreed concepts, principles and rules rather than resort to bilateral negotiating power is of paramount importance. For developing countries, one of the most important outcomes of the Uruguay Round is the substantial strengthening of the rules based multilateral trading system and its extension to new areas of activity. Existing disciplines have been tightened in a number of areas including those involving the use of subsidies, countervailing and anti-dumping duties and safeguard measures. This will have important implications for developing countries. For example, "grey area measures" such as voluntary export restraints will be eliminated and there will be tighter disciplines on the use of anti-dumping measures. Developing countries have frequently found themselves on the receiving end of such measures. The extension of the rules of the multilateral trading system to new areas will serve to further increase the importance of the rules-based system for developing countries. Tightened disciplines covering a wider area of international commerce are only effective, however, if there exists an efficient and equitable means to settle disputes in the event of a breach of obligations. There will be considerable improvements in the disputes settlement mechanism as a result of the Uruguay Round.

The General Agreement on Trade on Services (GATS) extends the rules based multilateral trading system to the wide area of services. Similar advantages should accrue to developing countries from the operation of a rules based system in services as has been the case for merchandise trade. While many developing countries are not presently well placed to take advantage of some of the improved market access opportunities which the Agreement will provide, they will be in a position to do so in the future as their domestic supply capacity increases. However, a number of areas of export interest to developing countries (for example the movement of natural persons) have already been committed to liberalization by major importing countries or are the subject of ongoing negotiations to improve market access. Further, the GATS is unique in that it permits Member countries, including developing countries, to negotiate the conditions under which foreign services suppliers may establish in their countries. These terms and conditions are bound in the schedules of the Members concerned. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) offers potential benefits for developing countries by creating a framework which is conducive to technology transfer and foreign direct investment. Its main disciplines include non-discrimination (i.e. most-favoured-nation and national treatment) and the equal application by all Members of minimum standards of protection in relation to all categories of intellectual property rights.

There have been important results for developing countries with the liberalization of trade and the improvement in their access to foreign markets. In spite of the sensitivities that exist in a number of areas of trade such as textiles, clothing, leather products and other areas where developing countries already hold a competitive advantage, there have nevertheless been significant reductions in tariffs.

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[1]This study is part of the continuing efforts by the GATT Secretariat to describe the outcome of the Uruguay Round for the GATT contracting parties. A more comprehensive assessment of the results of the Uruguay Round is forthcoming. This study has been prepared under the sole responsibility of the GATT Secretariat. The analysis and conclusions contained herein should not be attributed to the contracting parties of GATT, individually or collectively.

Further, in textiles and clothing, for example, the proposed phase-out of the Multi-Fibre Arrangement is of even greater significance than the reduction in tariffs; the tariff equivalent of export restraint arrangements is in most cases higher than the tariff itself. In the agricultural sector, there are a number of products where developing countries will be the primary beneficiaries of the reduction of both border-protection and the value and quantity of subsidized exports. Similarly, the increase in minimum access to agricultural markets that is assured through the Uruguay Round will provide developing countries with improved prospects for export earnings.

Evidence on the relationship between an outward orientation in government policies and growth points to the fact that if trade is to be a positive stimulus to achieving sustainable development in the coming decade, the conditions affecting *supply* in developing countries, including competitiveness at the domestic level play a critical role. Consequently, many developing countries have undertaken autonomous trade liberalization as part of wider programmes of economic reform and chosen to bind their recent trade liberalization. In this respect, the Uruguay Round has proven particularly timely, as these countries have been able to participate fully in the Round and actively promote and consolidate their own economic reforms. Adoption by developing countries of binding commitments in the Uruguay Round is a manifestation of their contribution to operating a transparent, open and predictable regime. This represents an important change in the relationship for many developing countries with the multilateral trading system. As a result of the Uruguay Round, developing countries will in general assume the same disciplines as their developed country trading partners, but in some instances benefit from greater flexibility in their implementation. Under certain circumstances developing countries can, for example, use quantitative restrictions and export subsidies that are not available for their developed counterparts. Further, they have been required to bind fewer tariffs than the developed countries, open fewer service sectors and have a longer time-frame for the implementation of their TRIPS obligations.

In any multilateral trade negotiations - in particular those as complex as the Uruguay Round negotiations - not all countries can expect to achieve what they consider to be positive results in each area of interest to them. However, with broadbased and significant reductions in border restrictions, all countries benefit positively even if there are, on occasions, temporary negative side effects. While the results of the Uruguay Round offer benefits for all developing countries, various aspects have been identified as having potential negative implications. In the main body of this document, these concerns are addressed with a view to providing a balanced view of the outcome of the negotiations for developing countries.

The vast results of the Uruguay Round require an institution to facilitate the implementation, administration, operation and furthering of the objectives of the Agreement Establishing the World Trade Organization (WTO). Thus, a common institutional framework encompassing the GATT as modified by the Uruguay Round (i.e. the GATT 1994), alongside all Agreements and Arrangements concluded under GATT auspices and other Agreements and Ministerial Decisions resulting from the Uruguay Round is envisaged. This will serve as a vehicle to ensure a "single undertaking approach" to the results of the Uruguay Round: membership in the WTO will automatically entail accepting all the results of the Uruguay Round without exception.

One of the functions of the WTO will be to cooperate with the International Monetary Fund, the International Bank for Reconstruction and Development and its affiliated agencies. In this respect, a Ministerial Declaration emanating from the Uruguay Round on the contribution of the WTO to achieving greater coherence in global economic policy-making is important. It sets out concepts and

proposals with respect to increasing the contribution of the WTO to achieving greater coherence in global economic policy-making. The Declaration recognizes the need for an adequate and timely flow of concessional and non-concessional financial and real investment resources to developing country Members, and for further efforts to address debt problems, to help ensure economic growth and development. There is also a recognition that trade liberalization forms an increasingly important component in the success of the adjustment programmes that many Members are undertaking, and that this often involves significant transitional social costs. The Director-General of the WTO is called upon to review, with his opposite numbers in the World Bank and the International Monetary Fund, the implications of the WTO's future responsibilities for its cooperation with the Bretton Woods institutions.

II. Principal elements of the Uruguay Round Agreement

The World Trade Organization (WTO) is a single institutional framework encompassing the GATT and all the agreements and legal instruments negotiated in the Uruguay Round: the General Agreement on Tariffs and Trade or GATT 1994 and other agreements covering trade in goods; the General Agreement on Trade in Services or GATS; the Agreement on Trade-Related Aspects of Intellectual Property Protection or TRIPs; the Understanding on the Dispute Settlement System (DSU); and the Trade Policy Review Mechanism (TPRM). In addition, there are a number of Ministerial Decisions and Declarations that supplement the agreements reached.

The WTO will be headed by a Ministerial Conference meeting at least once every two years. A General Council will be established to oversee the operation of the WTO between meetings of the Ministerial Conference, including acting as a Dispute Settlement Body and administering the Trade Policy Review Mechanism. The General Council will have three principal subsidiary bodies: the Goods Council, the Services Council and the TRIPs Council. Unless otherwise provided for, decisions will be taken by consensus, continuing the GATT practice.

While the WTO is not a successor organization to the GATT, contracting parties to the GATT 1947 will automatically become Members of the WTO if they assume the obligations provided for in the agreements on goods, services and intellectual property protection, and submit schedules of concessions covering trade in goods (including both market access and subsidy commitments in the case of agricultural products) and services. This ensures a "single undertaking" approach to the results of the Uruguay Round, since membership in the WTO will entail accepting all the results of the Round without exception.[2] The WTO will also provide a forum for future trade negotiations.

The special status of developing countries in the GATT will continue to receive recognition in the WTO. The preamble of the Agreement Establishing the WTO states that "there is a need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth of international trade commensurate with the needs of their economic development". In addition to retaining the provisions that concerned developing countries in GATT 1947, the new agreements generally contain provisions for developing countries and least-developed countries, often consisting of longer transition periods for the full implementation of some obligations and various exemptions from obligations, particularly for the latter group of countries.

[2]The WTO will also encompass the plurilateral arrangements which are not part of the single undertaking (Trade in Civil Aircraft, Government Procurement, Dairy Products and Bovine Meat).

Also, in some instances, the exports of developing countries benefit from a better treatment with respect to measures taken by other WTO Members. Technical assistance is to be provided to developing countries to assist them in assuming their obligations and more effectively realizing the benefits of the multilateral trading system.

Least-developed countries are singled out in the Final Act as requiring special attention. This is reflected in the agreements through a number of provisions which provide the most favourable treatment for this group in terms of rights as well as lower levels of obligations. In addition, the *Decision on Measures in Favour of Least-Developed Countries* makes provision for measures of special assistance, including technical assistance "in the development, strengthening and diversification of their production and export bases including those of services, as well as in trade promotion, to enable them to maximize the benefits from liberalized access to markets". As part of its functions, the Committee on Trade and Development (a subsidiary body of the General Council) will periodically review the special provisions in favour of least-developed countries and report to the General Council of the WTO for appropriate action.

The *Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-making* identifies the need for strengthening the relationship between the activities of the WTO, the International Monetary Fund (IMF) and the World Bank (IBRD) as a way of ensuring greater coherence in global economic policy-making. It notes, amongst other things, that progress in the trade area is linked to greater exchange rate stability, to an adequate and timely flow of concessional and non-concessional financial and real investment resources to developing countries, and further efforts to address debt problems. It also recognizes that while difficulties whose origins lie outside the trade field cannot be redressed through measures taken in the trade field alone, there are nevertheless interlinkages between the different aspects of economic policy. The Declaration provides guidelines on how the cooperation between the three organizations could be developed; in particular, it calls on the Director-General of the WTO to review, with his opposite numbers of the IBRD and the IMF, the implications of WTO's future responsibilities for its cooperation with the Bretton Woods Institutions. The fact that such interlinkages and, further, that the relation between economic adjustment and social costs have been explicitly recognized within the WTO context has been considered of considerable importance by developing countries. As underlined during the Uruguay Round negotiations, Ministers expect that such greater coherence will result not only in reinforced surveillance of national policies, but also, *inter alia* - and according to the working relations that will be established between the three institutions - ensure that developing countries which join multilateral efforts to liberalize trade can count on support to overcome financial pressures arising during the adjustment process, and help in reducing a perceived lack of consistency, in certain instances, between trade policy recommendations made in the context of lending programmes to developing countries and GATT/WTO requirements.

A. Trade in Goods

The first part of this section describes the main elements of the agreements covering trade in goods, and the second section summarizes the main results of the market access negotiations. It pays particular attention to matters of concern to developing countries.

Rules

The cornerstone of the agreements covering trade in goods is the GATT 1994, which is an updated version of GATT 1947, supplemented by understandings interpreting various provisions. In addition, there are agreements covering practices of relevance to GATT rules (trade-related investment measures and "grey-area" measures), agreements directed to liberalizing trade in agriculture and in textile and clothing, and agreements governing the application of non-tariff (see Box 1).[3] While agriculture and textiles and clothing are in principle covered by GATT rules, the rules have been less effective in the past than for other products. For agriculture, the principal outcome of the negotiations includes the reduction of barriers to market access, a progressive reduction in trade-distorting measures of domestic support, and the lowering of subsidies to promote export competition. This process will set the stage for market-opening negotiations in the future. In the case of textiles and clothing, the reduction of restraints and the phase out of the Multi-Fibre Arrangement over a period of ten years will mean that a key export sector for many developing countries will be fully within the disciplines of the multilateral trading systems.

Agreement was reached in the Uruguay Round that existing "grey-area measures" (voluntary export restraints, orderly marketing arrangements or any other similar measures on the export or the import side) will be eliminated or phased out within four years[4] and the rules governing the application of non-tariff measures have been clarified and updated. Of particular importance for developing countries is that the application of anti-dumping and countervailing measures has been clarified in relation to determining whether a product is being dumped/subsidized, the criteria for determining that dumped/subsidized imports are causing injury to a domestic industry, the procedures to be followed in initiating and conducting anti-dumping/countervailing investigations, and the implementation and duration of anti-dumping/countervailing measures. There is a new provision under which anti-dumping measures expire five years after the date of imposition, unless a determination is made that, in the event of termination of the measures, dumping and injury would be likely to continue or recur. Another new provision requires the immediate termination of an anti-dumping/countervailing investigation in cases where the authorities determine that the margin of dumping/subsidization is *de minimis*, or that the volume of dumped/subsidized imports is negligible. These provisions are more generous in the case of developing countries than for developed countries.

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[3]The GATT 1994 contains the provisions of the legal instruments that have entered into force under the GATT 1947 before the date of entry into force of the WTO, including protocols and certifications relating to tariff concessions, protocols of accessions; waivers granted under Article XXV; and other decisions of the CONTRACTING PARTIES to GATT 1947. With respect to the latter, decisions of particular interest to developing countries include the 1966 Decision on "Procedures under Article XXIII" (BISD 14S/18), which expedites procedures for dispute settlement involving developing countries, and the 1979 Decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" (BISD S/103), known as the Enabling Clause, which provides a legal cover for differential and more favourable treatment to developing countries.

[4]An exception can be made for one specific measure for each importing country, subject to mutual agreement with the directly concerned exporting country, where the phase-out date will be 31 December 1999.

Box 1 - Main elements of the Uruguay Round agreements covering trade in goods

GATT 1994: The cornerstone of trade relations in the area of goods. Given the numerous agreements concluded under its auspices relating to non-tariff measures, the GATT 1994 is the centre piece for rules on tariffs. Key obligations include non-discrimination through the most-favoured-nation principle (Article I); the national treatment of imported products once inside the border (Article III), and the protection of domestic industries essentially through tariffs. Quantitative restrictions are prohibited (Article XI). The binding of tariffs (Article II) provides a stable and predictable basis for trade, since they can only be increased under strict circumstances and provided that compensation is given in the form of bindings on other tariff lines (Article XXVIII). Exceptions to these obligations may be invoked under certain conditions for balance-of-payments purposes (Article XII), for development (Article XVIII, which includes special balance of payments provisions), as safeguards from serious injury (Article XIX), for health or safety (Article XX), national security (Article XXI) and for regional integration agreements (Article XXIV). Differential and more favourable treatment to developing countries and to least-developed countries is permitted under the 1979 Enabling Clause with respect to tariffs in the context of the Generalized System of Preferences (GSP) and non-tariff measures, notwithstanding the most-favoured-nation clause, and with respect to regional or global arrangements concluded by developing countries.

The results of the Uruguay Round include seven understandings on the interpretation of existing GATT Articles dealing with schedules of concessions (Article II:1(b)), state-trading enterprises (XVII), balance-of-payments provisions (XII and XVIII:B), customs unions and free-trade areas (XXIV), waivers (XXV), modification of GATT schedules (XXVIII) and non-application of the General Agreement (XXXV).

Agreements integrating practices otherwise on the margin of GATT rules: Includes trade-related investment measures (TRIMS) (which can be found to be inconsistent with the national treatment provision or the prohibition on quantitative restrictions), such as local content requirements or trade-balancing requirements. GATT-inconsistent TRIMs are required to be notified and eliminated within a transition period of two years (developed countries), five years (developing countries) or seven years (least-developed countries). A further extension may be requested by developing and least-developed countries. The Agreement on Safeguards prohibits the use of 'grey-area measures', such as voluntary restraints or orderly marketing arrangements; such measures are to be notified and eliminated.

Agreement on Agriculture: Clarifies how GATT rules will be applied to this sector. All Members are required to convert all non-tariff measures to tariffs (except for those products for which a special treatment have been negotiated) and bind 100 per cent of agricultural tariff lines. Members, with the exception of least-developed countries, are required to undertake reduction commitments with respect to market access, domestic support and export subsidies. The required reductions in tariffs, domestic support and export subsidies for developing countries are two-thirds of those applying to developed countries. Developing countries may exempt certain forms of domestic support and export subsidies from commitments, which involve the subject of reduction commitments by developed countries. Reduction commitments for developed country Members will be implemented over six years, and over ten years for developing countries.

Agreement on Textiles and Clothing: Provides for the eventual elimination of the Multi-Fibre Arrangement (MFA) after a ten-year transition period. In place since 1973, the MFA currently groups eight "importers"; of these, Austria, Canada, the European Communities, Finland, Norway and the United States apply restrictions under the MFA, while Japan and Switzerland do not. The other participants in the MFA are the "exporters" (mainly developing countries), whose exports or part of their exports covered by the MFA are subject to bilaterally agreed quantitative restraints or unilaterally imposed restraints on imports, typically applied at the product level but in some cases to various aggregates as well.

MFA restraints will be phased-out in four stages, the first starting at the date of entry into force of the WTO. Concurrent with this integration process, there is a program providing for the progressive liberalization of existing quotas imposed under the MFA, with an accelerated liberalization for small exporters. The Agreement also provides for a transitional safeguard mechanism in the event of import surges, which applies under certain conditions in respect of any product not yet integrated into GATT and not already under restraint, with more favourable treatment provided to least-developed countries and small suppliers.

Agreements on non-tariff barriers: Agreements on the application of sanitary and phytosanitary measures, technical barriers to trade, customs valuation, anti-dumping, preshipment inspection, rules of origin, import licensing procedures, subsidies and countervail, and safeguards. The agreements on technical barriers to trade, subsidies and countervail, anti-dumping, import licensing, and customs valuation are more extensive versions of the agreements concluded in the Tokyo Round, while other agreements are new. The agreement on rules of origin contains a three-year programme of work that shall result, at the end of the period, on the harmonization of rules of origin of a non-preferential basis. The agreements on non-tariff measures generally contain precise guidelines concerning the administrative procedures for the application of non-tariff measures, including transparency, predictability (including specified criteria for decisions) and procedural guarantees for exporters. For example, before anti-dumping or countervailing duties are applied, an investigation must be conducted by a competent authority, including public hearings and notice to interested parties.

Market Access[5]

Industrial products

For developed countries, the main features of their market access commitments in industrial products include (i) the expansion of bindings to cover 99 per cent of imports (Table 1); (ii) the expansion of duty-free access from 20 to 44 per cent of total imports; and (iii) the reduction of the trade-weighted average tariff by 40 per cent (i.e. from the pre-Uruguay Round level of 6.2 per cent to the post-Uruguay Round level of 3.7 per cent (Table 2). With respect to tariff reductions on individual product categories (Table 3), developed countries will (i) reduce tariffs by substantially above-average amounts (60 per cent or more) in three categories - wood, pulp, paper and furniture; metals; and non-electric machinery; and (ii) reduce tariffs by less than the 40 per cent overall reduction in four categories - fish and fish products; textiles and clothing; leather, rubber, footwear; and transport equipment.

In terms of exports from developing to developed country markets, above-average tariff reductions apply to product categories accounting for slightly less than one-half of total exports. The result is that the total reduction in the average tariff of developed countries is 37 per cent (Table 3). Labour-intensive manufactures (textiles and clothing, leather goods) and certain processed primary products (fish products) have been - and continue to be - regarded as "sensitive" and therefore have below average tariff reductions. In the case of textiles and clothing, however, it is important to also consider the market access opportunities provided by the phase-out of restraints applied under the Multi-Fibre Arrangement (MFA). For those products for which an MFA quota is the binding restraint, the tariff-equivalent of the quota may well exceed the ordinary tariff, with the result that the percentage reductions in import barriers calculated on the basis of ordinary tariffs will understate the true increase in market access resulting from the Uruguay Round.

On the basis of data available for 26 developing countries, the GATT Secretariat has identified the main features of their market access commitments. These include: (i) the expansion of bindings to cover 61 per cent of imports, compared to the pre-Uruguay Round level of 13 per cent (Table 1); and (ii) a reduction of ceiling rates for tariffs leading to a decline of 30 per cent in the trade-weighted average tariff of developing economies (Table 2).[6] The increase in the security of trade among developing regions is reflected mainly in Latin America - where participants will bind 100 per cent

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[5]The description of results for market access in goods is affected by the fact that not all participants in the Uruguay Round have finalized their schedules of commitments for industrial and agricultural products. In particular, a number of least-developed countries have not completed their submissions under the *Decision on Measures in Favour of Least-Developed Countries*, which makes provision for an additional year for this purpose from April 1994.

[6]Comparable data are available for the 26 developing country participants in the GATT's Integrated Database (IDB). Figures on the scope of commitments are not available for the remaining 67 developing country participants in the Uruguay Round. The incomplete coverage of developing countries in the IDB could have a substantial effect on figures for the percentage of tariff lines bound by developing economies and by developing regions since the 26 participants for which data are available account for less than one-third of the total tariff lines of developing economies, but has less of an effect on figures for the coverage of bindings based on import values since the 26 participants account for roughly 80 per cent of the total merchandise imports of developing economy participants in the Uruguay Round.

of tariff lines at ceiling rates.[7] In the case of transition economies, the main features of improved market areas include (i) the expansion of bindings to cover 96 per cent of imports, compared to the pre-Uruguay Round level of 74 per cent (Table 1); and (ii) a reduction of the average tariff of 30 per cent (Table 2).

To summarize, the Uruguay Round will provide more secure and open markets for world trade in industrial products (see Box 2). The proportion of total trade that is subject to bound rates will increase from 68 to 87 per cent, mainly as a result of the substantial increase in the level of bindings in developing economies (Table 1). And markets will be more open as a result of the reductions in average tariffs of developed countries (down 40 per cent), developing economies (down 30 per cent), and transition economies (down 30 per cent), with a post-Uruguay Round average tariff of 6.3 per cent on imported industrial products (Table 2).

Box 2 - The central role of bindings in the GATT and WTO

If a tariff lowered during a GATT round could be unilaterally raised again a few months later, that tariff concession would have little or no value to foreign and domestic producers. An exporting firm will be reluctant to pursue new markets if the treatment afforded to products it intends to export is uncertain. This is especially true if taking advantage of the lower tariff requires investment in plant, equipment and distribution networks - investments that would become unprofitable if the tariff was raised. For domestic producers, the fact that the national government might subsequently raise a tariff also creates uncertainty, not only for the firms that use the import as an input into their own production, but especially for export-oriented firms that have to compete for human and financial resources with import-competing firms.

This is where the importance of "bindings" resides. When a country agrees to *bind* in GATT a tariff (and other duties and charges - ODCs - applied with respect to this tariff item) on a product at a certain level - say 15 per cent - it commits itself not to increase the tariff above that level (except by negotiation with compensation for affected trading partners). Binding is considered to be so important that countries which agree to bind previously unbound tariffs are given "negotiating credit" for the decision even if the tariff is bound at a level *above* the currently applied level (the "ceiling binding", which has been used by many developing country participants in the Uruguay Round). Bindings have also played a key role in establishing the domestic and international credibility of domestic reform programs in many countries.

In addition to tariff levels (including ODCs) or non-tariff measures affecting trade in industrial products, the schedules of commitments made by Members of the future World Trade Organization (WTO) cover measures affecting trade in agricultural products (tariffs, export subsidies and domestic support), and service activities. Additional security for negotiated reductions in trade barriers is provided by GATT/WTO rules which ensure that countries do not use other trade measures to restore previous levels of protection. In the area of goods, these include limitations on the use of anti-dumping and countervailing duties, of fees and other charges for customs services, the prohibition of quantitative restrictions, and the requirement to grant national treatment (non-discriminatory treatment) to imported goods once they have entered the customs territory of the importing country.

In assessing the new market access opportunities for developing countries which will result from the Uruguay Round, the observation has been made that market access possibilities may be reduced since the preferences to developing country exporters under the Generalized System of Preferences (GSP) and other arrangements providing tariff preferences will be reduced by the cuts in MFN tariffs.

In this respect, it is important to note that the objective of GSP preferences is not to divert trade from other exporters, but rather to provide the possibility for developing countries to compete

[7]Chile was the only developing country offering to bind 100 per cent of its tariff lines in the context of the Tokyo Round, while Costa Rica, El Salvador, Mexico and Venezuela bound 100 per cent of tariff lines (and of imports) upon accession to GATT during the period 1986-91. In the Uruguay Round, other developing countries have committed to binding all or a major portion of their imports.

on an equal footing with producers in developed importing market. This objective is effectively met through the negotiated reduction of tariffs in multilateral trade negotiations. In addition, preference schemes frequently place *a priori* restrictions and criteria on the granting of preferences. This is not the case with negotiated reductions of tariffs that are entered in national schedules. Further, in many instances, tariff preferences are temporary and non-contractual. In contrast, tariff commitments made in the GATT are legally binding commitments. It is only through liberalization, and exceptionally through increases of tariffs in exchange for compensation to suppliers, that bound rates can be changed. A final point is that the granting of GSP treatment may also be considered as the advanced implementation of MFN tariff reductions offered only to developing countries. In this respect, the further liberalization of tariffs for non-GSP countries can be viewed as the normal extension of preferential tariff reductions (i.e. the GSP) to non-GSP countries. The binding of tariff reductions implemented in the context of GATT negotiations provide security of market access, foster trade expansion, and consequently industrialization and economic growth. Broad based tariff liberalization as achieved in the Uruguay Round provides an important stimulus to economic growth in both developed and developing countries through promoting diversification of products and markets.

In addition, a stimulus to developing countries manufactured exports will follow from the substantial reduction in tariff escalation for may products in the major markets as a result of the Uruguay Round. This too will encourage increased diversification of production and exports and encourage the production of higher value-added items in the developing countries (see Table 4).[8]

Agricultural products

Increased market access for agricultural products (see Box 3 for main elements of the Agreement on Agriculture) includes the "tariffication" of all non-tariff border measures (conversion to tariff-equivalents) - with the exception of those products for which special treatment has been negotiated - and a binding of *all* tariffs on agricultural products (Table 5). As a result, the security of trade in agricultural products will - for the first time in GATT's history - be greater than in industrial products, since 100 per cent of agricultural product tariff lines will be bound.

Tariffs resulting from the "tariffication" process, together with the other tariffs on agricultural products, are to be reduced by a simple average of 36 per cent over six years in the case of developed countries and 24 per cent over ten years in the case of developing countries, with minimum reductions per tariff line of 15 per cent and 10 per cent, respectively. The reductions in the tariffs of developed countries - which account for about two-thirds of world imports of agricultural products - indicate an

[8]Tariff escalation occurs when the tariff applied on a product category rises as the level of processing increases. In such cases, the "effective rate of protection of value added" in the processing industries in the importing country is normally higher than the nominal tariffs. The result is (i) a higher level of production of the more processed products in the importing country, and (ii) smaller imports of the more processed versions both because domestic production is larger *and* because the higher (than otherwise) domestic prices reduce domestic consumption of the more processed products. Thus, tariff escalation effectively limits the scope for trade-related industrialization in developing countries. Changes in tariff escalation as a result of the Uruguay Round are measured by changes in the tariff wedges, that is by the change in the absolute difference between the tariff at a particular stage of processing and at the preceding stage. According to this definition, tariff escalation between two stages of production is reduced when there is a greater absolute decline in tariffs at the higher stage than at the lower stage. A reduction in (or unchanged) tariff escalation (wedge) is a sufficient condition for market access to increase when tariffs are reduced. The stages of processing used in this analysis are those adopted by GATT contracting parties in the Tokyo Round.

average percentage reduction of 37 per cent. With respect to individual product categories, developed countries will (i) cut tariffs by above-average amounts on oilseeds, flowers and plants; and (ii) cut tariffs by below-average amounts on sugar and dairy products, with other product categories close to the average cut. In the categories of 'tropical products", which account for one-half of exports of developing countries of agricultural products, a 43 per cent reduction in tariffs will be implemented by developed countries (Table 6).[9]

Current access opportunities will be maintained on terms at least equivalent to those existing prior to the tariffication process. However, for those products where tariffication took place and imports were less than 5 per cent of domestic consumption because of the existing restrictions, minimum market access commitments, implemented through tariff quotas on an MFN basis at a low or minimal tariff rate, are required. Figures on the increased market access rising over the transition period in terms of tonnage for foreign producers resulting from these commitments indicate that substantial increases in market access occur for coarse grains (1,757,000 tons) and rice (1,076,000 tons), as well as for other products. With regard to commitments on export competition, the quantities of exports which can be legally subsidized must be reduced by 21 per cent. The importance of this commitment is illustrated by the fact that, on average, developed countries subsidized annually during 1986-90 48.2 million tons of wheat, 19.5 million tons of coarse grains, 1.8 million tons of sugar, 1.2 million tons of beef, etc. Furthermore, total export subsidy outlays will decline by 36 per cent, from $21.3 billion to $13.7 billion by the end of the transition period (Table 7). These reductions are of particular significance for heavily subsidized products on world food markets such as wheat, beef, coarse grains, dairy products and sugar.[10] With regard to commitments on domestic support to agricultural producers, total outlays (in terms of the Aggregate Measurement of Support) will be reduced by 18 per cent, from $197 billion to $162 billion by the end of the transition period (Table 8).[11]

The new market access opportunities for agricultural products - which will result from the Uruguay Round as a result of a change in border measures, and policies relating to export competition and domestic support - will be of particular interest to developing countries exporting temperate food products. More generally, multilateral disciplines on trade-distorting practices in agriculture are expected to stabilize world food markets in the coming decades, providing potential trade opportunities for developing countries and reducing fluctuations in food import bills. However, the potential situation

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[9]Table 6 reports a reduction of 35 per cent for the category defined as "coffee, cocoa, tea and maté" and a reduction of 46 per cent for "tropical beverages". The principal cause of the difference between these two sets of figures is the inclusion in the former of chocolate, for which tariff reduction commitments are much lower than for coffee, cocoa, tea.

[10]The subsidy figures tend to understate the effect of export subsidies, as well as the benefits of their reduction, in instances where they are concentrated on certain more detailed product categories. In such situations the reduction commitments of developed countries are likely to have a much greater impact on export opportunities for other countries than the aggregate data suggest.

[11]Table 7 reports a reduction of outlays for domestic support for the European Union of 17 per cent, from $92.4 billion to $76.9 billion, because the figures include credit for reductions undertaken since 1986.

Box 3: Elements for agriculture in the Uruguay Round

"Tariffication": At the beginning of the Uruguay Round, government intervention in support of domestic agricultural producers was limited to unbound or bound tariffs for approximately two-thirds of all agricultural tariff lines of the participating countries. For the remaining one-third of the tariff lines, the intervention extended to non-tariff measures and/or various subsidies. It is this latter one-third of the tariff lines that was subject to "tariffication", in which for each tariff line the package of protective measures (including the existing tariff) is replaced by a single new tariff that is estimated to provide substantially the same level of protection as the existing package of measures.

Special safeguard: For products that have been subject to tariffication, the Agreement allows Members to have recourse to a special safeguard mechanism, on a temporary basis, so as to limit imports in the event of a surge of imports or significant falls in the import price. Such safeguard measures are to take the form of increased tariffs. The trigger in the safeguard for import surges depends on the "import penetration" currently existing in the market (i.e. where imports make up a large proportion of consumption, the import surge required to trigger the special safeguard is lower). This special safeguard mechanism will remain in force for the duration of the reform process.

Special treatment: In order to facilitate the implementation of tariffication in particularly sensitive situations, a "special treatment" clause of the Agreement allows, under certain carefully and strictly defined conditions, a Member to maintain import restrictions up to the end of the implementation period. Negotiations on any possible extension of such cial treatment must be completed before the end of the six year implementation period.

Tariff reductions: Tariffs resulting from the "tariffication" process can be either an ad valorem or specific, but in nearly all instances, the new tariffs are specific duties, for which ad valorem equivalents are not currently available. Tariffs resulting from the "tariffication" process, together with the other tariffs on agricultural products, are to be reduced by a simple average of 36 per cent over 6 years in the case of developed countries and 24 per cent over 10 years in the case of developing countries, with minimum reductions per tariff line of 15 per cent and 10 per cent, respectively (no reductions are required of least-developed countries). Because of the high proportion of specific duties, together with the presence of ceiling bindings (particularly in Latin America and Africa), levels of tariffs cannot be computed.

Current and minimum access commitments: For products covered by the tariffication process, the maintenance of current market access opportunities is provided for, supplemented by the establishment of minimum access tariff quotas (at reduced-tariff rates) where the current access is less than 5 per cent of domestic consumption. These minimum access tariff quotas are to start at 3 per cent and are to be expanded to reach 5 per cent at the end of the implementation period.

Reductions in export subsidies: Countries are required to reduce the value of direct export subsidies to a level 36 per cent below the 1986-90 base period level over the six-year implementation period, and the quantity of subsidised exports by 21 per cent over the same period. In the case of developing economies, the reductions are two-thirds those of developed countries over a ten-year period (with no reductions required of least-developed economies). Where subsidised exports have increased since the 1986-90 base period, 1991-92 or the average between 1986-90 and 1991-92 may be used, in certain circumstances, as the beginning point of reductions although the end-point remains that based on the 1986-90 base period level. Commitments also include undertakings not to introduce or re-introduce subsidies on the export of agricultural products or groups of products in respect of which such subsidies were not applied during the base period.

Reductions in domestic support: The Total Aggregate Measure of Support (Total AMS) reduction commitment, which cover all domestic support provided on either a product-specific or non-product-specific basis that does not qualify for exemption, is to be reduced by 20 per cent over 6 years for developed countries and 13.3 per cent for developing economies over 10 years (no reductions are required of least-developed countries). At the end of the implementation period, they will be bound. So-called "green box" policies are excluded from the reduction commitments: general government services (such as research, disease control, infrastructure and food security), certain forms of "decoupled" (from production) income support, structural adjustment assistance, direct payments under environmental programmes and under regional assistance programmes. In addition to the green box policies, other policies that need not be included in the Total AMS reduction commitments include: direct payments under production-limiting programmes; certain government assistance measures to encourage agricultural and rural development in developing countries and other support which makes up only a low proportion (5 per cent in the case of developed countries and 10 per cent in the case of developing countries) of the value of production of individual products or, in the case of non-product-specific support, the value of total agricultural production.

in net food-importing developing countries is of particular concern.[12] Potential problems relating to least-developed and net food-importing developing countries are the subject of the *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries*. The Decision recognizes that, as a result of agricultural reform, these countries may experience negative effects with respect to supplies of food imports on reasonable terms and conditions. The Decision sets out objectives with regard to the provision of food aid, the provision of basic foodstuffs in full grant form and aid for agricultural development. It also refers to the possibility of assistance from the International Monetary Fund and the World Bank with respect to the short-term financing of food imports. The Committee of Agriculture, established under the Agreement on Agriculture, will monitor the implementation of the Decision. However, developing countries which are net-importers of agricultural products, while benefiting in the short-term from the greater availability of food aid, are experiencing a decline in the profitability of domestic and foreign investments in their own agricultural sector. The consequences of this reduced investment has been resulting in diverting production resources to other less competitive sectors, in delaying the adoption of new technologies and, could in the longer term, impair capacity to pursue adequate policies for the production of food. In this sense, the long-term effect of the reform will certainly be positive for at least a number of net food-importing countries.

B. Trade in Services

The General Agreement on Trade in Services is the first multilateral agreement on trade that has as its objective the progressive liberalization of trade in services. It will provide for secure and more open markets in services in a similar manner as the GATT has done for trade in goods. The Agreement covers trade in all services sectors and the supply of services in all forms (i.e. modes of delivery), including consumption abroad of services, cross-border supply of services, provision of services through a commercial presence and the movement abroad of the person supplying the service.

The GATS has two components: the framework agreement containing 29 Articles and a number of Annexes, Ministerial Decisions etc., as well as the schedules of commitments undertaken by each Member government to bind the existing degree of openness or remove existing restrictions (see Box 4). Although the coverage of the GATS in terms of service sectors is universal, the liberalization commitments follow a *positive list* approach, whereby each participant in its schedule lists the conditions of market access and national treatment for foreign service suppliers in the sectors and modes of supply for which it has undertaken a commitment. Ninety-five schedules of specific commitments (the European Union has submitted a common schedule on behalf of its 12 Member States) contain the results of the market access negotiations for services. With respect to the level of market openness for a service activity provided by any commitment, it depends on the existing regulatory regime and whether limitations have been placed on market access and national treatment by the importing country. In fact, the majority of the schedules contain bindings of the existing level of access while others also contain liberalization commitments. With the binding of commitments, foreign service suppliers - and domestic customers of foreign service suppliers - are given an assurance that conditions of entry

[12] A joint OECD-World Bank study published in 1993 pointed to increases in the range of 5 per cent in the world prices of certain temperate food products (wheat, coarse grains, meat), which could be expected to impact heavily on net food-importing countries in Sub-Saharan Africa. It should be noted that the future evolution of the situation of individual net food-importers will depend not only on reform in OECD countries, but also on the uncertain evolution of world food markets in the years ahead, and on the response of domestic agricultural supplies both to the higher world prices expected to prevail and to domestic reform policies.

and operation in the market will not be changed to their disadvantage. The GATS explicitly provides for successive rounds of negotiation in the future with a view to achieving a progressively higher degree of liberalization.

Box 4 - Main elements of the General Agreement on Trade in Services (GATS)

The General Agreement on Trade in Services (GATS) consists of the Articles of the Agreement, a number of annexes addressing the special situations of individual services sectors, and schedules of commitments on service activities (the equivalent of the market access component of the negotiations on goods). Part I of the Agreement defines its scope - specifically, services supplied *from* the territory of one Member to the territory of another (cross-border); services supplied *in* the territory of one Member to the consumers of another (for example, tourism); services provided through branches of entities of one party in the territory of another (for example, a branch of a foreign bank); and services provided by nationals of one party in the territory of another (for example, construction teams).

Part II of the Agreement sets out general obligations and disciplines. There is a basic most-favoured-nation (MFN) obligation. Members have negotiated specific MFN exemptions, which will be reviewed after five years and are subject to a normal limitation of 10 years duration. Transparency requirements include publication of all relevant laws and regulations. Since domestic regulations, not border measures, are the major influence on services trade, all such measures of general application are to be administered in a reasonable, objective and impartial manner. The Agreement also contains obligations with respect to mutual recognition requirements qualifications, for instance, for the purpose of securing authorization, licences or certification to supply services. Restrictive business practices are subject to consultations between parties with a view to their elimination.

Part III of the Agreement contains provisions on market access and national treatment which are the subject of specific commitments made in national schedules, rather than general obligations. As of 1 September 1994, schedules had been submitted by 95 participants (including a single schedule for the twelve members of the European Union), which identify the service activities which are the subject of commitments and the limitations in terms of each of the modes of supply for market access (e.g. number of service providers, number of service operations; the kind of legal entity through which a service is provided). or on national treatment.

Part IV establishes the basis for progressive liberalization in the services area through successive rounds of negotiations and the development of national schedules. Part V contains institutional provisions, including consultation and dispute settlement procedures and the establishment of a Council on Services. The annexes address the movement of labour, financial services (largely banking and insurance), access to and use of public telecommunications, services and networks; air-transport services (other than traffic rights and directly related activities); to begin negotiations for the gradual liberalization of basic telecommunications (to be concluded not later than 30 April 1996); and to begin negotiations for maritime services (to be concluded by June 1996) and labour movement.

It is not possible to provide quantitative measures of commitments to liberalize services trade in the same way as for goods (see Box 5 for a description of the contents of schedules). As there is no international nomenclature for traded-services that covers the different modes of supply, there is no comprehensive set of data that could provide reliable estimates of imports of particular services under the different modes of supply. Further, there is no equivalent of customs duties in services; limitations on foreign services and service suppliers, where they exist, typically take the form of regulations relating to the supply of services. The effect of such measures, or of their removal, cannot be easily assessed, if at all.

Of importance to developing countries is the fact that virtually all Members have made commitments on the movement of natural persons, even if these are frequently circumscribed by the requirement of intra-corporate transferee status. In addition, commitments made by developed countries generally cover the cross-border supply of labour-intensive services such as computer-related services, professional and construction services. Further, most developing countries have committed themselves

to bind or liberalize tourism and travel services, including, for example, the liberalization of foreign investment restrictions for hotel and resort operators. These commitments are likely to improve the supply capacity of this key sector, which provides the major source of foreign exchange earnings in a number of island developing countries and least-developed countries. In addition, a number of developing countries have taken the opportunity the GATS provides to schedule commitments, thereby binding their own domestic reform process. Improvements in the quality of services that will result from liberalization and increased competition will contribute more generally to improved efficiency, consumer welfare and growth in developing countries as well as all other countries.

Box 5 - Description of schedules of commitments for services

In its national schedule each Member government indicates the service sectors and activities to which it will apply the market access and national treatment obligations of the GATS. For each service activity inscribed in a schedule, there are eight entries, referring to the obligations of market access and national treatment, and to the four modes of supply through which international trade in services takes place:

- Cross-border supply of a service to a consumer located in the Member's territory;
- Consumption abroad by a resident of a Member who purchases a service in the territory of another Member;
- Commercial presence, meaning the supply of a service within the Member's territory through a commercial presence established there by a foreign supplier;
- Presence of natural persons, meaning the entry and temporary stay of foreign individuals in the Member's territory for the purpose of supplying a service.

The entries represent a binding commitment to allow supply of the service activity in question on the terms and conditions specified, and not to impose any new measures that would restrict entry into the market or the operation of the service supplier.

C. Trade-Related Intellectual Property Rights

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) establishes minimum standards of protection for each category of intellectual property rights (IPRs). These standards must be available in the national law of each WTO Member and provided on the basis of most-favoured-nation and national treatment (see Box 6). These standards incorporate and extend to all WTO Members the substantive obligations of the main WIPO conventions, the Berne and Paris Conventions on copyright and industrial property, respectively, with the addition of other obligations on matters where it was thought these Conventions could be complemented. This involves, in particular, setting standards on categories of IPRs where they were lacking (e.g. patents), setting disciplines relating to the enforcement of IPRs, and providing an effective dispute settlement mechanism. A key feature of the Agreement is that Members are required to provide within their national laws effective procedures and remedies for the enforcement of rights to the holders of those rights, mainly private enterprises. It is, however, recognized that Members are not obliged to create special judicial system for the enforcement of IPRs.

Once the WTO is operational, the number of countries providing intellectual property protection will increase over time. Developed countries have one year to meet their obligations, developing countries have five years and least-developed countries have eleven years, with the possibility of an extension. Special transitional arrangements apply in the situation where a developing country does not presently provide patent protection in a particular area of technology, such as pharmaceuticals or agricultural chemicals.

In fact, adherence to the Paris and Berne Conventions is fairly widespread among developing countries. Many developing countries already provide minimum standards of intellectual property protection on a national treatment basis, although the scope of such protection varies significantly. Potential benefits for developing countries emerging from the Uruguay Round include a framework more conducive to domestic research efforts and to technology transfer and foreign direct investment. There will, however, be additional administrative burdens of enforcing such rights (specifically dealt with under the TRIPS Agreement),[13] potentially higher royalty payments and adjustment costs for industries which, in the absence of domestic legislation in the area, were producing goods that would be considered as counterfeit in the future. There will also be requirements relating to patents may well mean an increase in prices of certain goods in some developing countries. Pharmaceutical and agricultural products present examples. These increases are expected to be small, and there are provisions in the Agreement itself to minimize any adverse implications for developing countries.

Box 6 - Main elements of the TRIPs agreement

There are three parts to the Agreement on Trade Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (TRIPs). Part I sets out general provisions and basic principles, notably a national-treatment commitment under which the nationals of other Members must be given treatment no less favourable than that accorded to a Member's own nationals with regard to the protection of intellectual property. It also contains a most-favoured-nation clause, a novelty in an international intellectual property agreement, under which any advantage a Member gives to the nationals of another country must be extended immediately and unconditionally to the nationals of all other Members, even if such treatment is more favourable than that which it gives to its own nationals.

Part II addresses each intellectual property right in succession: copyright, including for computer programs, data bases sound recordings and films; trademarks and service marks; geographical indications (Members must prevent the use of any indication which misleads consumers as to the origin of goods); industrial designs; patents; layout designs of integrated circuits; and undisclosed information. As regards patents, there is a general obligation to comply with the substantive provisions of the Paris Convention (1967). In addition, the Agreement requires that 20-year patent protection be available for all inventions, whether of products or processes, in almost all fields of technology. Inventions may be excluded from patentability if their commercial exploitation is prohibited for reasons of public order or morality; otherwise, the permitted exclusions are for diagnostic, therapeutic and surgical methods, and for plants and (other than microorganisms) animals and essentially biological processes for the production of plants or animals (other than microbiological processes). Plant varieties, however, must be protectable either by patents or by a *sui generis* system (such as the breeder's rights provided in a UPOV Convention). Detailed conditions are laid down for compulsory licensing or governmental use of patents without the authorization of the patent owner.

With respect to the protection of layout designs of integrated circuits, the Agreement requires Members to provide protection on the basis of the Washington Treaty on Intellectual Property in Respect of Integrated Circuits which was opened for signature in May 1989, but with a number of additions. The final section in Part II of the Agreement concerns anti-competitive practices in contractual licences. It provides for consultations between governments where there is reason to believe that licensing practices or conditions pertaining to intellectual property rights constitute an abuse of these rights and have an adverse effect on competition.

Part III of the Agreement sets out the obligations of Member governments to provide procedures and remedies under their domestic law to ensure that intellectual property rights can be effectively enforced, by foreign right holders as well as by their own nationals. Requirements include provisions on evidence of proof, injunctions, damages and other remedies - including the right of judicial authorities to order the disposal or destruction of infringing goods, and to impose imprisonment and fines sufficient to act as a deterrent in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

With respect to the implementation of the Agreement, it envisages a one-year transition period for developed countries to bring their legislation and practices into conformity. Developing countries and countries in the process of transformation from a centrally-planned into a market economy have a five-year transition period, and least-developed countries eleven years.

[13]The fact that non-violation cases will not be subject to dispute settlement procedures for five years is of particular importance for developing countries in this instance.

D. Dispute Settlement

The improvements in existing rules and their extension to areas where they were absent would be worth little if there were not a sufficiently strong dispute settlement system to *enforce* those obligations. For this reason, the GATT dispute settlement system has long been considered a cornerstone of the multilateral trading system. It has provided countries with the opportunity to challenge actions taken by trading partners and obtain rulings from independent panels of experts on the GATT-consistency of such measures. Upon their adoption by the GATT Council, such rulings have represented an authoritative basis on which to seek the removal of a GATT inconsistent measure.

The Uruguay Round Dispute Settlement Understanding (DSU) incorporates major improvements in relation to GATT dispute settlement procedures. The first and perhaps most significant change is the elimination of the need for consensus at the procedural steps leading up to, and including, adoption of panel rulings. Instead, a *negative* consensus approach will apply: a consensus will be needed in order to halt the proceedings from advancing at any stage of the formal dispute settlement procedures. This change will greatly enhance the confidence of all trading nations, large or small, in the multilateral trading system since the potential for procedural blockage will be removed. However, in order to ensure that this automaticity comes with a greater confidence in the results of the dispute settlement system, a new element is the independent review by an appellate body before a panel's recommendations become legally binding. Another change is the introduction of more precise and shorter time-limits for each stage of the procedures. One of the central provisions of the DSU reaffirms that Members shall not unilaterally make determinations of violations or suspend concessions, but shall make use of the multilateral dispute settlement rules and procedures of the DSU.

From the perspective of developing countries, it should be noted that the elements of the 1966 Decision on Dispute Settlement will continue to apply under the WTO dispute settlement procedures.[14] Although this Decision has seldom been used, mainly because developing countries have only recently become more frequent users of the GATT dispute settlement procedures, it contains features of specific interest to developing countries, including automatic access to the "good offices" of the Director-General of the GATT/WTO to mediate and seek to find a satisfactory resolution to the dispute, and shorter time-limits in which panels must complete their deliberations.

Another major change - not in the procedures but in the functioning of dispute settlement within the system as a whole - is the integration of all the dispute settlement procedures established under the individual agreements (goods, services, TRIPS) into a single system operating under a Dispute Settlement Body. This integration of enforcement across the agreements is the mirror image of the integration of rights and obligations implied by the single undertaking of WTO Members. This change will help ensure that issues which arise in the enforcement of obligations in one area (e.g. anti-dumping) are dealt with by the WTO Members at the highest political level.

[14] The 1966 Decision on "Procedures under Article XXIII" (BISD 14S/18).

Box 7 - Main features of dispute settlement under the WTO

Where a dispute is not settled through consultations, the Understanding on Dispute Settlement (DSU) requires the establishment of a panel, at the latest at the meeting of the Dispute Settlement Body (DSB) following that at which a request is made, unless the DSB decides by consensus against establishment. The DSU also sets out specific rules and deadlines for deciding the terms of reference and composition of panels. Where the parties do not agree on the composition of the panel (normally three persons), this can be decided by the Director-General.

A panel will normally complete its work within six months or, in cases of urgency, within three months. Within 60 days of the issuance of the panel's report, it will be adopted, unless the DSB decides by consensus not to adopt the report or one of the parties notifies the DSB of its intention to appeal.

An Appellate Body will be established, composed of seven members, three of whom will serve on any one case. An appeal will be limited to issues of law covered in the panel report and legal interpretations developed by the panel. Appellate proceedings shall not exceed 60 days from the date a party formally notifies its decision to appeal. The resulting report shall be adopted by the DSB and unconditionally accepted by the parties within 30 days following its issuance to Members, unless the DSB decides by consensus against its adoption.

Once the panel report or the Appellate Body report is adopted, the party concerned will have to notify its intentions with respect to implementation of adopted recommendations. If it is impracticable to comply immediately, the party concerned shall be given a reasonable period of time, the latter to be decided either by agreement of the parties and approval by the DSB within 45 days of adoption of the report or through arbitration within 90 days of adoption.

Further provisions set out rules for compensation or the suspension of concessions in the event of non-implementation. Within a specified time-frame, parties can enter into negotiations to agree on mutually acceptable compensation. Where this has not been agreed, a party to the dispute may request authorization of the DSB to suspend concessions or other obligations to the other party concerned. The DSB will grant such authorization within 30 days of the expiry of the agreed time-frame for implementation. Disagreements over the proposed level of suspension may be referred to arbitration. In principle, concessions should be suspended in the same sector as that in issue in the panel case. If this is not practicable or effective, the suspension can be made in a different sector of the same agreement. In turn, if this is not effective or practicable and if the circumstances are serious enough, the suspension of concessions may be made under another agreement.

E. Monitoring of Trade Policies

The Trade Policies Review Mechanism (TPRM) has been given permanent status in the WTO, extending the mandate provisionally granted in 1989 following the Mid-Term Review of the negotiations held in Montreal. The objectives of the TPRM are to contribute to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of Members. The mechanism enables the regular collective appreciation and evaluation of the full range of individual Members' trade policies and practices and their impact on the functioning of the multilateral trading system. It is not, however, intended to serve as a basis for the enforcement of specific obligations under the Agreements or for dispute settlement procedures, or to impose new policy commitments on Members. Reviews take place against the background of wider economic and developmental needs, policies and objectives of individual Members, as well as the external trading environment.

The TPRM provides for a Trade Policies Review Body (TPRB) to examine regularly the trade policies and practices of WTO Members, every two years for the four major traders (the European Union, the United States, Japan and Canada), every four years for the next sixteen leading traders (a group which currently includes nine developing countries), and every six years for the remaining

traders, although longer intervals may be prescribed for least-developed countries. The basis for the examination is a report prepared by the Secretariat and a policy statement by the country under review. The TPRB will also carry out an annual overview of developments in the international trading environment which are having an impact on the multilateral trading system, assisted by an annual report by the Director-General setting out major activities of the WTO and highlighting significant policy issues affecting the trading system.

Since the TPRM has been in place for over five years and has become a well-established feature of the GATT system, it is already possible to draw some conclusions regarding its contribution to a more open and stable trading system. The first is the valuable stimulus of the TPR process to the internal discussion of trade policies in countries under review. Conducting a review, compiling a government report and responding to questions raised by the Secretariat in the preparation of its report, means that the national administration has to carefully examine the overall structure and impact of its own trade policies. For developing countries, this experience has been particularly valuable in assessing - and possibly fine-tuning or providing additional motivation for - domestic reform programs, and enhancing the inter-agency cooperation on the broader range of issues covered by the Uruguay Round (agriculture, services, intellectual property protection, etc.). For trading partners, the TPR process provides an opportunity to examine trade policies and practices in detail, with a view to communicating major areas of concern, and assessing, over time, whether these concerns are being satisfactorily resolved.

Together, these elements of the TPR process have helped countries assess their trade and economic reforms, and may have contributed to some portion of the liberalization that has taken place under the Uruguay Round. In the future, the TPR process will help WTO Members evaluate their implementation of the Agreements, as well as provide an early warning of trends of potential concern to all participants in the trading system.

Table 1
Pre- and post-Uruguay Round scope of bindings for industrial products
(Number of lines, billions of US dollars and percentages)

Country group	Number of lines	Import value	Percentage of tariff lines bound		Percentage of imports under bound rates	
			Pre-	Post-	Pre-	Post-
Total	249,573	1,089.0	43	83	68	87
By major country group:						
Developed economies	86,369	737.2	78	99	94	99
Developing economies	163,204	352.1	21	73	13	61
Transition economies	18,962	34.7	73	98	74	96
By region:						
North America	14,136	325.7	99	100	99	100
Latin America	64,136	40.4	38	100	57	100
Western Europe	57,851	239.9	79	82	98	98
Central Europe	23,565	38.1	63	98	68	97
Africa	21,500	18.5	13	65	26	84
Asia	87,944	461.4	16	68	32	70

Source: GATT Secretariat.

Table 2
Average tariff reductions on industrial products[1]
(Billion US dollars and percentages)

Country group	Imports[2]	Trade-weighted tariff averages[3]		
		Pre UR	Post UR	Reduction
All participants				
Imports from:				
World	1,552.8	9.9	6.5	34
North America	333.5	8.9	5.5	38
Latin America	69.1	9.1	6.1	33
Western Europe	463.1	9.8	6.1	38
Central/East Europe	37.9	7.7	5.7	26
Africa	39.2	3.9	2.7	31
Asia	610.0	11.4	7.8	32
Developed economies				
Imports from:				
World	1,118.4	6.2	3.7	40
North America	262.3	5.1	2.8	45
Latin America	55.7	4.9	3.3	33
Western Europe	362.4	6.4	3.5	45
Central/East Europe	21.3	4.0	2.4	40
Africa	34.1	2.7	2.0	26
Asia	382.6	7.7	4.9	36
Developing economies				
Imports from:				
World	399.5	20.5	14.4	30
North America	70.5	23.2	15.7	32
Latin America	13.0	27.6	18.5	33
Western Europe	78.3	25.8	18.3	29
Central/East Europe	8.3	18.4	15.1	18
Africa	5.0	12.3	8.0	35
Asia	224.4	17.8	12.7	29
Transition economies				
Imports from:				
World	34.8	8.6	6.0	30
North America	0.7	8.6	5.5	36
Latin America	0.4	4.2	2.4	43
Western Europe	22.3	9.0	6.2	31
Central/East Europe	8.2	6.4	4.7	27
Africa	0.2	4.1	2.1	49
Asia	3.0	12.4	8.5	31

[1]Excluding petroleum.
[2]Imports of the 44 IDB participants from all origins (excluding intra-EU trade).
[3]Covers tariff lines whose tariffs were reduced (excludes ceiling bindings).

Source: GATT Secretariat.

Table 3
Tariff reductions of developed countries on industrial products by category
(Billion US dollars and percentages)

Product category	Import value		Tariff averages weighted by:					
	All sources	Developing economies	Imports from all sources			Imports from developing economies		
			Pre-UR	Post UR	% Red.	Pre-UR	Post UR	% Red.
All industrial products[1]	736.9	169.7	6.3	3.8	40	6.8	4.3	37
Fish & fish products	18.5	10.6	6.1	4.5	26	6.6	4.8	27
Wood, pulp, paper & furniture	40.6	11.5	3.5	1.1	69	4.6	1.7	63
Textiles and clothing	66.4	33.2	15.5	12.1	22	14.6	11.3	23
Leather, rubber, footwear	31.7	12.2	8.9	7.3	18	8.1	6.6	19
Metals	69.4	24.4	3.7	1.4	62	2.7	0.9	67
Chemicals & photographic supplies	61.0	8.2	6.7	3.7	45	7.2	3.8	47
Transport equipment	96.3	7.6	7.5	5.8	23	3.8	3.1	18
Non-electric machinery	118.1	9.8	4.8	1.9	60	4.7	1.6	66
Electric machinery	86.0	19.2	6.6	3.5	47	6.3	3.3	48
Mineral products & precious stones	73.0	22.2	2.3	1.1	52	2.6	0.8	69
Manufactured articles n.e.s.	76.1	10.9	5.5	2.4	56	6.5	3.1	52
Industrial tropical products	32.8	14.4	4.2	2.0	52	4.2	1.9	55
Natural resource-based products[1]	80.2	33.4	3.2	2.1	34	4.0	2.7	33

[1]Excluding petroleum products.

Source: GATT Secretariat.

Table 4
Changes in tariff escalation on products imported by Canada, European Union, Japan and United States from developing economies
(Absolute reduction on tariffs at each stage of processing)

	Canada	European Union	Japan	United States
Hides, skins and leather				
Raw	0.0	0.0	0.2	0.0
Semi-manufactures	3.4	0.6	4.3	0.9
Finished products	7.5	2.3	1.5	0.9
Total	6.0	1.0	1.7	0.8
Rubber				
Raw	0.0	0.0	0.0	0.0
Semi-manufactures	3.8	2.3	4.8	2.0
Finished products	4.8	2.2	3.2	1.4
Total	2.5	0.5	0.5	0.5
Wood				
Wood in the rough	0.2	0.0	0.0	0.1
Wood based panels	2.7	3.2	9.4	0.6
Semi-manufactures	0.6	0.5	2.0	1.2
Wood articles	4.7	5.4	2.2	2.5
Total	2.3	1.7	2.1	1.3
Paper				
Pulp and waste	0.0	0.0	2.2	0.0
Paper and paperboard	6.5	7.9	5.2	1.2
Printed matter	7.4	1.1	0.3	0.5
Paper articles	10.3	10.3	4.2	4.8
Total	7.4	3.5	2.8	2.2
Jute				
Fibres	-	0.0	0.0	0.0
Yarns	6.0	5.3	10.0	3.7
Fabrics	4.9	5.0	10.0	0.0
Total	5.3	4.5	9.1	0.4
Copper				
Unwrought	0.4	0.0	3.1	0.3
Semi-manufactures	1.8	1.2	3.9	0.4
Total	1.7	0.1	3.2	0.3
Nickel				
Unwrought	0.0	0.0	0.6	0.0
Semi-manufactures	4.6	2.0	3.0	0.0
Total	0.1	0.0	0.6	0.0
Aluminium				
Unwrought	0.0	0.3	0.9	0.3
Semi-manufactures	1.2	2.5	2.0	0.0
Total	0.9	0.9	1.0	0.2
Lead				
Unwrought	0.2	0.9	5.4	1.6
Semi-manufactures	-	2.6	2.8	0.0
Total	0.2	0.9	5.3	1.4
Zinc				
Unwrought	7.0	0.9	2.5	0.0
Semi-manufactures	1.6	3.0	2.9	0.8
Total	6.9	1.4	2.5	0.0
Tin				
Unwrought	0.1	0.0	0.1	0.0
Semi-manufactures	0.0	3.2	1.2	1.2
Total	0.1	0.0	0.1	0.0
Tobacco				
Unmanufactured	2.8	4.0	0.0	3.4
Manufactured	9.2	25.6	3.1	4.4
Total	7.5	5.7	0.2	3.5

Source: GATT Secretariat.

Table 5
Pre- and post-Uruguay Round scope of bindings for agricultural products
(Number of lines, billions of US dollars and percentages)

Country group or region	Number of lines	Import value	Percentage of tariff lines bound		Percentage of imports under bound rates	
			Pre-UR	Post-UR	Pre-UR	Post-UR
By major country group:						
Developed economies	14,976	84.2	58	100	81	100
Developing economies	23,615	30.4	18	100	25	100
Transition economies	2,841	4.8	51	100	54	100
By selected region:						
North America	2,297	19.6	92	100	96	100
Latin America	8,867	5.6	36	100	74	100
Western Europe	11,345	38.4	45	100	87	100
Central Europe	3,502	5.7	45	100	50	100
Asia	12,660	49.1	17	100	40	100

Source: GATT Secretariat.

Table 6
Developed economy imports and tariff reductions on agricultural products
(Millions of US dollars and percentages)

Product categories	Value of imports		Percentage reduction in tariffs
	All sources	Developing economies	
All agricultural products	84,240	38,030	37
Coffee, tea, cocoa, mate	9,136	8,116	35
Fruits and vegetables	14,575	8,887	36
Oilseeds, fats and oils	12,584	6,833	40
Other agricultural products	15,585	4,233	48
Animals and products	9,596	2,690	32
Beverages and spirits	6,608	2,012	38
Flowers, plants, vegetable materials	1,945	1,187	48
Tobacco	3,086	1,135	36
Spices and cereal preparations	2,767	1,134	35
Sugar	1,730	1,030	30
Grains	5,310	725	39
Dairy products	1,317	48	26
Tropical products	24,022	18,744	43
Tropical beverages	8,655	8,041	46
Tropical nuts and fruits	4,340	3,672	37
Certain oilseeds, oils	3,443	2,546	40
Roots, rice, tobacco	4,591	2,497	40
Spices, flowers and plants	2,992	1,987	52

Source: GATT Secretariat.

Table 7
Export subsidy reduction commitments by country
(Millions of U.S. dollars)

Participant	Export subsidies			Product composition of export subsidies
	Base	Final	Change	
Total	21,334	13,720	-36	
European Union	15,274	8,496	-36	Bovine meat (19%), wheat (17%), coarse grains (13%), butter (13%), other milk products (10%)
Austria	1,235	790	-36	Live animals (45%), wheat (14%), bovine meat (13%), cheese (12%)
United States	929	594	-36	Wheat (61%), skim milk powder (14%)
Poland	774	493	-36	Meat preparations (39%), fruits and vegetables (21%)
Mexico	748	553	-26	Sugar (76%), cereal preparations (21%)
Finland	708	453	-36	Butter (25%), coarse grains (22%), other milk products (13%)
Sweden	572	366	-36	Pigmeat (21%), wheat (21%), coarse grains (17%)
Canada	567	363	-36	Wheat (47%), coarse grains (18%)
Switzerland	487	312	-36	Other dairy products (65%)
Colombia	371	287	-23	Rice (32%), cotton (20%), fruits and vegetables (23%)
South Africa	319	204	-36	Fruits and vegetables (24%), cereal preparations (14%), wheat (13%), sugar (10%)
Hungary	312	200	-36	Poultry meat (30%), pigmeat (26%), wheat (11%), fruits and vegetables (19%)
Czech Rep.	164	105	-36	Other milk products (38%), fruits and vegetables (10%)
Turkey	157	98	-37	Fruits and vegetables (36%), wheat (23%)
New Zealand	133	0	-100	Not available
Norway	112	72	-36	Cheese (54%), pigmeat (19%), butter (12%)
Australia	107	69	-36	Other milk products (32%), skim milk powder (27%), cheese (25%), butter (16%)
Brazil	96	73	-24	Sugar (56%), fruits and vegetables (30%)
Slovak Rep.	76	49	-36	Other dairy products (19%), cereal preparations (13%), bovine meat (13%)
Romania	59	45	-24	Cereal preparations (22%), sugar (19%), bovine meat (18%), fruits and vegetables (11%)
Israel	56	43	-24	Fruits and vegetables (59%), plants (22%), cotton (17%)
Indonesia	28	22	-24	Rice (100%)
Iceland	25	16	-36	Sheepmeat (78%), other dairy products (22%)
Cyprus	19	14	-24	Fruits and vegetables (67%), alcohol (16%)
Uruguay	2	1	-23	Rice (83%), butter (12%)

Notes: 1. Commitments converted to U.S. dollars using 1990-91 average exchange rates. Reduction commitments apply to individual product categories as defined in this table.

2. Countries having submitted schedules which do not maintain export subsidies include: Algeria, Antigua and Barbuda, Argentina, Bahrain, Barbados, Belize, Bolivia, Brunei Darussalam, Cameroon, Chile, Congo, Costa Rica, Côte d'Ivoire, Cuba, Dominica, Dominican Rep., Egypt, El Salvador, Fiji, Gabon, Grenada, Gambia, Ghana, Guatemala, Guyana, Honduras, Hong Kong, India, Jamaica, Japan, Kenya, Korea, Kuwait, Macau, Malaysia, Malta, Mauritius, Morocco, Namibia, Nicaragua, Nigeria, Pakistan, Paraguay, Peru, Philippines, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Senegal, Singapore, Sri Lanka, Suriname, Swaziland, Thailand, Trinidad and Tobago, Tunisia, Zambia and Zimbabwe. Least-developed countries are exempt from export subsidy reduction commitments.

Source: GATT Secretariat.

Table 8
Reductions in domestic support to agricultural producers
(Millions of U.S. dollars)

Participant	Base	Final	Change
Total	197,721	162,497	-18
European Union	92,390	76,903	-17
Japan	35,472	28,378	-20
United States	23,879	19,103	-20
Mexico	9,669	8,387	-13
Canada	4,650	3,720	-20
Finland	4,186	3,349	-20
Poland	4,160	3,329	-20
Korea	4,086	3,543	-13
Switzerland	3,769	3,016	-20
Sweden	3,429	2,743	-20
Austria	2,534	2,027	-20
Norway	2,247	1,797	-20
Venezuela	1,305	1,131	-13
Brazil	1,053	912	-13
Thailand	866	745	-13
Czech Rep.	717	574	-20
Israel	654	569	-13
New Zealand	210	268	-20
Hungary	613	490	-20
Australia	460	368	-20
Slovak Rep.	435	348	-20
Colombia	398	345	-13
Iceland	222	177	-20
Cyprus	127	110	-13
Morocco	93	81	-13
Tunisia	76	66	-13
Costa Rica	18	16	-13
South Africa	3	2	-20

Source: GATT Secretariat.

Table 9
Commitments on service activities of developed, developing and transition economies, and by region
(Number of bindings on service activities and percentages)

Country group	Number of commitments	Percentage of maximum
By major country group:		
Developed economies	2470	61.4
Developing economies	1806	14.6
Transition economies	306	47.5
By region:		
North America	193	59.9
Latin America	738	15.3
Western Europe	2002	59.2
Central Europe	351	43.6
Africa	396	9.8
Middle East	106	16.5
Asia	796	26.0

Source: GATT Secretariat.

Table 10
Commitments on service activities by sub-sector
(Number of countries)

	DC	LDC	Transition	Total		DC	LDC	Transition	Total
1. Business					**6. Environment**				
A. Professional	22	13	3	39	A. Sewage	23	6	2	31
B. Computer	24	21	5	49	B. Refuse disposal	24	6	3	33
C. R&D	10	11	2	22	C. Sanitation	23	5	3	31
D. Real estate	23	3	0	25	D. Other	23	5	2	30
E. Rental/leasing	19	6	2	27	**7. Financial**				
F. Other	20	8	2	31	A. Insurance	25	37	5	67
2. Communication					B. Banking	23	21	3	48
A. Postal	0	3	0	3	C. Other	12	10	0	22
B. Courier	4	15	3	22	**8. Health**				
C. Telecom	11	12	3	26	A. Hospital	15	15	2	32
- Basic	1	8	0	9	B. Other human health	2	4	1	7
- Value-added	19	15	5	38	C. Social	13	1	1	15
D. Audio-visual	2	4	0	6	**9. Tourism and travel**				
E. Other	6	0	6	12	A. Hotels and restaurants	25	68	5	98
3. Construction					B. Travel agencies, tour operators	25	52	5	82
A. Buildings	24	21	4	49	C. Tourist guide	24	23	3	50
B. Civil engineering	24	20	4	48	D. Other	1	12	0	13
C. Installation and assembly	23	18	4	45	**10. Recreational, cultural, sporting**				
D. Completion and finishing	23	12	4	31	A. Entertainment	17	16	1	34
E. Other	20	13	3	36	B. News agency	22	1	0	23
4. Distribution					C. Libraries, archives, museums	5	4	0	9
A. Commision agents'	23	3	1	27	D. Sporting	20	15	1	36
B. Wholesale trade	25	7	5	37	E. Other	2	2	0	4
C. Retailing	25	8	5	38	**11. Transport**				
D. Franchising	23	5	3	31	A. Maritime transport	4	10	0	14
E. Other	14	0	0	14	B. Internal waterways	3	1	2	7
5. Education					C. Air	13	9	3	25
A. Primary	18	4	4	26	D. Space	2	0	0	2
B. Secondary	19	6	3	28	E. Rail	6	4	1	11
C. Higher	18	3	4	25	F. Road	17	6	1	24
D. Adult	18	1	4	23	G. Pipeline	2	1	1	4
E. Other	3	4	2	9	H. Auxiliary services	16	10	0	27
					I. Other	14	6	0	20

Note: Where sub-sectors are further disaggregated, figures refer to the average number of countries having made a commitment.

Source: GATT Secretariat.

DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 458-2980
Fax: (202) 522-1618

October 3, 1994

COMMUNIQUE

1. The 49th meeting of the Development Committee was held in Madrid, Spain on October 3, 1994 under the chairmanship of Mr. Mourad Cherif, Minister of Finance and Investments of Morocco. 1/ On its own 20th Anniversary, the Committee joined in congratulations to the World Bank and IMF on the 50th Anniversary of the Bretton Woods agreement, and welcomed the World Bank's publication "Learning from the Past - Embracing the Future".

TRANSFER OF RESOURCES

2. The Committee's main task is to keep under review the transfer of resources to developing and transition countries. It therefore welcomes the continued high level of total flows to these countries. It notes the slow rate of growth in official development assistance, and calls on donor countries to enhance their aid as soon as possible and to increase its focus on the poorest countries. Where appropriate, the Committee favors a reduction in the stock of debt and an increase in concessionality for the poorest countries facing special difficulties. The Committee recognizes the special needs and problems of countries emerging from economic and political disruption and also of the poorest, most indebted countries, and requests the Executive Boards to examine proposals in these areas.

3. The Committee welcomes the increased volume of private flows in recent years, to a growing number of countries which are implementing economic reforms. It notes uncertainties about the sustainability of such flows in changing world conditions, and the fact that they continue to be concentrated in a small number of countries. It urges countries not currently receiving such flows to improve their creditworthiness through macro-economic reform, and to create a climate favorable to sound private sector development; these measures will attract more foreign portfolio and direct investment. The Committee asks the World Bank Group, the IMF and industrial countries to continue their efforts to facilitate and encourage private flows to all developing and transition countries.

1/ Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Willy W. Zapata, President of the Banco de Guatemala and Chairman of the Group of 24, Mr. Peter Sutherland, Director-General of the GATT, Mr. James H. Michel, Chairman of the DAC, and Mr. Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

AID EFFECTIVENESS

4. Effective aid requires closer collaboration between receiving countries, international organizations and donors. For aid to be most effective, it has to be adequate, and to operate in a favorable environment. Prime responsibility for domestic policies which contribute to aid effectiveness rests, of course, with the recipient countries themselves. The guiding principles for recipients are:

a. Appropriate domestic economic policies tailored to local conditions are essential if aid is to be effective;

b. The effective use of aid requires strong administrative and institutional capacity.

c. "Ownership" by the government and participation by other stakeholders, including beneficiaries, are essential;

5. The guiding principles for donors and international agencies are these:

a. The best conditions and policies for aid cannot substitute for strong "ownership", by the recipient government and good governance. Donors and recipients must collaborate to make this the basis for effective aid.

b. Donors should support participation by relevant stakeholders (especially women, the poor and other disadvantaged groups); this helps to improve the design of projects and ensure that they are properly implemented and operated. The Bank should strengthen its skill mix and incentive system for these purposes.

c. Technical assistance (TA) is likely to be most effective when it responds to clearly-defined needs and absorptive capacity of the recipient. TA should work within, and if necessary seek to strengthen, the institutional environment along the lines approved by the OECD Development Assistance Committee (DAC).

d. Multilateral agencies, including the IMF, the World Bank Group and the regional development banks, work closely to support countries' own efforts to put in place a sound framework for macro-economic and structural policies which foster the private sector and strengthen public sector management. Aid programs should be consistent with this framework, and with the country's own development priorities. Innovative approaches to achieve this objective are to be encouraged. The World Bank will strengthen its consultations with other donors who in turn will collaborate in this approach.

e. Efforts to coordinate and simplify donor aid procedures and practices should be accelerated. Aid operations should be made more transparent to improve accountability. Donors should avoid setting up mechanisms which are inconsistent with the recipients' own efforts to manage their own budgets and implement aid. Ministers support recent efforts in the DAC to reduce the use of tied aid credits. They also urge donors to minimize the additional costs associated with trade-distorting tying of aid, where this can be done without reducing volume.

f. The DAC Principles provide an appropriate framework for improving aid coordination. Consultative Groups and Roundtable Meetings are more effective when preceded by active involvement of the recipient government, and consultation with other donors. The agenda for Consultative Groups should cover issues of development strategy, aid utilization, aid coordination and technical assistance, in addition to mobilization of financial resources.

g. Recent efforts to improve the effectiveness of the World Bank and other development agencies, focussing on their development impact and on results in the field, need to be sustained and extended. Particular attention should be given to: shifting the focus from projects to country programs; improving the "quality at entry" of projects; strengthening evaluation and disclosure policies; streamlining procedures; addressing urgently the adequacy of field office networks; and changing staff incentives to focus on development impact.

h. Aid can also help to stimulate private investment; institutions like the IFC and MIGA can play a valuable role, but must pay due attention to development effectiveness.

i. Many of these principles apply with equal force to the countries in transition. However, more attention needs to be given in these countries, in differing degrees, to informing both policy makers and public opinion at large of the workings of a market economy and the complementary roles of the public and private sectors.

6. The Committee will follow up these issues carefully at future meetings and particularly looks forward to the report of its Task Force on the Multilateral Development Banks.

THE URUGUAY ROUND AND THE DEVELOPING AND TRANSITION COUNTRIES

7. The Committee reviewed the results of the recently-completed Uruguay Round negotiations and their impact on the developing and transition countries. At this stage, it was only possible to make a preliminary assessment of the likely effects. They also considered the implications for the future work of the World Bank and the IMF. The Committee believes that:

a. In addition to its global effects, the successful conclusion of the Uruguay Round will bring significant benefits to developing countries over time, through increased market access, the integration of new areas into the system, and through strengthened rules and institutions. Early ratification and implementation are therefore essential.

b. These benefits will accrue particularly to those countries which pursue sound macroeconomic policies and adopt market-based reforms.

c. A number of developing countries should benefit in particular from the phased integration of textiles and clothing into the multilateral system, although the timetable for liberalization will delay these benefits.

d. Some countries may need help to adjust to higher world food prices and the erosion of preferences, although most of them will gain from the reduction of agricultural subsidies. Initial studies made by the Bank and the Fund indicate that the negative effects are likely to be fairly small, and existing instruments seem adequate to deal with them. Further research may refine these findings. Meanwhile, the Bank and the Fund must be ready to address these problems.

e. In the longer run, it is important to keep up the momentum of mutually-advantageous trade liberalization and avoid new forms of protectionism.

f. The task of the Bank and the Fund is to assist developing and transition countries to ease the change to the new trading system, by providing policy advice, financial support and technical assistance in order to maximize the gains from new market opportunities.

g. It will also be necessary to bring the transition countries (many of whom are not yet members of GATT) into the multilateral process as quickly as possible, so that they can fully share the benefits of trade liberalization and enlarged market access, without discrimination. The Bank and the Fund should encourage and assist these countries in their efforts to become more fully integrated into the multilateral trading system and to adopt policies that will facilitate their accession to the WTO.

8. The Committee believes it is essential for both institutions to collaborate closely with the new World Trade Organisation and notes that the ministerial Declaration at the end of the Uruguay Round calls for early talks between the Director-General of the WTO and the heads of the Bank and Fund.

POPULATION

9. Ministers from the participating countries welcomed the outcome of the recent United Nations Conference on Population and Development which it discussed at its last meeting. The Committee called on the World Bank and conference participants to play an active part in implementing the Programme of Action approved by the Conference.

DESERTIFICATION

10. It also welcomed last month's agreement on the anti-desertification convention, called for its early ratification, and encouraged the World Bank to continue its active support for development and environmental management in dryland areas.

NEXT MEETING

11. The Committee agreed to meet again in Washington, DC on April 27, 1995, when the principal topic for discussion will be the financing of infrastructure in developing countries.

DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

DC/94-14

September 6, 1994

NOTICE OF MEETING

The 49th meeting of the Development Committee will be held on Monday, October 3, 1994, commencing at 9.00 a.m., in the Palacio Municipal de Congresos, Campo de las Naciones, Madrid, Spain.

PROVISIONAL AGENDA 1/

Morning Session

1. Aid Effectiveness 2/

Afternoon Session

2. The Impact of the Uruguay Round on the Developing and Transition Economies 3/

3. Other Business

1/ In addition to the issues papers shown below, there will be a report by the President of the World Bank to the Development Committee and a statement by the Managing Director of the IMF on the World Economic Situation and Economic Trends in Developing Countries.
2/ Issues paper, prepared by the World Bank in consultation with the IMF, as requested in para.19 of the April 1994 Communique. See also DC/94-19 "Improving Aid Effectiveness" by the Chairman of the Development Assistance Committee of the OECD.
3/ Joint issues paper prepared by the Bank and the Fund, as requested in paras. 13 and 19 of the April 1994 Communique. See also DC/94-20 by the Director-General of the GATT.

* * *

MEMBERS OF THE DEVELOPMENT COMMITTEE

List of Countries Represented by them and their Executive Directors
at the World Bank and the International Monetary Fund

(As of October 3, 1994)

Members	Executive Directors	Countries	Group No.
Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia Alternate Member* Hamad Al-Sayari Governor Saudi Arabian Monetary Agency Saudi Arabia	Muhammad Al-Jasser (Fund) Ibrahim A. Al-Assaf (Bank)	Saudi Arabia	1
Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	A. Shakour Shaalan (Fund) Faisal Abdulrazak Al-Khaled (Bank)	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Socialist People's Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen	2
Edmond Alphandéry Minister of Economy France	Marc-Antoine Autheman (Fund and Bank)	France	3
Llyod M. Bentsen Secretary of the Treasury United States	Karin Lissakers (Fund) Jan Piercy (Bank)	United States	4
Franz Blankart State Secretary for External Economic Affairs Federal Department of Economy Switzerland	Daniel Kaeser (Fund) Jean-Daniel Gerber (Bank)	Azerbaijan, Kyrgyz Republic Poland, Switzerland Turkmenistan, Uzbekistan (Tajikistan)	5
Mourad Cherif (Chairman) Minister of Finance and Investments Morocco Alternate for the Chairman Omar Kabbaj Minister-Delegate to the Prime Minister, in charge of Economy Morocco	Abbas Mirakhor (Fund) Mohamed Benhocine (Bank)	Islamic State of Afghanistan Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia	6

Members	Executive Directors	Countries	Group No.
Kenneth Clarke Chancellor of the Exchequer United Kindgom	Huw Evans (Fund and Bank)	United Kindgom	7
Paul Nielson Minister for Development Cooperation Ministry of Foreign Affairs Denmark	Jarle Bergo (Fund) Ruth Jacoby (Bank)	Denmark, Estonia, Finland Iceland, Latvia, Lithuania, Norway, Sweden	8
Lamberto Dini Minister of the Treasury Italy	Giulio Lanciotti (Fund) Enzo R. Grilli (Bank)	Albania, Greece, Italy, Malta Portugal, San Marino	9
Liu Zhongli Minister of Finance China	Zhang Ming (Fund) Wang Liansheng (Bank)	China	10
Paul Martin Minister of Finance Canada Alternate Member Douglas Peters Secretary of State International Financial Institutions Canada	Douglas E. Smee (Fund) Robert R. de Cotret (Bank)	Antigua and Barbuda, The Bahamas Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	11
Philippe Maystadt Minister of Finance Belgium	Willy Kiekens (Fund) Walter Rill (Bank)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Turkey (Slovenia)	12
Festus G. Mogae Vice-President and Minister of Finance and Development Planning Botswana Alternate Member Abd Alla Hassan Ahmed Minister of Finance Sudan	L.J. Mwananshiku (Fund) O.K. Matambo (Bank)	Angola, Botswana, Burundi Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	13

Members	Executive Directors	Countries	Group No.
Mar'ie Muhammad Minister of Finance Indonesia Alternate Member Saleh Afiff Coordinating Minister of Economy, Finance and Development Supervision Indonesia	J. E. Ismael (Fund) Aris Othman (Bank)	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam, (Cambodia)	14
N'Goran Niamien Minister Delegate to the Prime Minister in charge of Economy, Finance, Commerce and Planning Côte d'Ivoire	Corentinos V. Santos (Fund) Jean-Pierre Le Bouder (Bank)	Benin, Burkino Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Republic of Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tomé and Principe, Senegal, Togo	15
Crispiniano Sandoval Minister of Finance Paraguay	A. Guillermo Zoccali (Fund) Nicolas Flano (Bank)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	16
Aleksandr N. Shokhin Deputy Prime Minister Russian Federation	Konstantin G. Kagalovsky (Fund) Andrei Bugrov (Bank)	Russian Federation	17
Manmohan Singh Minister of Finance India	K.P. Geethakrishnan (Fund) Bimal Jalan (Bank)	Bangladesh, Bhutan, India, Sri Lanka	18
Julio Sosa Rodriguez Minister of Finance Venezuela Alternate Member Werner Corrales Leal Minister of State and Head Officina Central de Coordinacion y Planificacion Venezuela	Roberto Marino (Fund) Angel Torres (Bank)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	19
Carl-Dieter Spranger Federal Minister for Economic Cooperation and Development Germany	Stefan Schoenberg (Fund) Fritz Fischer (Bank)	Germany	20

Members	Executive Directors	Countries	Group No.
Masayoshi Takemura Minister of Finance Japan	Hachiro Mesaki (Fund) Yasuyuki Kawahara (Bank)	Japan	21
Ralph Willis Treasurer Australia	Ewen L. Waterman (Fund) John H. Cosgrove (Bank)	Australia, Kiribati, Korea, Marshall Islands, Mongolia, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, Western Samoa, (Federated States of Micronesia)	22
Gerrit Zalm Minister of Finance Netherlands Alternate Member J. P. Pronk Minister for Development Cooperation Ministry of Foreign Affairs Netherlands	Godert A. Posthumus (Fund) Eveline Herfkens (Bank)	Armenia, Bulgaria, Cyprus, Georgia, Israel, Moldova, Netherlands, Romania, Ukraine	23
Hector Manuel Valdez Albizu Governor Banco Central de la Republica Dominicana Dominican Republic	Alexandre Kafka (Fund) Marcos Caramuru de Paiva (Bank)	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago	24

* Alternate Members are those who attended the 49th Meeting of the Committee for their Members.

APPENDIX C: OBSERVERS OF THE DEVELOPMENT COMMITTEE

(for the 49th Meeting)

African Development Bank	(AfDB)
Associate: Arab Bank for Economic Development in Africa	(BADEA)
Arab Fund for Economic and Social Development	(AFESD)
Arab Monetary Fund	(AMF)
Asian Development Bank	(AsDB)
Commission of the European Communities	(CEC)
Commonwealth Secretariat	(COMSEC)
Associate: European Investment Bank	(EIB)
General Agreement of Tariffs and Trade	(GATT)
The Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council)	(GCC)
Inter-American Development Bank	(IDB)
International Fund for Agricultural Development	(IFAD)
Islamic Development Bank	(IsDB)
Organization for Economic Co-operation and Development	(OECD)
Associate: Development Assistance Committee	(DAC)
OPEC Fund for International Development	(OPEC FUND)
United Nations	(UN)
Associates: United Nations Conference on Trade and Development	(UNCTAD)
United Nations Development Programme	(UNDP)

Development Committee
(Joint Ministerial Committee of the Boards of Governors
of the World Bank and the International Monetary Fund
on the Transfer of Real Resources to Developing Countries)

1818 H Street, N.W., Washington, D.C. 20433 U.S.A.
Telephone: (202) 458-2980
Fax: (202) 477-1906
Telex: MCI 64145 WORLDBANK
MCI 248423 WORLDBANK
Cable Address: INTBAFRAD WASHINGTONDC

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