DEVELOPMENT COMMITTEE

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Development Issues

Presentations to the 48th Meeting of the Development Committee

Washington, D.C.—April 26, 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
(Development Committee)
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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 48th meeting in Washington, D.C. on April 26, 1994. There were three items on their agenda: "Population and Migration"; "Trade after the Uruguay Round"; and "Commodities". The Committee based its discussion on the joint issues paper and other papers and reports prepared by the World Bank and the IMF as well as several supplementary papers provided by member governments, international organizations and independent experts.

The first item gave Ministers an opportunity, without prejudging the outcome of the forthcoming UN Conference on Population and Development to be held in Cairo in September, 1994, to review some of the key population issues and particularly their financial implications. Ministers identified three priorities--family planning, better education (especially for girls) and basic health care (in particular, maternal and child care) which will be further discussed at the UN Cairo Conference. They agreed that these sectors need more funding, from a combination of charges to consumers, government resources, bilateral donors, and multilateral organizations, and that help must be provided particularly for the poorest countries.

On the second item, Ministers agreed that the conclusion of the Uruguay Round opens up new prospects for many developing countries, although a few may need special help to get them through the transition period.

On the third item, Ministers recognized that commodity prices are not likely to return to the levels of the 1970s and 1980s. Consequently, their main conclusion is that developing countries need to be realistic about this, and not to postpone adjustment in the hope of recovery.

Ministers also took note of the progress made on several other issues, such as the impact on developing countries of recent trends in the world economy, resource transfers; the Global Environment Facility; the Special Action Program for Africa; debt strategy; responding to challenges in Central and Eastern Europe; the former Soviet Union; South Africa; CFA Zone Countries; Occupied Territories; and Vietnam.

The Committee has established a new Task Force to study the contribution of multilateral development banks to the development process.

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

Peter Mountfield
Executive Secretary
May, 1994

PAPER BY THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE, RUDOLF HOMMES, MINISTER OF FINANCE AND PUBLIC CREDIT, COLOMBIA

Economic climate

The most important change since our last meeting is certainly the breakthrough in the Uruguay Round discussions. By the time we meet on April 26, the Marrakesh conference will have embodied the results in a new trade agreement. For many developing countries, this is the best economic news for many years.

There are also increasing signs of an end to the recession in the industrial countries, which is beginning to have an effect on the market for our exports. This is reinforced by the current low level of inflation and interest rates in industrial countries. The dynamic effects of the trade agreement will tend to reinforce these positive factors.

The third piece of good news is the continuing high level of net resource transfers into developing countries. As Mr. Preston's report makes clear, these reached an all-time high in 1993, with half of the increase over 1992 coming from official sources.

On the down side, we must recognize that there is great concern about the likely volatility of private flows. The benefits of additional flows have been very uneven; the poorest developing countries, many of them in Africa, are not receiving the full benefit, and in addition are suffering from the continued low levels of most commodity prices.

Their problems are compounded by the continuing low level of bilateral aid. In many donor countries, this is now falling. It is more important than ever to concentrate it on projects with the greatest developmental payoff. The population programs we are considering this month are among the highest such priorities.

Population and Migration

This is the main theme for our meeting. It gives Finance Ministers an opportunity to discuss the topic, before the United Nations Conference on Population and Development, to be held in Cairo in September this year. The Secretary-General of that Conference, Dr. Nafis Sadik of the UN Fund for Population Affairs, has circulated an admirable paper describing the issues confronting the conference, to which so many of our heads of government will go.

This is a legitimate topic for our Committee to consider. There are differing views about the impact of rapid population growth on the development process. But I suspect most Finance Ministers would agree that continued unchecked growth is likely to create intolerable pressure on natural resources. It will add to environmental degradation, to water shortages, and increase pressure on food production. This will make it harder to tackle world poverty, which it is the Bank's mission to reduce. At our last meeting, we saw how the modest growth rates achieved in many poor countries have led to falls in per capita income precisely because these same countries tend to have the fastest growing populations. For most of us, population pressures will also create budgetary problems as we struggle to find money for social programs without inhibiting essential investment. It is worth spending a little more on population programs and other human resource development, to avert much worse problems in future.

There is clear evidence that what demographers call "unmet need" calls for public intervention, to provide family planning services and related care which many, especially among the poor, cannot yet afford, but which benefit the entire community. In many cases, non-governmental services and foreign donors help to spread the costs. But our own governments cannot escape responsibility both for organizing provision, and for ensuring the required resources. The Bank and UNFPA have estimated that this will require by the year 2000 a doubling (to $10 billion) of the present very modest levels of total resources devoted to family planning. In addition, UNFPA recommend expenditure of some $3 billion for other directly-related services. Developing countries currently finance about two-thirds of such total expenditure themselves. The country paper provided by the Government of Indonesia describes one of the real success stories of recent years, and deserves to be closely studied for the lessons it contains for other developing countries.

We must also place these services in a broader context. The supply of family planning and similar services is not enough. They must be related to total health care, especially for women and children. At a minimum, we should aim to provide the basic health care package recommended in last year's World Development Report.

To increase the demand for family planning services, we must also ensure increased provision for primary education, and make sure that girls have equal access with boys. This ensures that they have the necessary information about modern family planning methods. It also improves their chances of employment and defers the time of marriage and childbearing. These needs must be considered in setting our domestic priorities.

The Committee may not think it appropriate to set general targets for expenditure in the social sector as a whole. Circumstances vary greatly from one country to another. But we must be prepared to readjust our priorities, cutting out less-productive expenditure like defense and wasteful kinds of subsidy, in order to devote more to family planning, education, and health. I know we shall have the support of the IMF in such an approach to budget-setting, within the context of the broader adjustment process and the needed fiscal restraint.

But the poorer countries will continue to look to bilateral donors for help in funding these programs, and especially for family planning. I am sure that there is room for other donors to follow the recent example of the United States administration, in putting population programs near the top of their aid priorities. It certainly seems appropriate for donors to allocate more than the present average of 1.25-1.3% of aid budgets to such programs, if total spending on family planning is to double over the next decade.

Among the different multilateral programs, we must commend the work of the World Bank in this area, admirably described in the staff paper before us. The Bank currently devotes about $200 million a year of IBRD and IDA lending to direct population programs. Over the next three years, its normal planning horizon, the Bank is ready to increase this level by 50 per cent if countries put forward sufficient good projects which merit support. The Bank also allocates much larger sums to related health and education programs; altogether its social sector lending is about 15% of the total. We should consider whether this is enough, or whether we should encourage the Bank to increase this proportion towards the 20% level suggested by UNFPA; and within this, to be prepared to double its lending for direct population programs within a decade.

Finally we should consider the related question of international migration, on which I have commissioned a supplementary paper from an independent consultant. He points out that in the context of total population growth, migration plays a relatively small part, though it can greatly add to social problems in receiving countries, and relieve them in population-exporting countries. His paper raises a number of important issues. I should like the Committee in particular to consider one of them: the need for improved international collaboration in this area, starting with the essential research on which to found our policies. Although the World Bank and the IMF are not the lead organizations in this area, the Bank has already started a new research program in this area. Our Committee might wish to send a clear signal to the rest of the international community about the need for greater collaboration.

Trade after the Uruguay Round

At the beginning of this paper, I described the successful conclusion of the Uruguay Round as good news for developing countries. The initial appraisals made by the Bank and the Fund (in Global Economic Prospects, and in World Economic Outlook) tend to confirm this instinctive reaction. The agreement will help the world trading system to work better and more predictably. But more work is needed before a complete analysis can be made available. There are certainly groups of countries for whom the results are less important and even some who will be adversely affected. Luckily, in most cases the adverse effects are small or will only become felt slowly. But both Bank and Fund are, I know, carefully watching the consequences.

The Committee also agreed, at its April 1992 meeting, that at some stage it would wish to consider the implications of the Round for the work of the Bank and the Fund. In particular this involves the help which the two institutions can give to developing countries to exploit their new opportunities. It may also extend to transitional help for the adversely affected countries. It should also cover the relations between the Bretton Woods institutions and the new World Trade Organisation. Ministers may wish to consider these topics at their next meeting.

Commodities

One aspect of international trade has been the problem of primary commodities. There is a long history of international discussion on these problems. The papers before us this month bring together much of the recent thinking on this topic. One of them is a paper prepared by the Fund, in consultation with the Bank, and reflecting the conclusions of the Fund Board. The other is a regular Bank publication (Global Economic Prospects) which will appear shortly before our meeting.

The two papers have followed different approaches. This should not distract the Committee from the analysis and policy conclusions, which are common to both papers. The Fund paper is a retrospective analysis of trends in aggregate commodity prices. It contains only a short-term forecast, consistent with the Fund's World Economic Outlook. It suggests a modest recovery in non-oil commodity prices in the next two years. It does not contain a longer-term forecast and in practice in an individual country context, for example, in the context of the policy framework papers, the Fund and the Bank use common individual commodity prices; the

underlying message is that prices are likely to remain low. The Bank's paper makes a longer-term projection, which is heavily qualified by reservations about the uncertainties and downside risks. It differs slightly from the Fund's implicit projections, because of somewhat different weights used in constructing the basket of commodities used in the index. The Bank paper suggests that the prices of certain commodities, notably beverages and metals, are likely to recover from historically low levels, leading to a small increase in the price index of commodities exported by developing countries over the rest of the decade. Both papers agree that price volatility remains high compared with the level of the 1960s; the problem does not seem to have worsened in recent years.

If all this is true, several conclusions follow. Producer governments can no longer swim against the tide. They should no longer count on being able to maintain international prices artificially, or to sustain domestic producer prices at unsustainable levels. They should not plan their public expenditure on unjustifiable optimism about future tax revenues. Where continued low export earnings call for long-term structural adjustment, they should not postpone the hard and unpopular decisions. In all these areas, I believe governments should err on the side of caution. The Fund paper records that this was also the view of the Fund Board.

I also agree with both the Bank and the Fund that governments can do much to protect themselves and their producers against excessive volatility in export earnings through modern market-based hedging instruments. These instruments have their limitations, but governments themselves can help by removing domestic regulatory constraints on their use. Some governments may need support in accessing these markets and obtaining the necessary initial credit. The Bank and the Fund may be able to do more to help them here. I understand that the Bank is now considering whether existing international resources could help underpin some new kind of instrument. It would be premature to reach a decision on this at our meeting, but the Committee may wish to express views about the need (for example) for a guarantee fund, and the form it might take. Producer governments can also do more to foster more efficient production methods for existing commodities, thereby releasing resources for other parts of the economy, and for diversification away from an unduly narrow export base. The Bank can do much, by direct lending, sector work and technical assistance, to help both activities.

PRESIDENT'S REPORT TO THE DEVELOPMENT COMMITTEE
April 26, 1994

I. Introduction

1. At the last meeting, the Development Committee took stock of progress achieved and lessons learned from the adjustment process in low-income countries. The agenda for this meeting focuses on several important issues confronting the international community—population and migration, the outlook for world trade after the Uruguay Round, and world trade in commodities. The staffs of the World Bank and International Monetary Fund and a number of outside experts have prepared documents for ministerial consideration on all three topics. I would like to call your attention to a few salient points.

2. The paper on population and development addresses key issues on the agenda of the 1994 Cairo International Conference on Population and Development. It focuses on the consequences of rapid population growth in poor countries, explores ways to reduce population growth, and addresses questions of rapid urbanization and aging populations. The paper advocates country-specific population strategies integrated into a broader effort to reduce poverty and promote human resource development. It urges the Bank to work with borrowers to mobilize financing for the relatively modest investments needed to achieve these goals; assist borrowers in acquiring the technical and institutional capacities to make these investments effective; coordinate resource mobilization to expand the core package of essential services; strengthen its own capacity to respond to borrowers' needs; and use its analytical capacity to broaden the scope of population policy.

3. The paper on the Uruguay Round estimates that world trade and world income will increase with the implementation of the Uruguay Round Agreement. Preliminary assessments indicate that the gains from the Agreement are likely to be substantial, but unevenly shared among countries. The World Bank is analyzing the implications of the Uruguay Round and the agenda for future trade liberalization and will sponsor a conference in early 1995 to present the results of this work.

4. The study on commodities explores another topic of great importance to developing countries. For many developing countries, commodity exports are the main source of foreign exchange. Fluctuations in commodity prices can have major repercussions on their capacity to import, service external debt, and, ultimately, on their ability to grow. The paper assesses the implications for developing countries of the recent price increase in and medium-term price outlook for commodities.

5. In this Report I also discuss a series of key developments that have taken place since the Committee's last meeting, on September 7, 1993: the ratification of the Tenth Replenishment of the International Development Association (IDA), the negotiations for the replenishment of the Global Environmental Facility (GEF), and the discussions concerning an extension of the Special Program of Assistance for low-income debt-distressed Sub-Saharan countries implementing adjustment programs (SPA). I also bring members up to date on recent Bank initiatives designed to increase the Bank's effectiveness and outline the evolving relations with the nations in the former Soviet Union, South Africa, the CFA Zone countries, the Occupied Territories, and Viet Nam.

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

6. In the first three years of the 1990s, economic performance was uneven across the developing world. Output continued to decline markedly in the transition economies of Eastern Europe and Central Asia, and per capita income continued to fall in Sub-Saharan Africa. In contrast, GDP and export growth accelerated in Asia and Latin America, despite recession and slow output expansion in the major industrial countries. Better domestic policies, coupled with the benefits from low international interest rates and a surge in private capital flows, account for much of the better performance of Asia and Latin America.

7. If interest rates and inflation remain low and private capital flows continue as expected, the international economic environment could improve markedly over the coming decade, as economic recovery spreads from the United States to the rest of the G-7 countries. Growth in world trade is likely to increase with the recent successful conclusion of the Uruguay Round of trade talks and the North American Free trade Agreement, and commodity prices are projected to stabilize after more than a decade of decline.

8. The more favorable outlook notwithstanding, economic growth is likely to remain uneven across the developing world. Countries with stable political and macroeconomic environments and internationally competitive productive sectors are likely to attract the bulk of foreign private capital and to benefit the most from the opportunities created by the Uruguay Round Agreement. Countries dependent on official flows and preferential market access will find external finance scarce in relation to their needs and will experience greater competition in previously sheltered markets. Sound macroeconomic management, and trade and exchange rate regimes that build strong links with the global economy will increasingly be necessary conditions for success. Attracting resources and increasing the share of world trade in a more competitive world will become harder for countries where domestic economic and political stability are not well entrenched, and where integration with world markets for goods and capital is inadequate. Since 1990, burgeoning private capital flows have been directed mainly to some 20, mostly middle-income, countries in Latin America and East Asia, largely bypassing the poorest developing countries.

9. As a result, per capita income in East Asia is projected to continue to grow fast. In South Asia, growth will depend on the spread and depth of economic reforms. In Latin America, growth is likely to accelerate modestly, depending in part on the deepening of reforms and continued private capital flows. In the Middle East and North Africa, low oil prices will continue to be negative factors, and per capita income is likely to grow slowly. In Sub-Saharan Africa, a region of mixed economic performance that faces considerable civil strife, per capita income is also likely to grow slowly, if at all. Eastern Europe and the former Soviet Union have the most uncertain prospects because of the uncertainty surrounding policy developments in the region. The considerable disparities in domestic economic policies imply that growth will be even more uneven within than between regions.

10. Despite the better outlook for the developing countries, the risk of a less favorable international environment remains significant. Failure to raise public savings in industrial economies through credible fiscal consolidation could raise interest rates, lower growth, and accentuate protectionist pressures within major trading blocs. These developments could virtually halt growth in Latin America and Sub-Saharan Africa, the two regions most exposed to external risks. They would also lower GDP growth rates in the Middle East, North Africa, and Europe and Central Asia .

III. Trade After the Uruguay Round

11. Seven years of negotiations on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) concluded successfully on December 15, 1993. The forthcoming Agreement represents a major achievement that will open up new opportunities for developing countries, expand trade, increase global efficiency, and raise incomes. As a result of the Agreement, by the year 2005 trade is expected to be some 10 to 20 percent higher than it would have been without the Agreement. Most of the gains should be in products of interest to developing countries, such as clothing, textiles, agricultural products, and processed food. The annual world income gains from freer market access entailed in *full implementation* of the Agreement are expected to be in the neighborhood of 1 percent per year, or $200 billion to $300 billion (at 1992 prices and exchange rates). About one-third of this gain should accrue to developing countries. The magnitude of the gains, however, would depend critically on the degree of liberalization attained by the beneficiaries themselves. For example, if only the industrial countries liberalized, it is estimated that the gains for developing countries would fall from some $86 billion to only $30 billion.

12. These estimates refer to static gains that would result from redeployment of resources and expected attendant higher efficiency. Though sizable, they are only part of the story. Dynamic gains—from increased competition, economies of scale, greater innovation, and the positive effect of higher productivity growth on investment and savings—are likely to be more important. Such gains are, however, more difficult to quantify. In addition gains are likely to be obtained from more clearly defined rules for trade and investment and stronger institutions for enforcing these rules.

13. All countries will gain from higher growth. In general, among the developing countries the largest gains will accrue to manufactures exporters; the lowest to commodity exporters. The magnitude of the gains for individual countries will depend on (a) each country's ability to compete in the global economy; (b) the soundness of each country's domestic policies, including the extent to which each liberalizes its own trade regime; and (c) the market-access provisions of the Agreement. The countries likely to benefit the most from the Agreement are those that have open and agile economies able to adjust quickly and to take advantage of new market opportunities. The countries that are likely to benefit the least are those whose economies are ill equipped to compete successfully in world markets and that now enjoy preferential access to particular markets.

14. Gains for Asia are likely to be substantial. The rapidly industrializing countries in East Asia are among the most dynamic suppliers in the world and enjoy the fewest trade preferences; they are likely to gain most from lower barriers against their products. They also have the most diversified product structure, and trade accounts for a large share in their economies. Latin America will also gain, but by proportionately less. Latin American food exporters will benefit from reductions in agricultural subsidies, and mineral exporters from reductions in tariffs on metals and minerals. Gains for countries in Eastern Europe and Central Asia will depend in part on the speed with which the European Union opens its markets for imports, particularly agricultural products and steel. Sub-Saharan Africa is likely to benefit the least. While the economies of this region will benefit from trade creation and better terms of trade, they will encounter greater competition in markets where in the past they have had preferential access. Also, many countries in the region are net food importers and reductions in subsidies may raise food prices. The Bank and the Fund are already engaged in research to sharpen these preliminary conclusions. The two institutions will closely monitor developments to determine whether domestic policy changes or adjustment financing may be needed to respond to higher world food prices or preference erosion caused by the Agreement.

15. Because the agreed reforms will be implemented gradually, their effects—both positive and negative—will be fully felt only towards the end of the decade. In order to ensure maximum benefit, it is important, to move to early ratification and implementation of the Agreement and to ensure that any adjustment costs are met without recourse to actions that add to protectionism, even in the short term. I urge Members to spare no efforts in seeking a speedy ratification of the Agreement and to resist calls for protectionism.

IV. Commodities

16. The 1980s were difficult years for commodity exporters. The index of real commodity prices fell by half between 1980 and 1993, and today the real prices of many non-oil commodities are the lowest they have been since 1945: in many cases prices are so low that they do not cover production costs. For 1993, the transfer in purchasing power from the developing to the developed countries due to the fall in non-oil commodity prices between 1980 and 1993 was about $100 billion—more than double the net aid flows to developing countries in 1993. In addition, during the 1980s commodity exporters, like everyone else, faced the burden of high international interest rates and the attendant rising debt service. These factors partially account for the slow growth of incomes in many developing countries, particularly in Latin America and Africa, during the 1980s.

17. The problem of declining commodity prices was compounded by high price volatility. Volatile commodity prices translate into volatile export revenues, volatile fiscal revenues, and volatile foreign exchange reserves. In many cases, unstable export earnings result in unstable incomes and consumption—a particularly acute problem if consumption levels are low, as reduced consumption can threaten health and welfare. Although instability is much more serious for countries that depend on a small number of commodities whose prices may rise and fall simultaneously, it is not unusual for commodity exporters to suffer adverse terms-of-trade effects equal to several percentage points of GNP in a single year. Thus, managing the risks of commodity price fluctuations and stabilizing export earnings is an important policy issue for commodity exporters.

18. Unfortunately, very few commodity-exporting developing countries adapted well to volatility. Positive shocks created an illusion of permanent wealth, leading many countries to live beyond their means and to leverage their expected future income streams with large-scale foreign borrowing. Negative shocks, on the other hand, tended to be perceived as temporary. This erroneous perception typically led countries to borrow abroad in an attempt to maintain living standards. When the level of external borrowing could not be sustained, an even larger effort at adjustment was required. Thus, during the 1980s, many countries that had suffered both negative and positive shocks found themselves indebted beyond their means after the shocks were over. The countries that adjusted most successfully engaged in limited foreign borrowing and quickly reestablished their macroeconomic balance. These countries also sought to improve the competitiveness and flexibility of their economies.

19. The future looks somewhat brighter for commodity-exporting countries: both oil and non-oil commodity prices are expected to rise slightly faster than the prices of manufactured goods over the remainder of the 1990s. Nevertheless, this relative price change will represent only a partial correction of the 1980s drop in real commodity prices. Moreover, whereas real commodity prices are expected to continue to rise moderately during the next ten years, the long term trend of declining prices is likely to resume thereafter and both producers and distributors will remain under pressure to increase the efficiency of their operations and to seek product diversification. Finally, a note of caution: the usual uncertainty surrounding commodity price forecasts is compounded by the turmoil in the former Soviet

Union—the world's largest producer of crude oil and several metals and minerals, and a major importer of food and other commodities.

20. Regardless of how the trend in commodity prices evolves, the problem of volatility is likely to continue. Market-based risk management instruments offer a promising alternative to traditional stabilization schemes. Forward contracts, options, and commodity swaps combined can provide risk protection tailored to the specific circumstances of the country's producers and consumers. Creditworthiness, however, is an important constraint facing some developing countries that want to use futures markets to hedge against price volatility, and the international community needs to explore ways to assist these countries in taking fuller advantage of market-based risk management strategies.

V. Recent Trends in Resource Transfers to Developing Countries

21. According to preliminary estimates, net total resource flows (including official development assistance, other official flows, and private sector flows) to the developing countries from the developed world increased 12 percent in 1993, reaching an all-time high of $169 billion (at 1993 prices and exchange rates). Unlike 1992, when private flows accounted for the bulk of the increase, 1993's incremental flows were almost evenly divided between official and private sources (See Annex Table 1). In this context, I welcome the decision of the Fund's Executive Board to enlarge and extend the Enhanced Structural Adjustment Facility.

22. Private flows increased by about $11 billion, or 11 percent, while official flows increased by about $8 billion, or 15 percent (at 1993 prices and exchange rates). The overall increase in private flows is in large measure a testimony to the successful reforms of a limited number of adjusting countries. The major beneficiaries were countries in East Asia and the Pacific and Latin America. Sub-Saharan Africa and South Asia received smaller shares. Private capital flows were negative in the Middle East and North Africa, and in Europe and Central Asia. While concerns remain about the volatility of private flows and the difficulties such volatility may create for domestic macroeconomic management in recipient countries, to date this has not been a major issue.

23. The increase from official sources was primarily due to a higher volume of official nonconcessional loans, which doubled from $6 billion to $12 billion. Official development assistance (ODA), which accounted for 80 percent of all net official flows, increased by slightly less than $3 billion. The outlook for ODA continues to be unfavorable. The slow growth projected in the industrialized countries, together with efforts to cut their overall budget deficits, indicates that the volume of aid is likely to grow slowly, if at all. As I mentioned in my Report of September 7, 1993, there is one noteworthy exception: Japan plans to increase ODA disbursements in 1993-97 by 50 percent over the level of the previous five-year plan.

24. The implications of the slow growth in aid volumes are troublesome. More countries and additional concerns are claiming a share of a pool of resources that has remained essentially stagnant in real terms. It is important to continue to fully fund reform programs from present aid resources; it is also critical to provide incremental resources with which to meet the needs of new recipients and address environmental concerns. I urge Members to resist efforts to reduce the volume of aid. Concessional assistance has always been of great importance to low-income developing countries. Today, with most of the private resources going to a small group of high-performance countries, aid is essential to attenuate further polarization of growth. At the same time, I would like to underscore the importance of maximizing the developmental effectiveness of aid. The experience of the 1980s shows

that aid is most effective in countries with appropriate macroeconomic policies and active procedures for project selection and implementation. Improving aid effectiveness may be the most effective means of achieving consensus in industrial countries for increasing aid budgets.

IDA-10 Replenishment

25. Against this background, I am pleased to report to the Committee that the IDA-10 replenishment, totaling SDR 13 billion (approximately $18 billion), became effective on December 17, 1993, when the United States formally notified IDA of its contribution. To date, 25 donors, accounting for about 91 percent of the total donor contributions, have formally notified IDA of their contributions.

Global Environment Facility

26. The Global Environmental Facility (GEF) is another concessional mechanism of great importance for protecting the world's environment. Its purpose is to help developing countries meet the incremental costs of undertaking projects designed to protect the global environment. The GEF was set up in 1991 as a pilot program—implemented jointly by the United Nations Development Programme (UNDP), the United Nations Environment Programme (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. As of April 1994, the total GEF portfolio contained 112 projects, of which 53 had received final approval and the rest were under preparation. The number of Participants has grown rapidly—from the initial 24 to 89 in April 1994. Evaluation of the GEF's pilot phase has been completed. I am pleased to inform Members that on March 16, 1994, Participants agreed to replenish and restructure the Facility. Participants pledged over $2 billion to be committed over a three-year period to a new GEF Trust Fund. It is expected that by June 1994, the instrument establishing the restructured Facility will be adopted by the governing bodies of the three implementing agencies.

27. The instrument establishing the new facility reflects the results of the pilot phase evaluation. Most of the basic features developed under the pilot phase will remain. Some of the recommendations, such as those pertaining to institutional arrangements and operational practices, are already incorporated into the instrument. Others, such as the need for an overarching strategy in each of the focal areas—climate change, biological diversity, international waters, and depletion of the ozone layer—will be considered as operational policies are developed. The restructured GEF will be managed jointly by a newly-created Executive Council, the Secretariat, and the Participants Assembly.

28. I am grateful for donors' support to date for the GEF. Together with IDA-10, the restructured GEF will make an important contribution toward helping developing countries achieve environmentally sustainable development.

Special Program of Assistance

29. As you well know, the performance of the African economies has suffered more than that of any other region since 1980. While the GDP of developing countries as a group grew at an average annual rate of 3.6 percent during the 1980s, the GDP of Sub-Saharan African countries grew at only 1.9 percent. Sharp drops in commodity prices, together with deficient domestic policies and institutions, contributed to low growth rates and worsening conditions of poverty .

30. Towards the mid-1980s many African countries began to reform macroeconomic policies, exchange rate and trade policies, domestic pricing policies, and other key areas of economic management. Donors responded to these initiatives with substantial increases in net transfers of resources, largely on concessional terms. Under World Bank leadership, since 1987 seventeen donors have been supporting the Special Program of Assistance for low-income debt-distressed Sub-Saharan countries implementing adjustment programs (SPA). During its six years of existence, SPA has succeeded in mobilizing additional resources despite the difficult environment for aid: real net ODA to SPA recipient countries rose from $5.3 billion during 1981-86 to $8.9 billion during 1987-91.

31. SPA has also been an effective mechanism for helping adjusting countries implement sound economic policies and accelerate economic growth. During the SPA-1 period (1988-90), the GDP of nine SPA recipient countries that adopted sustainable macroeconomic and pricing policies grew at 4.0 percent, compared to 2.6 percent for countries that did not. During the SPA-2 period (1991-93), the GDP of the adjusting countries grew at 3.7 percent, compared to only 1.6 percent for the other group. The slower growth rate of the adjusting countries during SPA-2 compared to SPA-1 can be traced to domestic political instability in a number of countries, a slow-down in world economic activity, severe drought in eastern and southern Africa, and adverse turns in the terms of trade. Declining terms of trade of the recipient countries during this period almost completely offset the growth of net transfers. Despite these adverse circumstances the record is clear: the countries that consistently implemented policy reforms and received timely donor financing support achieved significantly higher growth and export levels than the nonadjusting countries.

32. I am pleased to report that in October 1993 the donors agreed to extend the program for a third three-year phase (1994-1996). SPA-3 will strive to increase the effectiveness of aid and broaden its scope, stressing poverty alleviation, capacity building, and sectoral investments in addition to adjustment. I urge Members to ensure that countries adhering to agreed reforms and goals can count on timely disbursements.

Progress in Debt Reduction

33. Debt reduction is an important aspect of the effort to ensure that severely indebted countries have adequate resources to support their development. I am pleased to report that there has been some progress since my last Report to the Committee. With respect to the IDA Debt Reduction Facility, preparations for debt-reduction operations in Zambia and Saõ Tomé and Príncipe are nearly complete and the operations are expected to conclude before July 1994. Preparatory work is under way for possible operations in Ethiopia, Guinea, Mali, Mauritania, Nicaragua, Sierra Leone, and Tanzania. Several other countries are expected to be provided access to this facility.

34. There has also been some progress in commercial debt reduction in recent months. Jordan concluded a "Brady-style" debt reduction program, and Brazil is finalizing the first phase of a similar operation. Poland and Bulgaria have also recently reached agreements with their creditor committees on the terms of debt-reduction packages.

35. Other debt-reduction developments since the Committee's September meeting include six Paris Club rescheduling agreements: Viet Nam, Senegal, Niger, Côte d'Ivoire, and Cameroon received "enhanced Toronto terms." Although the agreement for Viet Nam does not contain a good-will clause under which creditors agree to discuss further debt reduction, the arrangement has been designed to pave the way for a sound long-term relationship between the country and its creditors. Kenya obtained

rescheduling of arrears broadly on the terms that it requested[1]. In other developments, the French government canceled more than Ffr 800 million of debt owed by Cameroon, Congo, Côte d'Ivoire, and Gabon. France has also decided to write off another Ffr 25 billion owed by 14 African countries affected by January's devaluation of the CFA franc.

36. These agreements provide relief from the debt burdens that have constrained growth in many developing countries. Nevertheless, many low- and lower-middle-income countries continue to experience debt-service difficulties and are likely to require further substantial debt relief. The Committee needs to keep this matter under continuing review.

VI. Results in the Field: Progress Report

37. The efforts of developing countries to attain sustainable development, reduce poverty, and protect the environment must go hand in hand with adequate volumes of external finance. As donor countries experience growing constraints on the level of aid they are able to provide, and as they face increased public concern about the impact of aid, the issue of ensuring the development impact of aid is receiving greater attention.

38. As I mentioned in my last Report to the Committee, the Bank has been at the forefront of efforts to increase the effectiveness of aid. Last July the Board approved the management's action plan to implement the recommendations of the report of the Portfolio Management Task Force, which had been completed in the fall of 1992. Among other things, the action plan recommended that (a) the Bank's portfolio be managed on an overall country basis rather than on a project-by-project basis;

(b) annual portfolio reviews be undertaken for all major borrowers, with less frequent reviews for smaller country borrowers; (c) portfolio performance be explicitly linked to country lending programs; (d) the Bank give greater attention to the supervision of ongoing projects and improve quality at entry of new projects; and (e) the Bank foster greater stakeholder participation and adopt a more open information policy.

39. We have already made considerable progress in shifting the focus for assessing the effectiveness of our development assistance away from a project basis to a country-basis. The Bank's overall development strategy and lending program for each individual borrower are now reviewed by the Board. Annual country portfolio performance reviews (CPPRs) have become part of our core business practices and regional business plans: in FY93 over 60 percent of the portfolio, was reviewed in CPPRs. The Bank has also strengthened the link between our country lending programs and the performance of the borrower's portfolio.

40. In addition, we have devoted greater attention to the supervision of ongoing projects. Bank resources allocated to supervision have risen nearly 40 percent since FY91. Jointly with borrowers and, where relevant, with cofinanciers, we have developed specific action plans for projects classified as "problem projects." Furthermore, in September 1993, the Board approved the establishment of an independent inspection panel to review Bank actions on projects deemed controversial and problematic.

41. The Bank has also taken several important steps to enhance the quality of projects entering the portfolio. New projects entering the portfolio need to include a project implementation plan with

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[1] On current maturities only, arrears were rescheduled on Houston terms.

targets and indicators to measure efficiency in carrying out the project, and the legal agreements incorporate the essential elements of the implementation plan. New projects will also be subject to more rigorous risk analysis.

42. The Bank is increasingly devoting energy and resources to fostering stakeholder participation during project preparation. To generate long-term support for projects, stimulate new ideas, and improve business practices and development impact, we want to encourage earlier and more active stakeholder participation. To this end, in June 1993 the Participation Fund was established to finance extra expenditures incurred in involving beneficiaries in project preparation and in economic and sector work. The initial monies allocated to the Fund were fully committed by November 1993, and Bank management allocated additional amounts in March 1994. Furthermore, involving beneficiaries in project preparation is now beginning to become normal Bank procedure.

43. Finally, in January 1994 the Bank opened the Project Information Center, which aims to provide timely and relevant information about the Bank's present activities and future plans by allowing public access to previously restricted documents. Greater transparency is essential to explain the Bank's work to the various stakeholders and thereby increase understanding of and support for the Bank's operations.

44. These efforts are already enhancing the Bank's effectiveness. It is important to bear in mind, however, that successful development is invariably associated with strong leadership on the part of the borrower. Effective use of resources from both domestic and external sources is a key indication of progress on development challenges.

VII. Responding to New Challenges: Relations with the Countries of the Former Soviet Union and Eastern Europe, South Africa, CFA Zone Countries, the Occupied Territories, and Viet Nam

45. The Bank continues to work to respond effectively to the great challenges posed by the historic process of economic and social transformation taking place around the world. We have widened the scope of our activities in the countries of Eastern Europe and the former Soviet Union, we have established the basis for a successful relationship with South Africa, we are supporting important policy modifications in the CFA zone countries and important initiatives in the Occupied Territories, and the Bank has resumed lending to Viet Nam.

Central and Eastern Europe and the Former Soviet Union

46. During this fiscal year, the Bank continued to expand its activities in Central and Eastern Europe and the former Soviet Union (FSU) and began lending operations in Belarus, Kazakhstan, FYR Macedonia, Slovenia, and Uzbekistan. As of March 15, the Bank had approved at least one lending operation in 11 of the 15 countries of the FSU, and our level of commitments to the FSU and Eastern Europe had reached $12.1 billion. To support rehabilitation and reform programs, during the fiscal year the Bank has approved loans for Belarus ($120 million), Kazakhstan ($180 million), Moldova ($60 million), and Slovakia ($80 million). In addition, to support financial sector and enterprise reform and capitalization of the banking system, the Bank financed a quick-disbursing operation for $80 million for Slovenia. Similar operations supporting financial and enterprise reform are under preparation for Albania, Bulgaria, Estonia, Hungary, Kyrgyz Republic, Latvia, Lithuania, FYR Macedonia, Romania, Russia, and Slovakia.

47. Other significant activities involve rehabilitation of key infrastructure and environmental protection. Investment loans to finance transport and telecommunications projects were approved for Russia ($300 million), the Czech Republic ($80 million), and Slovakia ($55 million). Loans with important environmental and natural resource protection were approved for Hungary and Poland.

48. As a result of the reductions in output and unemployment arising from enterprise restructuring, transitory poverty is emerging as a central issue. In response to this new challenge, the Bank has carried out an extensive analysis of social safety nets to support policy dialogue and guide project development. Projects to support basic health services are already being executed in Hungary and Romania, and projects to support safety nets have been approved for Hungary, Poland, Russia, and, most recently, Albania.

49. The Bank has also mobilized and coordinated external assistance for the region. During FY 94 we organized Consultative Group meetings for Belarus and Moldova, and participated in donors meetings for Albania and FYR Macedonia. We are now in the process of organizing donor meetings to discuss public sector investment priorities in the Baltic countries.

South Africa

50. South Africa's economy has experienced little growth for more than 30 years and declining per capita income since 1982. In addition, the country has an extremely unequal distribution of income, assets, and access to public goods and services; persistent and increasing unemployment; declining productivity; and a fiscal deficit estimated at 6.8 percent of GDP.

51. In preparation for the new government that is expected to emerge after the April election, the Bank has engaged in an extensive dialogue with a broad range of constituencies (major political parties, the government, the business community, trade unions, NGOs, and the donor community) on key development issues. Over the past year, the Bank has made major analytical contributions to the country's debate on its policy options, studying (a) land reform options; (b) options for financing the integration of the country's apartheid metropolitan areas at the local government level; (c) employment creation in the manufacturing sector; (d) constraints facing black-owned businesses; (e) deficits in education infrastructure; (f) employment and wage behavior; (g) trade policies; and (h) existing macroeconomic constraints and options for overcoming them.

52. The Bank is also supporting the systematic collection and analysis of data on poverty by a consortium of 14 South African institutions, with a view toward channeling the results into future policy formulation. In addition, for two years the Bank has had an internship program—supported by Britain, Austria, and Switzerland—which brings six South Africans to the Bank every six months for exposure to development work.

53. The Bank has dealt transparently and impartially across political boundaries and has placed great emphasis on South African participation in its work. Through our extensive economic and sector work we have deepened our knowledge of the macroeconomy and the key sectors, and I am confident that we will be ready to respond rapidly if the newly elected government requests lending.

54. At the request of the Transitional Executive Council—the body mandated by the constitutional negotiating process to run the country until the election—the Bank is opening a Resident Mission in Johannesburg in readiness for a more structured active dialogue with the new South Africa.

CFA Zone Countries

55. On January 12, 1994, the seven countries of the West Africa Monetary Union and the six countries of the Central Africa Monetary Association announced their decision to devalue their currency, from 50 to 100 CFA francs per French franc (Comoros devalued from 50 to 75), and to preserve their monetary unions. The devaluation was part of a comprehensive program designed to spur private initiative; increase production, employment, and income; and facilitate efforts to alleviate poverty. The aftermath of the reform must be managed carefully if these long-term benefits are to be realized.

56. The Bank is providing technical and financial support to ensure the success of this program. We have been supporting IMF's efforts to agree quickly with each government on the basic macroeconomic frameworks necessary for success. On the basis of these IMF agreements, we have already presented to the Board a series of emergency financing operations designed to support the measures that accompany the devaluation, in particular social measures. The Bank is also mobilizing additional financial support from the international community. The IDA operations already agreed have included (a) release of pending tranches of ongoing adjustment operations that had been blocked for lack of an agreed economic framework; (b) provision of special, quick-disbursing emergency recovery credits to help relaunch dormant programs of economic reform; and (c) portfolio restructuring to respond to the countries' new economic and social realities. This first set of operations will be followed by new adjustment and investment lending as specific country conditions allow.

57. In addition, the Bank is providing policy advice and technical assistance to the CFA governments and the two regional central banks to help them manage the agreed reforms and ensure their success. In the context of the Paris Club, official creditors are supporting IMF and Bank adjustment programs with debt relief. And finally, recognizing the importance of securing public support for these programs and providing safety nets for the disadvantaged, the Bank is designing a series of projects to support job creation, active education and health programs, and specific measures to protect some particularly vulnerable groups of the poor.

Occupied Territories

58. At the request of the sponsors and organizers of the Middle East Peace Talks, the Bank has been supporting the work of the Multilateral Groups on Regional Economic Development, Water, and Environment by analyzing the key economic issues and developmental challenges facing the Middle East Region. At its second meeting in Paris in October 1992, the Multilateral Group on Regional Economic Development requested the Bank to expand its contribution to include, inter alia, an assessment of the development needs and prospects of the economies of the West Bank and the Gaza Strip (commonly referred to as the Occupied Territories). In response to this request, a multidisciplinary Bank mission visited the Occupied Territories in early 1993, conducted follow-up visits, and held intensive interactions with Palestinians, Israelis, and Jordanians. On the basis of this mission's findings, the Bank published in September 1993 a six-volume report on the economy of the Occupied Territories entitled *Developing the Occupied Territories: An Investment in Peace.* This timely report provided the first comprehensive assessment of problems, prospects, and priorities for development of the Occupied Territories.

59. The signing of the Declaration of Principles between the PLO and Israel on September 13, 1993, gave further impetus to the Bank's work on the Occupied Territories. The U.S. State

Department hosted a Donor Conference on Peace in the Middle East on October 1, 1993. At this conference, the donors requested that the Bank work with the Palestinians on developing a framework for channeling donor assistance to the Occupied Territories. In response, the Bank—jointly with many of the bilateral and multilateral donors—fielded a mission to the Occupied Territories in October, 1993. The outputs of this mission—an emergency assistance program and a technical assistance program—provided the main technical underpinning for the first Consultative Group meeting for the Occupied Territories, chaired by the Bank on December 16, 1993.

60. The Bank has also been involved in a number of other important activities, including providing support to the Secretariat to the Ad Hoc Liaison Committee, a body established by the donors to coordinate the overall aid process. The Bank also hosted a special donors' meeting on January 27-28, 1994 to help secure donor financing for start-up and transitional costs for the Palestinian central administration. As an exceptional measure, the Bank agreed to allocate $50 million from its net income for promoting economic development in Gaza. An emergency rehabilitation project that uses part of these resources and is cofinanced by several donors should be presented to the Executive Board by end-April 1994. Finally, the Bank is in charge of administering a $35 million Trust Fund for Technical Assistance to the Occupied Territories as well as a second trust fund through which part of the donor contributions to start-up and transitional costs will be channeled.

Viet Nam

61. Viet Nam continued its transition to a market economy. GDP grew 7.8 percent in 1993, and inflation was reduced to 5.2 percent. The World Bank stepped up its activity in the country with the resumption of lending and the publication of its economic report, *Viet Nam: Transition to the Market.* The Bank plans to open a Resident Mission in Viet Nam in May 1994.

62. The first IDA credit to Viet Nam in 15 years was approved on October 26, 1993. To date IDA has approved three projects—one for primary education, one for agricultural rehabilitation, and one for highway rehabilitation—for a total of $325 million. These projects reflect some key elements of the Bank's assistance strategy for Viet Nam, which aims to facilitate the transition to a market economy, help develop human resources and agriculture, and improve basic infrastructure.

63. Over the past year, Viet Nam normalized relations with other international financial institutions. It cleared its arrears with the International Monetary Fund and entered into a Standby Arrangement in October 1993. Asian Development Bank lending to Viet Nam resumed in late 1993, as well. A first donors' conference for Viet Nam was held in the World Bank's Paris office on November 9-10, 1993. At this conference, multilateral and bilateral donors committed $1.8 billion, to be disbursed over several years. In the wake of this successful meeting, the Government of Viet Nam has requested that the Bank chair a Consultative Group of donors later in the year.

VIII. Conclusions

64. The new circumstances facing developing countries, though more favorable than at any time in the past two decades, do not obviate the need for decisive action on the part of both developing and developed countries to accelerate growth. The central message of this report is that countries with sound macroeconomic management and strong links to the world economy are likely to grow faster—they will be better positioned to take advantage of the opportunities stemming from the

Uruguay Round Agreement and are more likely to attract private capital. Relief from persistent declines in commodity prices does not reduce the need for adjustment. It is important for reforming countries to stay the course and avoid even more painful adjustments in the future. It is also important for developed countries to provide much-needed aid in an efficient and timely manner. I am confident that we can work with our borrowers to help them overcome the obstacles that impede attaining their development objectives.

This report was drafted by Pedro Belli, Economic Adviser (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	63.4
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	12.0
Private Flows	50.8	45.6	28.6	31.5	40.0	42.1	45.2	57.3	95.4	106.0
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	56.3
Private Grants 3/	3.4	3.8	4.2	4.7	4.7	4.3	5.0	5.3	5.5	5.9
AGGREGATE NET FLOWS	94.1	97.5	84.3	82.7	84.7	86.5	105.8	121.7	150.6	169.4
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
Related Data:										
IMF – Net Flows 7/	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
Portfolio Equity Investment 8/	0.1	0.1	0.8	0.9	1.2	3.8	3.9	7.8	13.2	13.2
Memorandum Items: 9/										
World Bank – Net Flows	7.7	6.9	7.1	5.6	3.2	3.1	5.2	2.6	0.1	4.2
IDA – Net Flows	3.2	3.7	3.9	4.4	4.1	3.7	4.2	4.4	4.8	4.1

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 International Finance Division (IECDI) projections, 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. Includes IMF Trust Fund, SAF and ESAF.
8. World Bank staff estimates, which are derived from reported market transactions and are often available only on a gross flows basis.
9. The World Bank and IDA net flows data are on a calendar year basis. The historical data differ from more widely reported fiscal year 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

Growth in developing countries is expected to remain robust on average in 1994-95, although disparities remain large and the short-term outlook for the poorest countries has not improved substantially (see table). Many developing countries are expected to benefit from increased confidence as a result of the conclusion of the Uruguay Round agreement, which will open up new export markets and strengthen multilateral trading rules. Among the major industrial countries, expansions are now clearly under way in North America and the United Kingdom, but activity remains sluggish in continental Europe and Japan. The sustained growth in the group of developing countries as a whole is indicative not only of improved conditions in many industrial countries, but also of growing interdependence among developing countries. Moreover, economic expansion in many developing countries has helped to offset some of the weakness in demand growth among industrial countries.

World Economic Outlook

The conclusion of the Uruguay Round is particularly significant for the outlook for the world economy over the medium term. The widening of market access and strengthening of multilateral rules will give new impetus to world trade in both manufactures and services and should begin to reduce the distortions affecting trade in agricultural products. Moreover, uncertainty about the future of the multilateral trading system has been reduced, and the Uruguay Round has expanded the scope of the multilateral trading system by including agriculture, textiles, and services and by clarifying the rules on intellectual property. For developing countries, reductions in tariffs, domestic supports, and export subsidies are generally set at two-thirds of those of the industrial countries, and implementation is spread over ten years. Least developed countries are effectively exempt from reduction commitments. Estimates indicate that the agreement may boost the level of world trade by 10 percent and raise world income by $250 billion a year as a result of efficiency gains, and these estimates may be on the conservative side. The income gains in developing countries could reach some $80 billion, which would dwarf current official development aid. Such welfare benefits will materialize only gradually as the main elements are phased in, but the agreement should also strengthen world activity in the short run by bolstering business and consumer confidence.

Growth prospects for many developing countries, particularly those with outward-oriented trade policies, will be further enhanced as a result of the agreement. The benefits for developing countries include increased efficiency in the use of domestic resources as tariffs and nontariff barriers are reduced or removed, as economies of scale in production are realized, as technology transfers resulting from increased openness and global cooperation are increased, and as uncertainties in trade relationsare reduced as a result of the binding of tariffs. 1/ The elimination of trade-related investment measures that violate the GATT principle of national treatment and prohibition of quantitative restrictions will attract foreign direct investment and reduce inefficiencies. In addition, higher growth in the world economy and increased access to industrial country markets for developing countries will improve the external environment for developing countries. Two important elements of the agreement are the planned cutback in

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1/ A binding is a commitment not to raise a tariff without compensating trading partners.

Major Economic Indicators
(Annual percent change, except where noted)

	1991	1992	1993	1994	1995
World					
Real GDP growth	0.7	1.8	2.3	3.0	3.7
Trade Volume	2.4	4.5	2.4	5.8	6.3
Trade Prices					
Fuel	-17.0	-0.5	-11.5	-14.7	5.9
Nonfuel primary commodities	-4.4	-0.1	-3.8	6.0	2.1
Manufactures	-0.7	3.7	-4.2	2.1	1.6
Six-month dollar LIBOR (percent)	6.1	3.9	3.4	4.2	5.1
Industrial countries					
Real GDP growth	0.6	1.6	1.2	2.4	2.6
Inflation	4.5	3.3	2.9	2.5	2.6
Import volume growth	2.0	4.5	-0.2	5.4	5.2
Developing countries					
Real GDP growth	4.4	5.9	6.1	5.5	5.8
Inflation	35.9	38.8	45.9	40.9	12.0
Inflation (median)	11.8	9.3	7.1	8.0	5.7
Current account (in billions of U.S. dollars)	-87.9	-67.1	-104.6	-106.2	-100.8
Current account (in percent of exports)	-8.1	-5.7	-8.3	-7.7	-6.5
Export volume growth	7.2	7.8	8.6	9.6	9.2
Import volume growth	9.8	10.2	8.7	7.2	9.2
Terms of trade	-3.3	-0.2	-1.8	-1.8	0.6
Export unit value	-2.1	1.6	-1.4	0.4	3.2
Import unit value	1.3	1.8	0.4	2.3	2.5
Debt (in billions of U.S. dollars)	1364	1407	1489	1546	1609
Debt (in percent of exports)	126.2	118.9	118.4	112.4	104.0
Debt service (in percent of exports)	15.3	14.3	14.9	14.8	13.8
By region					
Africa					
Real GDP growth	1.5	0.4	1.1	3.4	4.5
Per capita GDP growth	-1.0	-2.2	-1.5	0.6	1.7
Inflation	32.2	40.6	31.7	30.6	12.4
Current account (in percent of exports)	-4.7	-7.6	-8.6	-4.2	-4.0
Export volume growth	0.6	-0.6	3.5	-0.1	3.0
Import volume growth	-2.9	3.9	0.4	-6.5	7.7
Terms of trade	-5.7	-2.6	-4.5	-3.1	2.0
Debt (in percent of exports)	234.9	227.7	236.3	232.9	218.4
Asia					
Real GDP growth	6.1	8.1	8.4	7.5	7.4
Per capita GDP growth	4.3	6.4	7.2	5.7	6.2
Inflation	8.6	7.4	9.5	7.9	6.1
Current account (in percent of exports)	-0.4	-0.7	-3.3	-3.4	-2.8
Export volume growth	10.7	9.1	9.8	10.1	10.9
Import volume growth	11.9	11.0	11.2	9.4	10.3
Terms of trade	1.0	2.1	-0.7	-0.6	-0.1
Debt (in percent of exports)	66.5	62.4	62.0	58.5	54.8
Middle East and Europe					
Real GDP growth	1.9	7.5	4.7	3.0	3.7
Per capita GDP growth	0.2	0.4	2.2	0.4	1.0
Inflation	24.7	24.2	24.4	20.9	21.6
Current account (in percent of exports)	-29.5	-9.2	-12.7	-11.8	-8.7
Export volume growth	2.2	8.8	7.1	14.2	6.4
Import volume growth	4.6	4.6	4.1	5.3	7.5
Terms of trade	-11.9	-3.4	-4.2	-6.8	2.6
Debt (in percent of exports)	135.5	129.2	135.6	133.3	121.0
Western Hemisphere					
Real GDP growth	3.3	2.5	3.4	2.8	3.4
Per capita GDP growth	1.3	0.4	1.5	0.8	1.5
Inflation	136.2	165.8	236.5	213.9	23.6
Current account (in percent of exports)	-11.5	-19.5	-23.1	-23.1	-21.3
Export volume growth	5.1	6.7	8.0	7.3	8.1
Import volume growth	17.3	18.0	8.0	7.3	7.2
Terms of trade	-5.4	-3.7	-1.9	-0.9	1.0
Debt (in percent of exports)	265.1	263.7	264.6	256.0	241.2

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

agricultural subsidies and the tariffication of nontariff measures, including, notably, reduced protection of agriculture. Although agricultural products constitute only 13 percent of the nonfuel merchandise exports of all developing countries, many individual countries have substantial agricultural exports, and for one-half of developing countries agricultural products account for over 50 percent of export earnings. The reduction or elimination of protection and price-support schemes in industrial countries is likely to stimulate food production in the developing countries, many of which have a comparative advantage in agricultural production. Many countries will also benefit from the removal of the extensive import quota systems and trade discriminations in textile and clothing, their principal industrial exports.

World prices for food products such as wheat, grains, sugar, vegetable oils, and dairy products--whose production is at present heavily protected in the industrial countries--are likely to rise, because the multisectoral liberalization envisaged in the agreement is expected to result in a fall in production in industrial countries. As a result, the effect of the Round on the net exporters of food products is likely to be positive. Some developing countries may be adversely affected in the short run by the erosion of some trade preferences, adverse terms of trade effects, and increased intellectual property rights. These negative effects are likely to be outweighed in the medium to longer run as access to industrial country markets increases and efficiency gains are realized.

The ultimate impact of the Uruguay Round will depend on increased allocative efficiency when markets are opened up and subsidies reduced, and on productivity gains in various sectors that result from the realization of economies of scale, technology transfers, and the impact of increased trade on investment as markets expand. Confidence is also likely to be boosted, which would increase foreign investment in the developing countries that have participated in the agreement. It is difficult to estimate the effects of all these factors. Studies undertaken to measure the impact of the Round have generally focused on the static gains of the agreement and are therefore likely to underestimate its full impact. In the short run, the benefits are likely to be relatively small in some countries in Africa and Latin America that are net food importers because they may face terms of trade losses. In contrast, the developing countries of Asia, in particular the high-growth, export-oriented economies, are likely to gain substantially from higher growth elsewhere in the world. In countries less open to external trade, benefits will be somewhat lower. However, all countries stand to gain from the Round if they succeed in reaping its full benefits by maintaining stable macroeconomic environments and intensifying structural adjustment programs. In coming years, the impact of the Round on developing countries needs to be closely monitored with a view to a timely assessment of their adjustment and financing needs, including financing from the IMF and the World Bank.

Other aspects of the external economic environment facing developing countries also seem likely to improve during the next several years. The projected resumption of stronger growth in the industrial countries should allow real commodity prices to recover somewhat, and maintenance of low inflation in the industrial countries should permit world interest rates to remain relatively moderate.

World economic activity is expected to strengthen during the year with output growth increasing from 2 1/4 percent in 1993 to around 3 percent in 1994. In 1995, output growth should strengthen further to around 3 3/4 percent as recoveries become firmly established in more industrial economies. Among the industrial countries, the cyclical disparities evident for some time became even more pronounced toward the end of 1993, but divergences in growth are expected to diminish during 1994-95. Recoveries in the large economies that first went into recession--the United States, Canada, and the United Kingdom--have gained strength. In continental Europe and Japan, economic activity remained subdued through 1993 and early 1994, and recoveries may not be firmly established until next year.

Aggregate performance in developing countries is projected to remain strong in 1994 and 1995, as discussed below. By contrast, average output in the countries in transition is expected to decline again in 1994. Economic conditions improved substantially in most of the transition countries of central Europe during 1993, and in these countries and in the Baltic region growth is beginning to pick up. There have been continued adverse developments in the countries of the former Soviet Union, and prospects for 1994-95 are extremely uncertain.

Growth in world trade volumes is estimated to have slowed to around 2 1/2 percent in 1993, well below the previous year (see table). With developing country exports and imports expanding by around 8 percent, the slowdown mainly reflects low imports in European industrial countries owing to the continued weakness of economic activity and to an apparent underrecording of trade flows (associated with changes in customs procedures within the European Union). The low growth in trade volumes and a drop in dollar-dominated export prices in 1993 resulted in a decline in trade values measured in dollar terms. The volume of world trade is projected to increase by around 5 3/4 percent in 1994 and by over 6 percent in 1995, reflecting the projected pickup of import demand in industrial countries and a number of countries in transition, and the continued strong import demand from the nonfuel-exporting developing countries.

The aggregate terms of trade facing developing countries continued to decline in 1993, reflecting both declines in prices of primary commodities by around 3 3/4 percent and the substantial decline in oil prices of 11 1/2 percent. The terms of trade for all developing countries as a group is projected to fall further by 1 3/4 percent in 1994 but should improve somewhat in 1995 as commodity prices recover and oil prices strengthen from their current low level. Prices of developing country exports should also be firmer as activity in the industrial countries strengthens. The terms of trade for the oil-exporting countries of the Middle East and Europe is projected to decline further in 1994 before rising in 1995 by around 2 percent.

During 1993 long-term interest rates in many industrial countries declined to their lowest levels in 20 years or longer, largely reflecting the enhanced credibility of monetary authorities' commitment to price stability. The increase in long-term interest rates across a number of industrial countries in early 1994 appears to have reflected stronger-than-expected activity in the United States, together with a turnaround in growth expectations for Japan and continental Europe. These developments may have led to increases in real interest rates, and perhaps also to somewhat higher inflation expectations in some countries. Provided that monetary conditions in the United States are adjusted to take account of this, fears of a rise in inflation should abate, alleviating pressure on long-term interest rates. Additional efforts to ensure that fiscal consolidation continues at an adequate pace would also help contain long-term interest rates.

There has been considerable progress in implementing the agenda set out in the Interim Committee's Declaration of April 1993. In addition to the successful conclusion of the Uruguay Round, programs of fiscal consolidation have been announced in several key countries and European interest rates have fallen as tensions in the EMS have abated. Interest rates in Europe and Japan should remain moderately low as inflation rates are projected to decline further or to remain broadly unchanged at present levels. It is important now to build on these achievements by addressing the remaining impediments to a strong and durable recovery. In some industrial countries substantial reductions in structural budget deficits will be necessary over the medium term to restore the sustainability of the public sector's financial position and to ensure that the public sector makes an adequate contribution to national saving. The policy agenda will need to also include fundamental labor market reforms to address the root causes of structural unemployment. Macroeconomic policies and structural reforms must guard against persistent economic weakness and excessive unemployment, limit imbalances in external positions, and avoid unfavorable repercussions on financial and foreign exchange markets. It is imperative that countries pursue cooperative solutions, which resist protectionist forces and foster greater confidence among consumers and investors.

Economic Trends in the Developing Countries

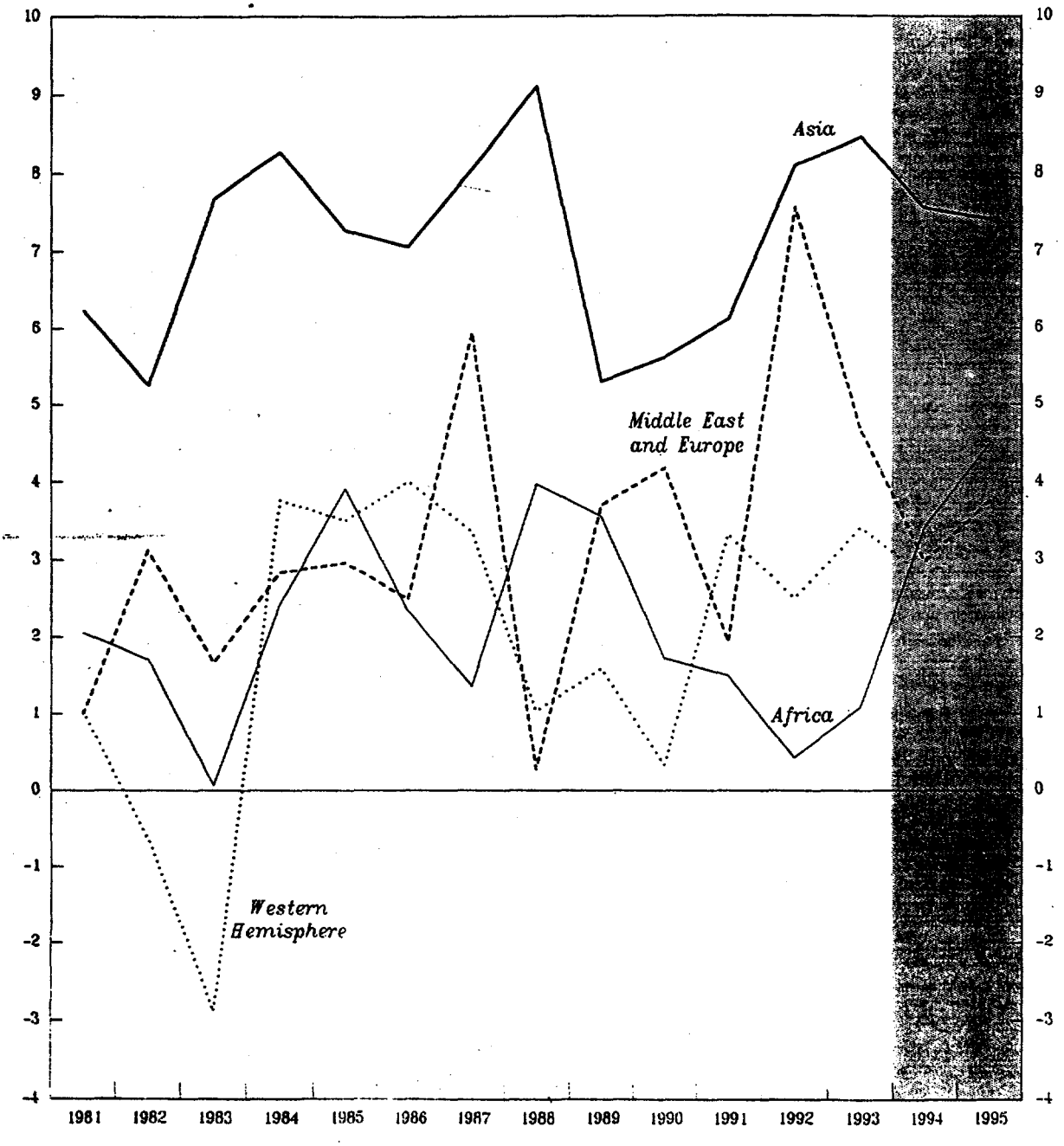
Robust economic growth in many developing countries has been one of the most encouraging aspects of global economic trends in recent years. Stronger adjustment efforts under way in an increasing number of countries suggest that average growth in the developing countries could be sustained at around 6 percent a year over the medium to longer run. A number of the successful countries in Asia and in Latin America now are beginning to face different kinds of policy challenges, including the risk of overheating and substantial capital inflows. These inflows have helped to support investment and have contributed to the development of domestic capital markets. Notwithstanding these positive developments, the surges in capital inflows give cause for some concern about the risk of overheating and the possibility of sudden changes in market sentiment. Many of these countries will need to monitor developments carefully to avoid the build-up of imbalances and some countries will need to take corrective action to reduce macroeconomic imbalances relatively soon.

In 1994 and 1995, aggregate output in the developing world is projected to continue to advance at about 5 1/2 to 6 percent a year. The pattern of growth is likely to remain very uneven however, mainly because of sharp differences in the quality of economic adjustment policies and for some countries, adverse external circumstances. Although policy differences do not fully explain the growth experience among developing countries or within countries over time, lack of economic stability, inadequate and distorted financial markets, unproductive state intrusion, and inward-oriented trade policies have all acted to restrain growth. The effects of these factors have, moreover, discouraged needed inflows of official financial assistance as well as private capital, and have tended to aggravate the impact of external developments.

The overall encouraging outlook for developing countries masks considerable regional variations (see chart). Among the developing countries in Asia growth remains buoyant in China, but policymakers are facing the challenge of moderating the growth of demand to contain inflationary pressures. Economic activity in India in 1993 was slightly weaker than earlier

Developing Countries: Real GDP [1]

(Annual percent change)



1 Shaded area indicates staff projections.

projected, largely because of the slower-than-anticipated recovery in the industrial sector. Economic performance in Indonesia, Malaysia, Pakistan, and Taiwan Province of China remains buoyant, with growth in 1994-95 projected at 6 to 8 percent. In the major countries of the Western Hemisphere, growth is projected to slow somewhat in 1994, but longer-term prospects are still encouraging. Activity in Mexico slowed sharply in 1993, reflecting restructuring efforts in manufacturing and the need to reduce inflation, but growth is expected to rebound in 1994-95 as private investment and economic confidence benefit from the North American Free Trade Agreement (NAFTA). Among the poorest countries, there are encouraging prospects forimproved growth performance in the 15 countries in sub-Saharan Africa that are pursuing comprehensive adjustment programs supported by the IMF's enhanced structural adjustment facility. For these countries average growth of around 5 percent is projected in 1994-95. The recent devaluation of the CFA franc has helped to improve the growth prospects of countries in the franc zone, but the success of the devaluation will depend on the accompanying adjustment policies. The sharp drop in oil prices in late 1993 has had a considerable impact on the oil exporting countries of the Middle East and Europe, compounding pressures resulting from fiscal and external imbalances.

Average inflation, which jumped sharply in 1993 because of large price rises in a few countries, is expected to decline substantially in 1994. Median inflation is forecast at 8 percent in 1994, down from almost 12 percent in 1991. The projected slight decline in average inflation in Africa in 1994 masks a significant increase in the CFA countries as prices adjust to the currency depreciation; with sound financial policies, however, the increase in inflation should be temporary. Inflation in Asia is projected to decline in 1994, with continued progress in several countries, and based on the assumption of the successful implementation of stabilization policies in China. Domestic imbalances in Turkey, including a worsening of the fiscal position, imply that inflation will remain high in 1994. Prices should increase less rapidly in Brazil during the course of 1994 as stabilization efforts take effect, but inflation is projected to remain very high for the year as a whole compared with 1993. Elsewhere in the Western Hemisphere, inflation is generally expected to continue to decline in 1994.

Current account deficits in Mexico and Argentina--of roughly 5 1/2 and 3 percent of GDP, respectively--are projected for 1994-95, reflecting relatively strong investment and economic activity, together with private capital inflows. In Asia, large current account deficits are projected to persist in 1994 in China, Indonesia, the Philippines, Pakistan, and Thailand. Singapore is the only developing country in Asia that is expected to have a significant surplus in 1994. Net direct investment and external borrowing in Asia are expected to remain high, accounting for roughly half of the total flow to developing countries, with China accounting for about one-third of the total flows for the region. In Africa, Algeria's external account is projected to widen, reflecting elimination of the unsustainable import repression of recent years. Africa continues to rely heavily on official transfers as a source of external financing, with roughly half of the total official transfers to the developing countries going to Africa. In the Middle East and Europe region, the current account is projected to move into surplus in Kuwait as the quantity of oil exports recovers, whereas the decline in oil prices is expected to lead to a widening of deficits in other oil exporting countries in the region.

Aggregate measures of developing country indebtedness and debt burdens continue to improve, with a further decline in both debt-to-export and debt-service-to-export ratios projected for 1994-95. This favorable overall trend is representative of developments in Asia, the Middle East and Europe, and the Western Hemisphere, where both debt and debt-service ratios are well below their peaks in 1986. In Africa, however, partly reflecting adverse terms of trade developments, earlier declines in debt-service ratios have been partially or wholly reversed, leaving the debt-service ratio at roughly the same level as in 1986. External assistance, including comprehensive debt relief on increasingly concessionary terms has helped many sub-Saharan countries to service this external debt; official transfers in 1993 corresponded to roughly 80 percent of debt-service payments. Debt service burdens still remain unsustainably large for many low-income countries, even taking into account substantial official transfers, and for these countries timely and flexible application of debt-stock operations are essential.

Since October last year Paris Club creditors have concluded debt rescheduling agreements with Bulgaria, Central African Republic, Cameroon, Côte d'Ivoire, Gabon, Niger, Senegal, Kenya, and Viet Nam. Initiatives associated with the devaluation of the CFA franc include a proposal by France to write off development aid loans of the poorest CFA countries, and to reduce by half the aid loans of the middle-income CFA countries. In addition, in the context of Fund-supported programs, bilateral donors are committed to disbursing direct financial assistance to CFA states over the next three years to support adjustments in the wake of the recent devaluation. Commercial bank creditors completed an agreement on debt and debt-service reduction with Jordan in December 1993, and signed agreements in principle with Brazil and Bulgaria in November 1993, with the Dominican Republic in February 1994, and with Poland in March 1994. Negotiations are continuing between Ecuador, Panama, and Peru and their respective Bank Advisory Committees. Brazil completed its debt-restructuring agreement with commercial bank creditors on April 15, 1994.

* * *

The strong growth enjoyed by a large number of developing countries in recent years contrasts with the difficulties of many other countries that have failed to register any significant improvements in economic performance. In many of the unsuccessful countries, living standards have stagnated or even declined over the past 10 to 20 years. Helping these countries to realize their potential and catch up with economic trends in the rest of the world remains of vital importance for the international community. Sustained adjustment efforts will clearly be required over several years, and the success of domestic policy efforts may depend on the timeliness of external financial assistance and the realism of debt-relief agreements, especially for highly indebted low-income countries.

STATEMENT BY THE CHAIRMAN OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS
WILLY W. ZAPATA S., PRESIDENT OF THE BANK OF GUATEMALA

As Chairman of the Intergovernmental Group of Twenty-four and on behalf of its members, I have the honor to present the consensus position of the G-24 on the items on the Agenda of the Development Committee.

The G-24 considers that the next United Nations Conference on Population and Development is a suitable forum in which the international community can, using a constructive approach, make a significant contribution to solving the problems that population growth poses for the whole world, particularly as regards the effects on economic and social growth and environmental conservation of the drastic changes in birth rates, especially in the developing countries.

In light of the direct correlation between population, reduced poverty, health, human resource development, and environmental deterioration, it is imperative for developing countries to adopt integrated population policies to be in a position to cope with the impact that world overpopulation continues to have on their economies.

In the opinion of the G-24, it is essential that the Bretton Woods institutions and other international, bilateral, and multilateral entities which provide developing countries with development resources participate decisively and effectively in this effort, in an integrated international context that allows them initially to transfer additional, concessional funds to contribute to developing countries' national efforts in implementing programs and projects for the relief and eradication of poverty.

The G-24 believes that this is a pressing need in the lower-income countries, particularly those south of the Sahara.

In this regard the G-24 considers that the role of the World Bank is being focused effectively and commendably on social sector programs, increasing the levels of resources allocated for that purpose, especially in the areas of population, health and nutrition, and education programs.

The G-24 therefore urges the World Bank Group to intensify such efforts and to forge links with other institutions and donors to increase the flows of needed resources.

Regarding migration, the G-24 member countries consider it appropriate to point out that, although this problem does have a serious political and financial impact on the countries receiving huge waves of migrants, it would also seem that the problem has only been viewed from one angle. With the implementation of international commitments to help broaden access to developed country markets for developing country exports, the momentum of migratory flows from South to North will be curbed, to a large extent, and the employment opportunities derived from the opening of world trade will make mass migration less attractive to workers needed in their own economies, within a framework of macroeconomic policies conducive to high productivity.

In the same vein, the G-24 members declare to this World Bank Development Committee that they share the view that the signing of the final act and agreements resulting from the Uruguay Round constitute an important advance in the pursuit of world trade based on clear, equitable, and multilateral rules, an that, for such agreements to be effective, all the signatory states should ratify them at the earliest opportunity.

However, the G-24 is aware of the repercussions that many developing countries could suffer in the short term as a result of the adjustments they will have to make in their economies to be better integrated and incorporated in world trade. In that regard, the G-24 requests the World Bank Group, through the Development Committee, to do further research in their studies on the matter, of the possible impact of the agreements reached in the Uruguay Round on the developing countries so that, if necessary, additional resources could by assigned to the developing countries in support of their efforts to take their place in world trade.

Regarding primary commodities, the G-24 underscores its interest in seeing the international financial institutions continue to provide support for the macroeconomic policies of the developing countries, to bolster their own efforts to make their traditional export sectors more efficient based on their comparative advantages. All these efforts are geared to dispelling the fears caused by the continued downward spiral of major commodity prices on the world market, on the understanding that a stable macroeconomic environment is a prerequisite for greater efficiency and the initiation of a diversification process.

Regarding the transfer of development resources, the G-24 expresses its satisfaction with the progress in consolidating the concessional mechanisms of the International Monetary Fund and the Bank and its view that greater efforts toward debt reduction are needed, though it notes that there have been advances in debt relief operations.

POPULATION IN DEVELOPING COUNTRIES

(Prepared by the World Bank in consultation with the IMF)

Main Findings

The 1994 International Conference on Population and Development in Cairo will provide an occasion to take a fresh look at the challenging population issues of this decade and beyond. The attached paper highlights the complexity and diversity of challenges faced by governments and donors. Several lessons can be derived from the experience of the last two decades:

- Rapid population growth makes it more difficult for poor countries with high birth rates and very young populations to reduce poverty, invest in human resources, and pursue sustainable economic growth. At the individual level, unwanted fertility poses grave health risks. Lowering birth rates sooner rather than later is thus a high-priority development objective. The fertility transition has been most rapid in countries with a strong enabling environment. Improvements in the status of women are essential: for example, increased education, access to credit and expanded earnings opportunities.

- High-quality, user-oriented services that provide people with a range of choices in addressing their reproductive health needs are most likely to change reproductive behavior and to improve individual health and welfare, particularly when accompanied by effective information about the benefits of those services.

- The **timing** of population and related social-sector investments is critical to offsetting the population momentum that is projected to add large numbers to the populations of many countries. Slowing population growth sooner rather than later will mean a future global population size that is smaller by 2-3 billion. Investments to expand family planning, increase educational opportunities, and reduce maternal and child mortality need to be made now. Delaying such investment will only add to the ultimate costs of poverty reduction and environmental degradation.

- High-level recognition of population problems and political commitment to deal with them have been important forces in mobilizing institutional and financial support for population activities. Given the expanding needs, the Bank's proven capacity to mobilize resources will become more important than ever in the coming decade. The Bank will continue to use and strengthen its sector work and policy dialogue to urge governments to examine demographic issues in light of other development priorities and to make funding allocations as appropriate.

Issues for Discussion

1. The Cairo Conference Declaration argues that completion of the transition to low fertility is an achievable goal if needed investments are made in family planning and reproductive health, and if measures are taken to reduce maternal and child mortality, increase education of girls, and raise women's status. These measures have a powerful effect on fertility and are beneficial in many other ways. Their attainment requires political and financial support at the highest levels of governments. Ministers may wish to present their views on the need for such support and how to foster it.

2. The resource requirements for meeting family planning and reproductive health needs are generally modest compared to other sectors. Still, many countries fall short of meeting the need for safe, effective methods and information for individuals who want to regulate their fertility. In some countries, the need for expanded services could be met with a reallocation of public expenditures away from activities that could be addressed better by the private sector. Ministers may wish to indicate how such reallocations could be facilitated.

3. The World Bank, through policy dialogue with borrowers, strengthened partnerships with other donors and non-governmental organizations, and strategic investments of its own, is prepared to help borrowers pursue these objectives. Still, very little can be done unless the country environment is supportive of policy reform and effective implementation. Ministers may want to consider what steps should be taken to strengthen countries' capacities to work effectively with the Bank and other donors in addressing these critically important agendas.

4. International migration has become an increasingly important issue over the last two decades. The economic, social, and political significance of these migratory movements is often greater than their demographic impacts in both sending and receiving countries. The stakes are quite high. Migration tends to be selective of better-trained, more ambitious workers, so that many potential employers seek migrant workers and oppose migration restrictions. Networks among migrants, once established, tend to encourage further movements. Ministers may want to consider the kinds of research and analytical work that should be undertaken to increase understanding of the policy and practical implications of international migration flows.

1. INTRODUCTION

1.1 Slowing of population growth in developing countries has been a key issue for over three decades. Much has been accomplished. Birth rates have declined in many countries, the result rising contraceptive use and socio-economic changes that have reduced the demand for large families. Nonetheless, fertility transitions are still far from complete, particularly in poor countries in which rapidly increasing numbers put enormous strains on their capacities to deliver basic services, create jobs, and preserve the environment. Moreover, high birth rates in the past have built up substantial population growth momentum, which creates very large increases in **absolute** numbers of people despite lower **population growth rates**.

1.2 The 1994 International Conference on Population and Development in Cairo will provide an occasion to take a fresh look at the challenging population issues of this decade and beyond:

- Why it is important to slow population growth sooner rather than later;
- The relative influence of socioeconomic factors and family planning in fertility decline;
- Protection of reproductive rights and values, and attention to reproductive health needs;
- How to deal with other demographic issues such as urbanization and international migration, which have taken on increased economic, social, and political significance; and

- Resource mobilization: what it will cost to expand services to underserved groups and accommodate the increased numbers entering their reproductive ages; how to mobilize the needed resources and how to build the capacity to utilize those resources effectively.

The Cairo Conference

The 1994 International Conference on Population and Development is the third in a series of United Nations conferences that started in Bucharest in 1974 and continued in Mexico City in 1984. These meetings produced and refined the World Population Plan of Action, which has provided donors and developing countries with a framework for population policies and action programs over the last two decades. The Cairo conference will review those objectives and formulate action plans for population activities as the world moves into the new century.

1.3 This paper addresses important population policy and program issues that are of concern to the Bank, borrower countries and other donors as they pursue the challenging goals of poverty reduction, human resource development, environmental preservation, and sustained economic growth over the remainder of this decade and into the 21st century. "Population" has many dimensions and loosely defined boundaries vis-a-vis other social sectors. It encompasses a range of demographic topics: population size and growth, fertility and mortality, as well as urbanization and international migration. The paper provides a brief overview of the main trends in these variables, but its main focus is on population growth and the transition from high to low fertility in developing countries, which has the greatest influence on their growth rates. 1/

2. MAJOR DEMOGRAPHIC TRENDS IN DEVELOPING-COUNTRIES

2.1 Population in developing countries will grow more during this decade (by nearly 85 million people each year) than ever before. Fortunately, growth rates have begun to slow in many developing countries. Although the global picture is one of continued growth, substantial variation is evident among regions. Rapid demographic changes are taking place in many areas, while shifts are more gradual in other, mainly poorer regions. Table 1 shows that the largest absolute increases in population from 1950 to 1990 took place in Asia, where almost 6 out of every 10 of the world's people live. At the same time, the largest percentage increases in population occurred in Africa--which has nearly tripled in population since 1950 — and in Latin America.

2.2 The surge in population growth that began when death rates declined earlier and faster than birth rates has begun to abate as more and more countries experience the transition to lower fertility. This has lowered population growth **rates**. However, countries will continue to experience large absolute increases in population. Fertility rates have declined by as much as one-half, but the number of couples in reproductive ages has more than doubled. As fertility declines toward the replacement level (i.e., the level at which couples have the number of children required to replace themselves, about 2), population growth does not immediately decline to zero.

1/ There is a separate background paper on international migration. The main focus of this paper is slowing population growth; other issues, including those in transitional economies, will be mentioned.

Table 1 Population Estimates and Projections by Geographic Region, 1950-2100

Region	Population Estimates (millions)			Population Projections (millions)		
	1950	1970	1990	2010	2050	2100
World	2516	3697	5270	6969	9685	11163
Less Developed	1684	2648	4055	5653	8320	9783
More Developed	832	1049	1215	1316	1365	1379
Africa	222	363	633	1078	2104	2832
East Africa	98	162	278	485	1018	1434
West Africa	72	118	214	277	743	990
North Africa	52	83	140	216	344	408
America	331	510	715	915	1174	1265
Latin America and Carib.	165	283	435	585	804	883
Northern America	166	226	281	330	370	383
Asia	1377	2102	3105	4109	5513	6159
East and Southeast Asia	853	1274	1788	2195	2648	2828
South Asia	481	754	1184	1694	2032	2835
Southwest Asia	42	74	133	220	394	496
Europe and former U.S.S.R.	572	703	790	833	852	860
Oceania	13	27	27	34	43	46

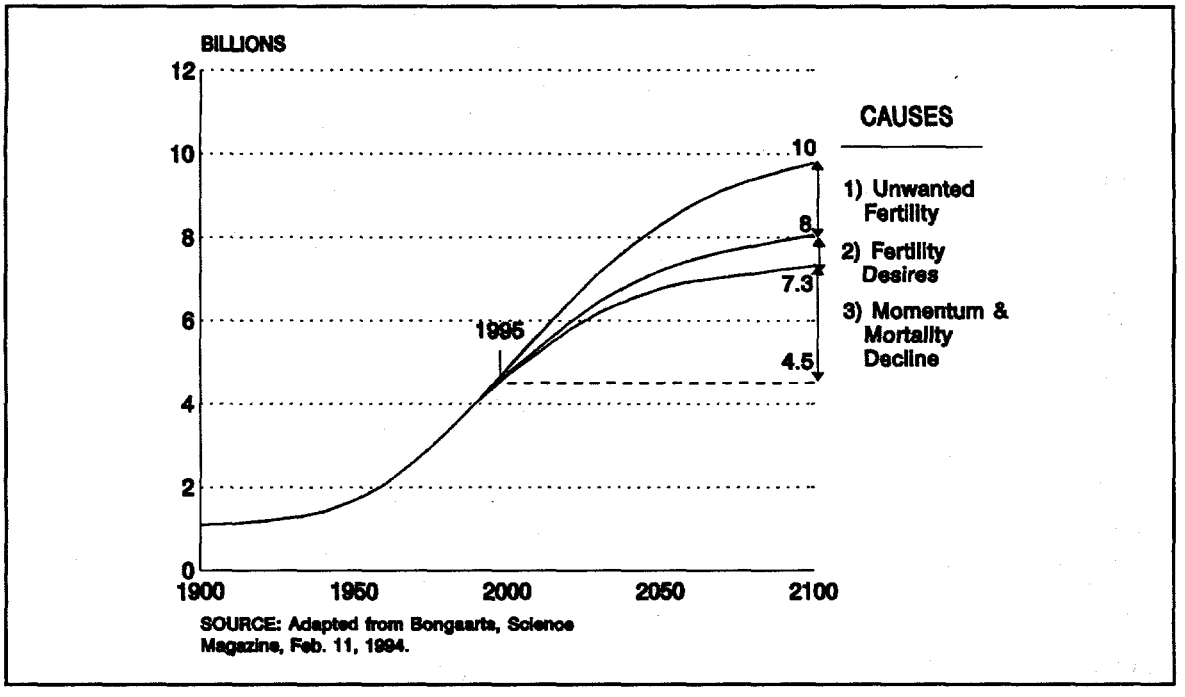
Source: for 1950 and 1970: United Nations, 1993; for 1990-2100: World Bank, 1994 (provisional).

Large absolute increases in population can persist for several decades. This phenomenon, referred to by demographers as **population momentum**, is a facet of the youthful age structures of developing country populations, which in turn reflect high birth rates in past decades. Population momentum is a major challenge, not just for poor countries with high birth rates but also for the world at large.

2.3 *Strategies to Offset Population Momentum.* Because population momentum is such a powerful force, it is often assumed to be inevitable. While short-run (10-15 years) population projections have turned out to be quite accurate, longer-run projections depend on assumptions about changes in birth and death rates that are less easy to predict and which can be influenced by policy and other events. They demonstrate the long-lasting cumulative effects of momentum on population size in the future, and that momentum can be reduced.

2.4 Three policy measures could offset momentum and reduce total developing-country population below the nearly 10 billion currently being projected for the year 2100 (see Figure 1). The calculations are for developing countries as a whole, but illustrate alternative paths that could be followed by both larger (India, Nigeria) and smaller (Chad, Zambia) countries that face a doubling or more in numbers before their population growth stabilizes.

Figure 1 Effects of Underlying Causes of Population Growth on Future Projections of Population Size of the Developing World, 1995-2100



2.5 The first measure is to expand family planning services to couples in which the woman has indicated a desire to delay or limit births but is not doing so. The impact of eliminating all unwanted fertility would be to reduce total developing country population in 2100 from 10 to 8 billion. The second measure is to encourage couples to have smaller families through information campaigns and through increased education and other social policy initiatives. This could trim another 700 million from the projected total, bringing it to 7.3 billion.

2.6 That still leaves 2.8 billion more people than the current population (around 4.5 billion) in developing countries and represents the growth attributable to population momentum and to further declines in mortality. **Delay** of the onset of childbearing and longer intervals between births could cut momentum even if women continue to have two births during their childbearing years. Increased education and other efforts to improve women's status are key social-sector interventions needed to achieve these delays. Public education on the health and family welfare advantages of delaying marriage and spacing children can also help. A five-year delay in the mean age of childbearing would offset another 1 billion from the projection for 2100, bringing the total to 6.3 billion.

2.7 The **timing** of interventions is critical to these outcomes. For countries to succeed in reducing population momentum, significant investments to expand family planning, educational opportunities, and other key social services have to be made now. Equally pressing are the needs of the current generation of young people, many of whom are reaching their reproductive ages without having had access to education. Special efforts will be needed to inform this generation of the health and welfare benefits of fertility regulation because it is their behavior that will determine the speed of fertility transitions in their countries.

2.8 *Migration and Changing Age Patterns*. Accompanying the rapid increase in population in developing countries is the changing geographic distribution of population. Only 17 percent of the population of developing countries resided in urban areas in 1950; this doubled to 34 percent in 1990. The projected population increase in developing areas between 1990 and 2025 is almost entirely in urban areas, which include many of the world's "mega-cities", with populations of over 10 million. According to the most recent United Nations projections, 57 percent of the population in developing countries will reside in urban areas by the year 2025.

2.9 Many forces have contributed to increased internal migration in developing countries. Births exceed deaths by a greater margin in rural areas, thereby increasing population pressures. Unequal distribution of land and agricultural production resources has forced many off the land, and attempts to increase production using more advanced agricultural technologies have made the agricultural sector less labor intensive. On the "pull" side of the migration equation, potential migrants also perceive that there are greater job opportunities for themselves and educational opportunities for their children in urban areas. Improved transportation and communication have also fostered geographic mobility in developing countries.

2.10 International migration has become increasingly important in the developing countries over the last two decades. Migration experts estimate that as of the mid-1980s approximately 100 million people were living outside their countries of birth or citizenship and that the numbers have undoubtedly increased in recent years. Most of the recent attention toward international migration has focussed on movements from developing to developed countries: from Mexico and Central America to the United States, from North Africa to Europe, etc. Contrary to popular impressions, the greater share of international movers remain in the developing regions.

2.11 The economic, social, and political significance of these migratory movements is often greater than their demographic impact in both sending and receiving countries. Rising ethnic and racial tensions, other problems of integrating migrants in terms of language and culture, and recognition of the costs of providing social services for migrant workers and their dependents are creating a hostile climate that could make migration less attractive to potential movers. The stakes are quite high. Migration tends to be selective of better-trained, more ambitious workers, so that many potential employers seek migrant workers and oppose migration restrictions. Networks among migrants, once established, tend to encourage further movements. The benefits to sending and receiving countries can be substantial. Official remittances from migrant workers, estimated to be in excess of $70 billion in 1990, exceed official development assistance, estimated at $54 billion for 1990. Net official remittance flows to developing countries, which are far less than the total including unofficial flows, was $37 billion in 1989, roughly 70 percent of ODA to those countries.

2.12 Population aging is yet another demographic challenge. The global population aged 65 and over in 1990 is estimated to be 295 million. Although the percentages of those over 65 are highest in the developed world, developing countries are also aging — and will do so much more rapidly where fertility is declining rapidly. And while the **percentages** of those over 65 are still low in developing areas, the **numbers** are already quite large and will become much larger during the next century. Given the dependency and health needs of the elderly population, however, aging is not without consequences for social expenditures. For developing countries now moving rapidly through those transitions, their capacity to support an aging population will depend on

investments in the human resource potential of the current generation of youth, who will be the first to experience the increased social and economic pressures of population aging.

3. POPULATION, POVERTY REDUCTION, AND SUSTAINABLE GROWTH

3.1 Rapid population growth in the world's poorest countries is a matter of considerable concern because of its negative effects on efforts both to reduce poverty, generate economic growth, and preserve the environment. Exactly what the consequences will be as populations in these countries approach twice their current size is still a matter of disagreement among experts. The debate continues between those who note that pessimistic prognoses cannot be proved and those who argue that the effort to develop human capital and manage environmental resources is much more difficult when populations are growing very rapidly. The Bank's view is that slowing of population growth will make it easier for poor countries to tackle the difficult challenges they face in reducing poverty, protecting the environment, and achieving sustained economic growth.

3.2 *Population and Poverty Reduction*. Rapid population growth is both a symptom of poverty and an obstacle to poverty reduction. The transition to low fertility and stabilization of population increase has occurred most rapidly in countries where there has been a strong supportive environment, with improvements in the status of women through increased education, access to credit and earnings opportunities being key features of that support. Most of the rapid increase in population over the last 40 years has occurred in less developed countries — and in the poorest of those countries. Within countries it has hindered efforts to reduce the incidence of poverty — both through the erosive effect of continually increasing numbers on efforts to expand access and improve the quality of education, health and other human services and through the self-perpetuating cycle of high fertility and low income in poor households.

3.3 Recent assessments indicate that the incidence of absolute poverty in the developing world as a whole remained static during the 1980s, with one in three persons consuming less than $1 per day. The number of poor has been growing at the same rate as the aggregate population of the developing world, about 2 percent per annum, but with generally rising poverty incidence in Africa and Latin America and falling incidence in Asia.

3.4 Country-level studies support the Bank's view that rapid population growth (above 2 percent a year) inhibits efforts to raise incomes in poor countries. For example, a review of human resource needs in Malawi concluded that without declines in fertility, it would be unlikely that the country could increase the amount of capital per worker enough to produce significant improvements in productivity, wages, and living standards in the foreseeable future. On the other hand, when rapid population growth slowed due to fertility declines in Colombia, the incidence of poverty was cut in half.

3.5 *Population Growth and Investments in Human Resources*. Sustained economic growth is an important prerequisite for human development and for fertility decline. At the same time, investments in human resources are important for economic growth, and the effects of population on economic growth work mainly through their effects on these investments. The Bank and many borrowers have recognized the erosive effects of fast-growing populations as they have attempted to address the goals of human development — better health, more education, and personal

fulfillment — as well as sustainable environments, economic growth, increased employment opportunities, and higher living standards.

3.6 Concern for human resources has to some degree changed the focus of the debate on the relationship between poverty and population growth from issues relating to numbers to a focus on qualitative aspects of population increase. Although it is understood that pinpointing the causal relationships between the two is difficult, developing countries have found on a practical level that limited resources for public social spending, especially on primary education and basic health, can reach only so many people before the quality of those services begins to erode. Where population grew more rapidly in the 1980s, the deterioration of the quality of schooling, as measured by rising student-teacher ratios, was greater the faster the growth of population.

3.7 At the household level, high fertility (the prime cause of rapid population growth) and low income levels are often found together, in line with the expectation that the large family size might have adverse effects on welfare of individual family members, particularly among the poor. At this level, however, it is often difficult to tell whether high fertility is a symptom or a cause of poverty. Virtually everywhere the question has been studied, many characteristics common to poor households, including high infant mortality, low schooling attainment for women, low investment in children, and lack of family planning services contribute to high fertility. At the same time, the poor tend to have many children, resulting in less resources per child, fewer human capital investment opportunities, and less knowledge about options for the control of family size.

3.8 The story that emerges from evidence about the effects of population growth is not the Neo-Malthusian view that population growth is the root cause of all development problems. Nonetheless there is a strong case for efforts to reduce high population growth rates sooner rather than later in countries where rapid growth continues to impede human resource investments and poverty reduction. The linkages between population growth and these goals are complex and vary in their nature and severity. Most of the impact is mediated through effects on other variables that affect human resource investments at both the societal and household levels, where large numbers erode or impede the quality of those investments. Slowing of population growth will not, by itself, reduce poverty; it will buy time to do the things that are necessary to achieve other key development objectives and will reduce the pressures on budgets and administrative structures that make their achievement so difficult, particularly in the poorest countries. And if achieved through high-quality, user-oriented family planning and reproductive health services, it will provide major health and welfare benefits for individuals and their families.

3.9 *Sustainability of Growth: Environmental Degradation and Resource Management.* The broader question of how population growth affects the long-term sustainability of development efforts gained prominence during preparations for the 1992 United Nations Conference on Environment and Development in Rio. A key question is whether efforts to feed and employ the very large populations that are being projected for poor countries will undermine efforts to manage resources on a sustainable basis. The views range from optimistic to pessimistic.

3.10 To be sure, many uncertainties remain about long-term population growth in developing countries — its magnitude, its geographic distribution, and the severity of its environmental impacts. The risks of adverse environmental consequences associated with continued rapid growth of population in poor areas are serious enough, however, to warrant action to slow population growth as quickly as possible. Moreover, the existing poverty and weak institutional capacity of governments in many of these areas raise serious questions as to whether those governments will be successful in implementing the institutional and technological changes needed to manage large increases in population without further damage to their environments.

3.11 It is virtually impossible to estimate what the potential "carrying capacity" of such areas will be for human activity. It is almost certain that they will not have indefinite capacity to support large additions of numbers. The prudent course, then, would surely be **not** to test the environment's vulnerability, elasticity, and recouperability to their outer limits: once the damage is done, it probably cannot be repaired, and the adverse effects on the health and well-being of affected populations are likely to be great. In the case of population, this suggests that feasible policy actions to reduce population growth and offset the long-term effects of demographic momentum are worthwhile. The same applies to improving technology, reducing wasteful consumption, and otherwise conserving natural resources.

4. CHANGING REPRODUCTIVE ATTITUDES AND BEHAVIORS

4.1 Slowing of population growth in developing countries reflects a pervasive shift in reproductive attitudes and behaviors in those countries. The pace of change varies by region, but fertility declines are widespread. Total fertility rates have fallen from levels that exceeded six children per woman thirty years ago to three or fewer today in most countries in East Asia and Latin America, with lesser but still significant declines occurring in South Asia and the Middle East. Evidence also exists of incipient declines in Sub-Saharan Africa.

4.2 A variety of factors affect reproductive behavior: economic and social conditions, education levels and women's status, and the availability of information and methods for regulating fertility. The effects of these variables on fertility depends on whether or not individuals actually practice fertility regulation. Surveys show that recent declines in fertility are closely associated with increased knowledge and use of fertility regulation methods. In the early 1960s, fewer than 10 percent of married women in the reproductive age groups used any fertility regulation method. Today the figure is in excess of 50 percent, or just below 40 percent if China is not included.

4.3 *Changing Reproductive Aspirations*. Underlying changes in reproductive behavior are broad shifts in attitudes and aspirations. Survey data indicate that desired family size has been falling everywhere over the last 10 to 15 years. Desired family size is highest in Sub-Saharan Africa, although even there the average fell for several countries from 7.6 to 5.8 between late-1970s/early-1980s and the late-1980s/early-1990s. In some cases the decline has been quite dramatic; in Kenya, for example, desired family size dropped from 7.2 in 1977 to 4.4 in 1989.

4.4 *Unmet Need for Fertility Regulation*. Many women may state a preference for limiting or spacing births, but by no means all use a method of fertility regulation. Demographers have applied the label "unmet need" to this gap between stated preferences and actual practice: the proportion who are "at risk" of becoming pregnant, who say they want to limit or space, but who are not using any method at the time. Unmet need varies among regions. With the exception of Sub-Saharan Africa, where it began low and has remained so (8 percent), unmet need for limiting births has been declining in all regions (most recently averaging around 11 percent). Most of the current unmet need in Sub-Saharan Africa is for spacing of children, though the need for methods to support limiting family size is expected to rise as the desired family size decreases.

4.5 *Supply and Demand Factors*. How likely is it that fertility rates will continue to decline? This is a key question for policy. On one side of the debate are those who argue that fertility will decline if contraceptive methods and information are made available through family planning programs. This view emphasizes **supply** factors. On the other side are those who place greater emphasis on **demand** factors: social changes such as increased education that shape the demand for children as reflected in desired family size.

4.6 Experience has shown that neither supply nor demand alone can explain fertility decline. In some countries, high levels of resources to support family planning efforts have resulted in little or no decline in the fertility level. In others, Bangladesh for example, a vigorous family planning program has contributed to increased contraceptive prevalence despite an adverse social and economic setting. Where there is latent demand, the introduction of services by the public sector and other changes such as the removal of legal restrictions on the provision of services by the private sector may lead to a rapid adoption of fertility regulation. Where demand is weak or limited to a small segment of society, increased fertility regulation will also depend on changes in conditions that affect desired family size.

4.7 Moreover, the interplay of supply and demand factors does not remain static. As countries move through the various stages of the transition from high to low fertility, more effort may be required to expand services to get the process started. Where the initial pool of latent demand is limited, information and public education should be priorities. The timing of efforts is also important, because demand-side investments such as education have a longer gestation period and need to be started early. This is also true for the institutional infrastructure needed to expand service availability. Kenya is a good example of a case where early investments in both education and health infrastructure have in fertility decline, but only after a lag of about one decade.

4.8 *The Challenge Ahead*. Overall, what these figures reveal is a substantial increase in the practice of fertility regulation in developing countries over the last three decades. The increase in the percentage of married women of reproductive age using some method from 1960 to 1990 (from about 10 percent to 51 percent) is impressive in itself. More telling from a service delivery standpoint, however, is how this translates into sheer numbers: from 40 million users in 1960 to some 365 million in 1990, or a nine-fold increase. Meanwhile, because of a large increase in the number of women of reproductive age, the total number of women not using contraception has declined little, leaving and estimated 350 million still to be served.

4.9 A further challenge is the projected increase in potential users over the next two decades: an additional 170 million individuals will be moving into reproductive ages in developing countries during the 1990s and another 180 million are projected for the following decade. Just to maintain the current level of coverage, services will have to be expanded to accommodate 80-90 million more users during each of these two decades. That still leaves the challenge of meeting the existing unmet need for services for at least 100 million married couples and at least 20 million unmarried individuals who are at risk of unwanted fertility or of contacting sexually transmitted diseases.

5. DIVERSITY OF COUNTRY NEEDS

5.1 For the Bank's borrowers, the last two decades have seen substantial changes in fertility and in the demand for family planning and reproductive health services. Country needs in these areas have expanded and become increasingly diverse. Both expansion and diversity are consequences of success: as family planning programs have taken hold, the populations they reach have grown, the needs they serve have diversified. Programs have necessarily become more complex, and country-specific approaches are required to address both the diversity and expanding needs.

5.2 *Reasons for a Country-Specific Approach.* Increasing complexity and diversity of country needs have many roots.

- First, institutional and organizational capacity varies greatly. Some countries, Indonesia 2/ for example, now have well-developed institutional mechanisms for delivery of services; others, including many in Sub-Saharan Africa, still have only limited institutional capacity.

- Second, financial capacity varies greatly, with some countries facing financial constraints so severe that it is difficult for them to provide any services without outside help, while others have progressed to where they should be able to implement cost recovery and mobilize local resources to sustain programs over the long run.

- Third, there is demographic diversity. Three decades ago most developing countries were just beginning transitions to lower fertility and mortality. Today many countries (for example, Thailand, Indonesia, and Mexico) are now well along in those transitions, while others (Rwanda, Malawi) are still at very early stages, with total fertility rates above six children as well as infant and maternal mortality rates that are still high even by developing country standards. Significant reproductive health problems such as high sexually transmitted disease rates and high contraceptive failure rates persist even in countries with low fertility, for example Brazil and China.

2/ See the supplementary paper on Indonesia for detail.

- Finally, there is great diversity in culture and values, which are shaped by changes such as increased exposure to the media as well as conditions that are unique to each country setting.

5.3 Adding further to this diversity are the needs of new Bank borrowers in Eastern Europe and Central Asia — for example Ukraine, where fertility is actually below replacement level but with substantial dependence on abortion. Some of these countries still need to make the public aware of reproductive health options and develop basic service infrastructure, whereas in others the need is to expand access to contraceptive supplies and improve counseling programs. In between are a variety of countries that require different service improvements. These countries face a variety of complex demographic issues not faced by countries that are still coping with high growth rates. For example, many Eastern European borrowers have populations which are aging more rapidly than those in Western Europe. Some are also coping with rising mortality rates and have recently experienced declines in birth rates below death rates, resulting in negative rates of natural increase.

5.4 *Broadening Program Responses*. At the same time that needs are becoming more diverse, the demand for services is expanding rapidly. Not only that: the standards for delivery of services have become more demanding, based on 25 years of experience of what works best. These standards apply both to the components of these services, based on a broader vision of reproductive health, and the organizational sophistication required.

5.5 It is now widely accepted that programs must meet a wide range of the reproductive health needs of women and men. Thus, many programs now attempt to provide counseling and support in such related areas as breastfeeding, child survival, and safe motherhood. In addition, programs increasingly have had to address other health concerns related to sexual activity and reproduction. Prominent among these concerns is the need to deal with the AIDS epidemic and with other STDs that contribute to the risk of HIV infection.

5.6 Likewise, the scope of programs is being expanded to groups whose needs have not been served by traditional modes of service provision. Adolescents are at high risk of exposure to unwanted pregnancy and STDs but are often inhibited about approaching providers who are oriented to the needs of married couples. Males, particularly those who engage in high-risk sexual behavior, are another poorly served group, with adolescent males being the least served of all.

6. POLICY ISSUES

6.1 The policy environment has changed. Women's rights advocates have challenged those who advocate population control about violations of reproductive rights and the neglect of the reproductive health needs of both women and men, and particularly of such vulnerable groups as adolescents, illiterates, and the poor. These concerns have been heightened by the renewed focus at the policy level on linkages between population growth and environmental degradation. At the level of implementation, these policy concerns have focused on the need to balance fertility decline goals with respect for reproductive rights and for the reproductive health needs of women and men.

6.2 High-level recognition of population problems has been an important force in mobilizing political and financial support for population activities. In practice, population policy has usually meant slowing population growth by promoting family planning. A significant number of developing country governments have this as an explicit policy objective, and many have specific targets for the attainment of reduced growth rates. Can these development objectives be addressed without infringement on reproductive rights and values?

6.3 They can if population policies are balanced by emphasis at the service-delivery level of high quality and attention of individual reproductive health needs. Targets, if necessary, should be stated in terms of the population being provided with quality services rather than reduction in fertility rates. If necessary, independent monitoring of potential infringements of those rights should be carried out by groups that represent the interests of affected groups.

6.4 Two operating principles offer a promising approach to achieving the needed balance:

- **First**, in the design and delivery of services, reproductive health needs of women, and men, should be primary. As far as possible, the trend should be reinforced by delivering family planning services as part of an essential package of services to meet these needs.

- **Second**, when rapid population growth hinders a country's development objectives, government action to stimulate fertility reduction should be pursued as part of a broad range of social policies, particularly those that improve the status of women.

7. PUBLIC AND PRIVATE ROLES

7.1 Countries differ greatly in the modalities they use both to finance and to provide services. In recent years, public financing has predominated, with governments providing about 60 percent of the total funding and donors about 20 percent. Users of services account for the other 20 percent. Provider patterns to some degree mirror funding. The public sector has played a major role in funding and provision of services in Asia and Africa. Latin America has more examples of a public-private mix of financing and provision. Private-sector providers play an increasingly important role in provision, particularly in testing innovative approaches. Though often funded publicly, the private sector includes both non-governmental and private voluntary organizations (NGOs and PVOs), private hospitals and physicians, and private commercial outlets such as pharmacies and itinerant traders.

7.2 Subsidized family planning services have proved themselves to be efficient means of improving the welfare of poor families and of bridging the gap between the public and private costs and benefits of reproductive decisions. Governments may also have a special role to play in addressing the needs of adolescents and other underserved groups, particularly in informing them about reproductive health risks and the adverse consequences of early childbearing. The Bank is encouraging borrowers to develop effective public-private partnerships for the financing and delivery of reproductive health services and to remove obstacles to private-sector involvement in this field.

7.3 *Financing*. At the beginning of the 1990s, around $5 billion was being spent annually on family planning in developing countries. Of this total, around $3 billion came from governments in developing countries, just over $1 billion from donors, and the remainder from payments from individual users. Just under $1 billion a year of the donor assistance came by way of grants, and the World Bank averaged an additional $200 million in loans. 3/ The overall level of donor assistance has grown over time. Figure 2 shows the levels of funding for the last decade in real and current terms. Real growth in global funding was quite rapid in the 1970s, slowed down in the 1980s, and picked up in the early 1990s. Population assistance is a small percentage — approximately 1 percent — of official development assistance.

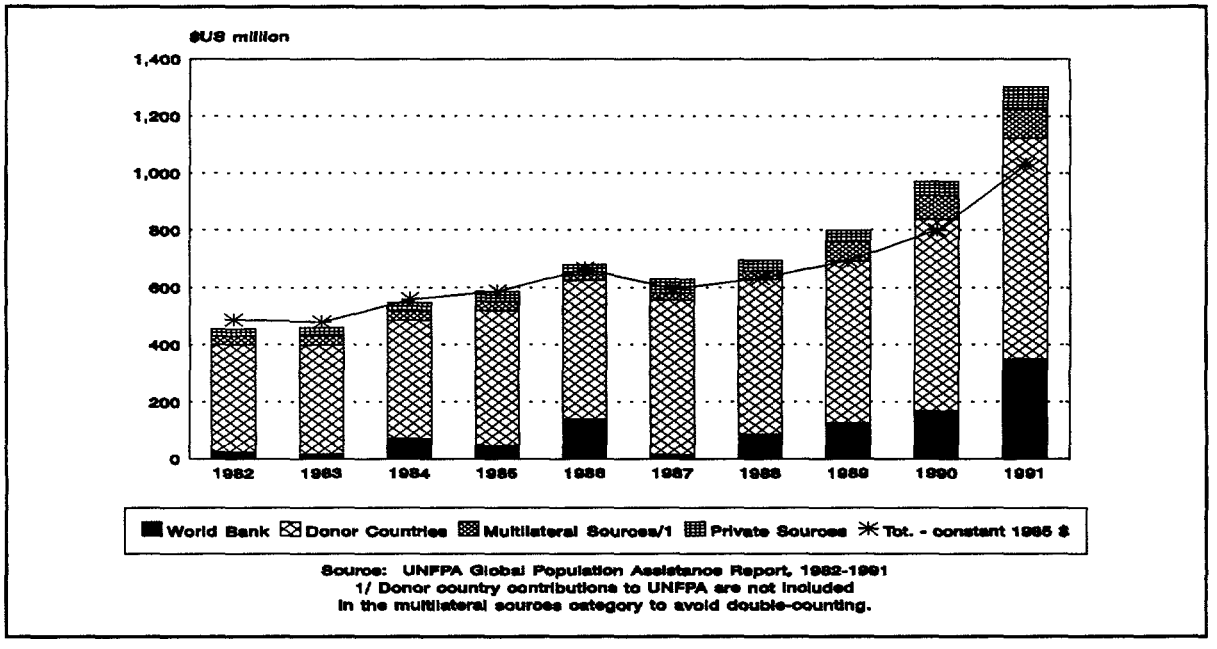
7.4 *Mobilizing Resources for the Future*. The provision of family planning requires modest investments in comparison with a country's other health and development needs. Nevertheless, this does not mean that adequate funding is assured for the needs of the coming decades. Although the per capita costs of providing family planning and related reproductive health services are not expected to increase greatly, the total costs will increase considerably due to the increasing numbers of men and women of reproductive age and projected expanded contraceptive prevalence levels. Even harder to estimate is the added expense as programs broaden their coverage to other aspects of reproductive health.

7.5 In its preparations for the 1994 population conference, the United Nations Population Fund (UNFPA) has estimated that at the global level a doubling of expenditures for family planning (from around $5 billion to around $10 billion in 1993 dollars) will be required to meet these needs. The estimates are imprecise because countries differ greatly in the amount of capital investments they require and in the level of local recurrent costs. Also, costs will vary depending on the content of the essential package of reproductive health services that is provided. The UNFPA calculations suggest that an added $3 billion will be required by the year 2000 to implement such a package.

7.6 Mobilization of needed resources will require increased commitment and effort from the current funding agencies, plus making more efficient use of existing resources. **Donors**, both bilateral and multilateral, will need to intensify their support for family planning in the face of competing priorities and pressures. **Developing countries** will also need to contribute more, both through additional budgetary allocations to family planning and/or redirection of government funding towards interventions such as family planning as part of a package of essential services and through user payments for part or all of the services provided through public or private channels. **Efficiency gains** may also be possible through more effective use of existing resources. NGOs and other private channels can be better utilized to take greater advantage of their relative strengths; resource allocations within programs can be better monitored to ensure greater technical and economic efficiency.

3/ See Annex A for a description of the international population assistance network.

Figure 2 Global International Population Assistance in Current Dollars



8. THE BANK'S ROLE

8.1 *The Bank's Comparative Advantage in Population Work.* The World Bank's role in population has been shaped by its comparative advantage in a number of areas vis-a-vis the many multilateral, bilateral, and NGOs involved in population work. The Bank brings particular strength in sector and economic analysis, which together provide a basis for the policy dialogue between the Bank and borrower countries. Bank resources, though available only through loans and credits, are usually more ample than nonreimbursable grant funds. Other donors offer grants, which are often a more attractive funding mechanism for population programs than are loans. Donors such as UNFPA and USAID have large staffs with technical and organizational skills in population and deploy a large numbers of those staff at the field level.

8.2 *Increasing Annual Commitments and an Expanding Portfolio.* Over the past 25 years, the Bank has been an active player in the population field, lending more than an estimated $1.7 billion to support population activities through more than 100 projects. The value of the total portfolio has increased steadily, reaching $50 million in FY73, $295 million in FY83, and a current (FY93) value of over $1.1 billion, representing 73 projects under Bank supervision (either free-standing population projects, or health and social development projects in which family planning is a significant component). New commitments vary considerably by year, but the trend has been steadily upward.

8.3 *An Integrated Approach.* The Bank's population projects have changed over time to reflect not only its growing understanding of the complexity of the relationships of population to development, but also the awareness that many factors affect reproductive behavior. The Bank

recognizes that other investments in human development affect the desire for smaller families, in particular girls' education. Many Bank projects have included family planning within larger primary health and nutrition projects, leading to mutually reinforcing effects for both better health and increased demand for family planning. 4/

8.4 *Bank lending for population, health, and nutrition (PHN)* has increased substantially, from an annual average of $77 million in new commitments during the four-year period FY80-83 to an annual average of $1.3 billion during the four-year period FY90-93. In addition to increased access to high-quality family planning, these investments have expanded a range of reproductive-health services that are reducing child and maternal mortality and morbidity. Also, Bank investments in education (which amounted to $1.9 billion in FY93) are increasingly being targeted on keeping girls in school. The objective of these investments is to empower women as producers rather than as child bearers and to reduce their dependence on their husbands and sons, which contributes to high fertility. Overall Bank investments in the social sectors currently total about 15 percent of its lending.

8.5 *Complexity.* As the Bank responds to current changes in the population environment--the increased diversity of client needs and the trend toward a more integrated approach--it is contributing to more effective population programs in borrower countries. As a result, it is also being required to develop projects that combine a greater variety of components and co-financing mechanisms. This complexity raises the time costs for analysis and project formulation, and places greater demands on the institutional capacity of borrower countries for the implementation of those projects.

8.6 *Supervision and Skill Mix.* Investing in the social sectors is labor intensive and requires specialized technical and organizational skills; for reasons indicated above, population offers additional challenges, particularly in the supervision of projects. Some of the Bank's more successful population and health projects have, in fact, included provision for resident management staff to strengthen supervision capacity (e.g., in Bangladesh and Kenya). The experience of other donors also suggests a strong relationship between the intensity of in-country management effort and the effectiveness of projects. The Bank has been making a special effort to improve supervision and strengthen its skill mix in needed technical areas and to assure that it is responsive to borrowers' needs. It is also exploring mechanisms for drawing more effectively on technical expertise in specialized United Nations agencies such as UNFPA and WHO.

8.7 *Donor Coordination.* Another way to increase the Bank's effectiveness in population would be to find new opportunities for donor coordination. The Bank's work in population has already benefitted from considerable donor coordination, both at the level of country programs and at the international level. Cofinancing by governments and other donors at the country level led to total project cost support to population in FY93 that was twice as large as the Bank lending figure. In the case of Zimbabwe's Second Family Health project (approved FY91), the Bank mobilized $17.7 million in grant funds for population, leaving no need for Bank lending for that component. The Bank conducts regular consultations with UNFPA staff at both the headquarters

4/ Annex B summarizes Bank population lending and explains how amounts were allocated for population.

and field levels and is seeking to strengthen collaborative mechanisms for project design and implementation activities.

8.8 *Policy Dialogue*. Given the expanding needs, the Bank's proven capacity to mobilize resources will become more important than ever in the coming decade. The Bank will continue to use and strengthen its sector work and policy dialogue to urge governments to examine demographic issues in light of other development priorities and to make funding allocations as appropriate. The Bank will continue to draw government attention to the many modalities available for funding and provision of services, and identify and urge changes in constraints on access to family planning information and methods. It will point out that public policy can encourage or inhibit private-sector work in population. For example, misdirected public subsidies can undercut or crowd private providers out of markets for segments of the population that do not warrant public subsidies. The legal and regulatory environment can also work against the private sector, whether by limiting or restricting importation of contraceptives, by imposing price controls, by limiting the flow of information in the sector, or by requiring overly restrictive reporting and oversight standards.

8.9 *In Sum*, the Bank will emphasize the following:

- Working with borrower countries and other donors to mobilize financial and other resources required to meet the growing demand for family planning, reproductive health services, and education;

- Assisting borrower countries through its own strategic investments in these sectors, with emphasis on infrastructure, institutional capacity, and effective management of sector activities;

- Coordinating the mobilization of resources as much as possible with the effort to expand the core package of essential health services called for in the 1993 *World Development Report*, and applying that report's guidance on health finance and management in working with borrowers on family planning and reproductive health projects;

- Strengthening its skill mix in needed technical areas, applying its available capacity for financial and economic analysis in the sector, and working collaboratively with other donors and specialized agencies that have complementary skills and capacities; and

- Using its analytical capacity and supporting research to broaden the scope of population policy through better understanding of the linkages between population change, reproductive health, and the Bank's broader human development and poverty alleviation agendas; and by recognizing more effectively in country strategies and other key documents the interconnections between population dynamics and successful achievement of those agendas.

8.10 Ultimately, the needs, implementation capacities, and commitment to policy reform of borrowing countries will determine the volume and content of the Bank's social sector lending. On its part, the Bank expects to sustain and expand its recent efforts to work with borrowers in developing and implementing a larger and more comprehensive program in human resource

development. Of the Bank's three-year planning horizon, sector work in the areas of PHN and education are projected to continue to expand, with an emphasis on completing poverty assessments for all borrowers and improving sector knowledge in support of increased investment. Bank management is committed to a larger program of investment in family planning, maternal and child health, and increased educational opportunities for girls when the country environment is supportive of policy reform and effective implementation. While detailed lending projections are subject to considerable uncertainties, present lending plans indicate the recent growth of social sector lending will be sustained over the planning period. Lending for self-standing population projects is projected to increase by 50 percent over the next three years, the annual total of health lending is projected to exceed $2 billion for the first time in FY96, and lending to education is expected to average over $2.5 billion from FY95-97 (with a substantial emphasis on girls education), provided that country environments are supportive.

9. WORKING TOWARD THE GOALS OF THE CAIRO DECLARATION

9.1 Rapid population growth makes it very difficult for poor countries with high fertility and very young populations to reduce poverty, invest in human resources, and pursue sustainable economic growth. Slowing population growth sooner rather than later is thus a high-priority development objective. This is an achievable goal provided adequate resources are mobilized for needed investments in family planning and reproductive health, and in education of girls and other measures to raise women's status. Further, making these investments now will enable poor countries to escape from the treadmill effects of population momentum.

9.2 This conclusion is in accord with the draft declaration for the 1994 International Conference on Population and Development, which recommends that population policy objectives should be integrated with a set of social development goals and that population program strategies should build on the synergistic linkages between demographic behavior and social and economic progress. These recommendations are based on the view that interventions which are responsive to individual needs and aspirations are not only better from a humanitarian and social development perspective but are also more effective in lowering fertility than are programs driven by top-down demographic targets.

9.3 *Agenda for Action*. The Cairo Conference offers a unique opportunity to address the population issue and, by so doing, to make substantial gains in reducing poverty and advancing the human condition. In working with the international community and borrowers, the Bank affirms the Cairo declaration's recommendations for all parties to:

- Put a high priority on family planning and reproductive health. Globally, a doubling of the current very modest level of investments in this sector is called for. In some countries, the needs for expanded services could be met with a reallocation of public expenditures away from activities that could be addressed better by the private sector.

- Support policies and finance programs that build on the synergies between investments in family planning and other human development investments, including those aimed at reducing the continued high levels of maternal and child mortality in developing countries, bridging the gender gap in education, and raising women's economic and social status.

These investments would speed up fertility declines; they are beneficial in their own right; and they should be accorded high priority for both reasons. While resource needs depend on country-specific conditions and are thus difficult to quantify, much could be achieved if, as the Cairo Conference document recommends, governments would allocate the public-sector resources needed to achieve these goals, and if international development assistance agencies would provide increased financial support to those countries placing greater emphasis on the successful implementation of their projects and undertaking effective social sector reforms.

- Pursue sustainable economic growth as an important prerequisite for human development and for fertility decline and recognize that higher living standards for the large numbers being added to the populations of poor countries will be impossible without economic growth, and that openness in trade and technology transfer as well as environmental preservation are necessary for this to happen.

9.4 Ultimately, borrower countries themselves — their governments and people — have the major responsibility to address these challenges. The Bank, through policy dialogue with borrowers and strengthened relationships with other donors, NGOs and grassroots organizations, can focus attention and help them define how to pursue these objectives. Still, very little will be done unless borrowers themselves accord high priority to their population and social development agendas and demonstrate the political will to move ahead with them. The Bank is prepared to seek stronger partnerships with them in order to address these critically important issues.

This issues paper was prepared by Thomas W. Merrick, Manager (Population) with the assistance from several members of the Population, Health and Nutrition Department of the World Bank; and in consultation with Chanpen Puckahtikom, Assistant Director, Policy Development and Review Department of the IMF.

ANNEX A. The International Population Assistance Network

1. International population assistance flows from developed country donors to developing country governments and NGOs both directly and indirectly through a network of multilateral agencies and international NGOs. The United Nations Population Fund (UNFPA) conducts periodic reviews of international assistance, with the most recent one covering the period 1982-1991. Donor assistance to population increased steadily during the 1980s when measured in current dollars. For the three-year period 1989-1991, the total amount of commitments for population assistance from the 17 developed country governments that responded to the UNFPA inquiry averaged $670 million dollars (see Table 2). The 12 countries listed in the table, headed by the United States with $294 million, accounted for almost all (97 percent) of that amount.

2. This assistance flows through a variety of channels, including United Nations agencies and international NGOs. About one-third of overall assistance goes directly from developed to developing country governments in the form of bilateral assistance. The United States channels the largest share, 55 percent, of its assistance in the form of bilateral aid. Other countries whose bilateral assistance is greater than the overall average are Germany (38 percent) and Canada (37 percent).

3. Another third of developing country government assistance is channeled through multilateral agencies, including the UNFPA, WHO, UNICEF, and other United Nations agencies. These agencies made grants either to developing countries governments or to national NGOs in developing countries. Most developed country governments, including Japan, Germany, Norway, Sweden, Netherlands, Denmark, Finland, Switzerland, and Australia, channel half or more of their population assistance through multilateral agencies. The United States, which did not channel any assistance through multilateral channels from 1986 to 1992, resumed funding through them in 1993. The World Bank's commitments to population activities, which averaged $215 million for 1989-1991, are not included in the flows channeled through multilateral agencies because only part of its funding in this sector can be said to originate in contributions (through IDA) from developed country governments.

4. The other main channel for international population assistance consists of international private organizations, which received funding from both developed country governments and from private foundations in developed countries. Some 37 international NGOs responded to the most recent UNFPA inquiry; they reported that they had received income from an additional 113 international NGOs and that they had channeled amounts to an additional 286 international and 105 national NGOs in developing countries.

5. Private organizations are an important source of funding for international NGOs. The largest six, all based in the United States, accounted for 62 percent of the $54 million in annual private assistance to these NGOs over the three-year period 1989-1991; they include the Rockefeller Foundation, the MacArthur Foundation, the Population Council, the Hewlett Foundation, the Ford Foundation, and the Mellon Foundation.

6. A number of developed country donors channel a portion of their population assistance through international NGOs. Slightly less than one-third of developed country government assistance flows in this way. The United States, Sweden, and the United Kingdom channel larger

Table 2: Developed Country Commitments to Population Assistance, by Channel and as Percent of ODA and GNP, Averages for Three-Year Period, 1989-1991

Country	Total, 1000s current $$	Percent Direct Bilateral	Percent Through U.N.	Percent Through NGOs	Percent of ODA	Percent of GNP
United States	293,586	55	0	45	2.94	.005
Japan	62,310	10	65	24	.65	.002
Germany	53,946	38	52	9	.88	.004
Norway	49,179	22	61	16	4.49	.05
Sweden	39,876	4	58	38	2.01	.02
United Kingdom	37,375	24	39	37	1.31	.004
Netherlands	35,742	10	81	9	1.5	.014
Canada	34,711	37	37	26	1.41	.006
Denmark	21,334	2	73	25	1.94	.018
Finland	20,906	2	96	2	2.5	.015
Switzerland	6,182	6	93	1	.86	.003
Australia	5,361	24	52	24	.53	.002
Others (see note*)	9,702	17	72	11	.17	.001
Total	670,210	34	34	32	1.25	.009

Note: Averaged less than $5 million per year each, including Austria, Belgium, France, Italy, and New Zealand

Source: UNFPA, *Global Population Assistance Report, 1982-1991, Unpublished Addendum*

shares of their assistance through international NGOs than the overall average of 32 percent. Five international NGOs accounted for nearly three-fourths of the assistance flowing in this way. These include the International Planned Parenthood Federation (IPPF), the Population Council, the Association of Voluntary Surgical Sterilization (AVSC), the Program for Appropriate Technology in Health (PATH), and Pathfinder International. Most of these larger international NGOs play a dual role as channels of international assistance and as sources of funding — so that the Population Council, for example, is listed as being one of the largest private sources as well as private channels of funding.

ANNEX B. Bank Investments in Population

1. For a variety of reasons, there is considerable interest in having identifiable dollar amounts to assign to population as well as to other project components. Bank staff prepare estimates of these amounts on a project-by-project basis using appraisal reports submitted to the Board for approval. Because Bank management has directed that there be no double counting of sub-sectoral components, what currently gets counted as "population" in Bank lending operations is more narrowly defined than in the past. It is limited to direct and indirect support of family planning service delivery, population policy development, and fertility survey/census work.

2. Based on this strict definition, the key markers of the Bank's contribution to population are as follows: it has loaned more than $1.7 billion to support population activities over the past 25 years; the current (FY93) portfolio stands at $1.1 billion and new commitments for the FY90-93 period averaged $200 million a year (see Figure 3 and Table 3 for summaries of lending statistics). The size of the portfolio has grown steadily, with the current portfolio representing more than 60 percent of all lending ever committed for population activities.

3. One concern about focusing on the trend in "population" components defined in these narrow terms is that such lending figures provide only a partial picture of the Bank's true contribution to the sector; they reflect only the aspect that deals with efforts to increase the **supply** of family planning services. They do not include funding to support fertility reduction by increasing the **demand** for smaller families, although this is also important for a speedy transition to low fertility in developing countries. Three sets of interventions are especially effective in creating a demand for smaller families: those that improve health and reduce infant mortality; those that improve access to education, particularly for girls; and, most fundamentally, those that are targeted to reduce poverty and raise income levels. Further, lending figures do not capture the effects of the other main country-specific efforts of the Bank — economic and sector work and policy dialogue.

4. For example, in health the Bank is involved in a wide range of activities that contribute in various ways to fertility reduction and which, in FY93, amounted to approximately $1.6 billion in new commitments (this excludes the $186 million assigned to population components, narrowly defined). For example, 55 projects with substantial AIDS/HIV prevention and treatment activities have been approved, most of which are currently under supervision. Similarly, at the end of FY93, more than 70 projects with safe motherhood components were under implementation. In addition, the Bank funds child survival interventions, which (like safe motherhood) contribute to broader reproductive health objectives.

5. As noted earlier, Bank investments in education amounted to $1.9 billion in FY93; there is increased emphasis in these projects on keeping girls in school. Strategies to target discrete groups (especially women and the poor) and to help them take better advantage of educational opportunities have been coupled with efforts to increase the capability of local institutions to provide quality education and reproductive health services. In FY93, about 45 percent of all Bank projects approved contained gender-specific interventions. In the PHN sector, that figure jumped to 90 percent; in employment and training, to 83 percent; and in education, to 67 percent.

Figure 3 **Population Loans: Continuing Portfolio and Annual Commitments, FY70-FY93**

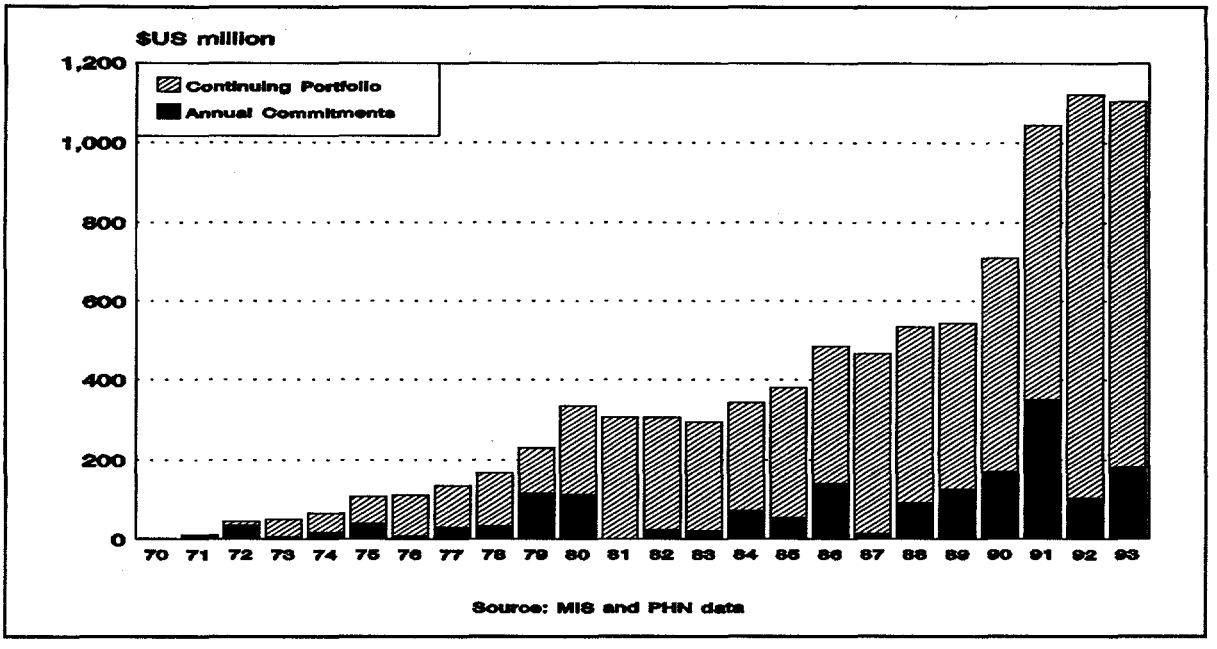


Table 3 Population at the World Bank: Summary Lending Statistics

New Commitments Lending Amount (Current $U.S. millions)							
Fiscal Year	Latin Am. & Car.	Mid. E. & N. Afr.	East Asia	South Asia	Africa	EC	Total
70	2.0	0.0	0.0	0.0	0.0	0.0	2.0
71	3.0	4.8	0.0	0.0	0.0	0.0	7.8
72	0.0	0.0	13.2	21.1	0.0	0.0	34.3
73	0.0	0.0	5.0	0.0	0.0	0.0	5.0
74	0.0	4.8	0.0	0.0	12.0	0.0	16.8
75	0.0	0.0	25.0	15.0	0.0	0.0	40.0
76	6.8	0.0	0.0	0.0	0.0	0.0	6.8
77	5.0	0.0	24.5	0.0	0.0	0.0	29.5
78	0.0	0.0	33.1	0.0	0.0	0.0	33.1
79	0.0	25.0	57.0	32.0	0.0	0.0	114.0
80	0.0	0.0	65.0	46.0	0.0	0.0	111.0
81	0.0	1.1	0.0	0.0	0.0	0.0	1.1
82	0.0	0.0	0.0	0.0	23.0	0.0	23.0
83	1.0	0.0	0.0	18.0	2.0	0.0	21.0
84	0.0	0.0	0.0	70.0	2.7	0.0	72.7
85	0.0	6.2	46.0	0.0	2.6	0.0	54.8
86	0.3	0.0	0.0	129.0	9.7	0.0	139.0
87	6.8	0.0	0.0	0.0	7.9	0.0	14.7
88	0.0	0.0	0.0	62.3	29.9	0.0	92.2
89	0.0	0.4	0.0	124.6	0.4	0.0	125.4
90	15.0	11.9	0.0	96.7	45.7	0.0	169.3
91	10.7	26.0	104.0	75.0	135.3	0.0	351.0
92	0.3	0.0	0.0	63.3	18.7	20.9	103.2
93	21.1	72.2	33.8	52.0	2.0	0.0	181.1
Totals	**72.0**	**152.4**	**406.6**	**805.0**	**291.9**	**20.9**	**1748.8**

REPORT ON DEVELOPMENTS IN NON-OIL COMMODITY PRICES

(Prepared by IMF staff in Consultation with World Bank staff)

INTRODUCTION

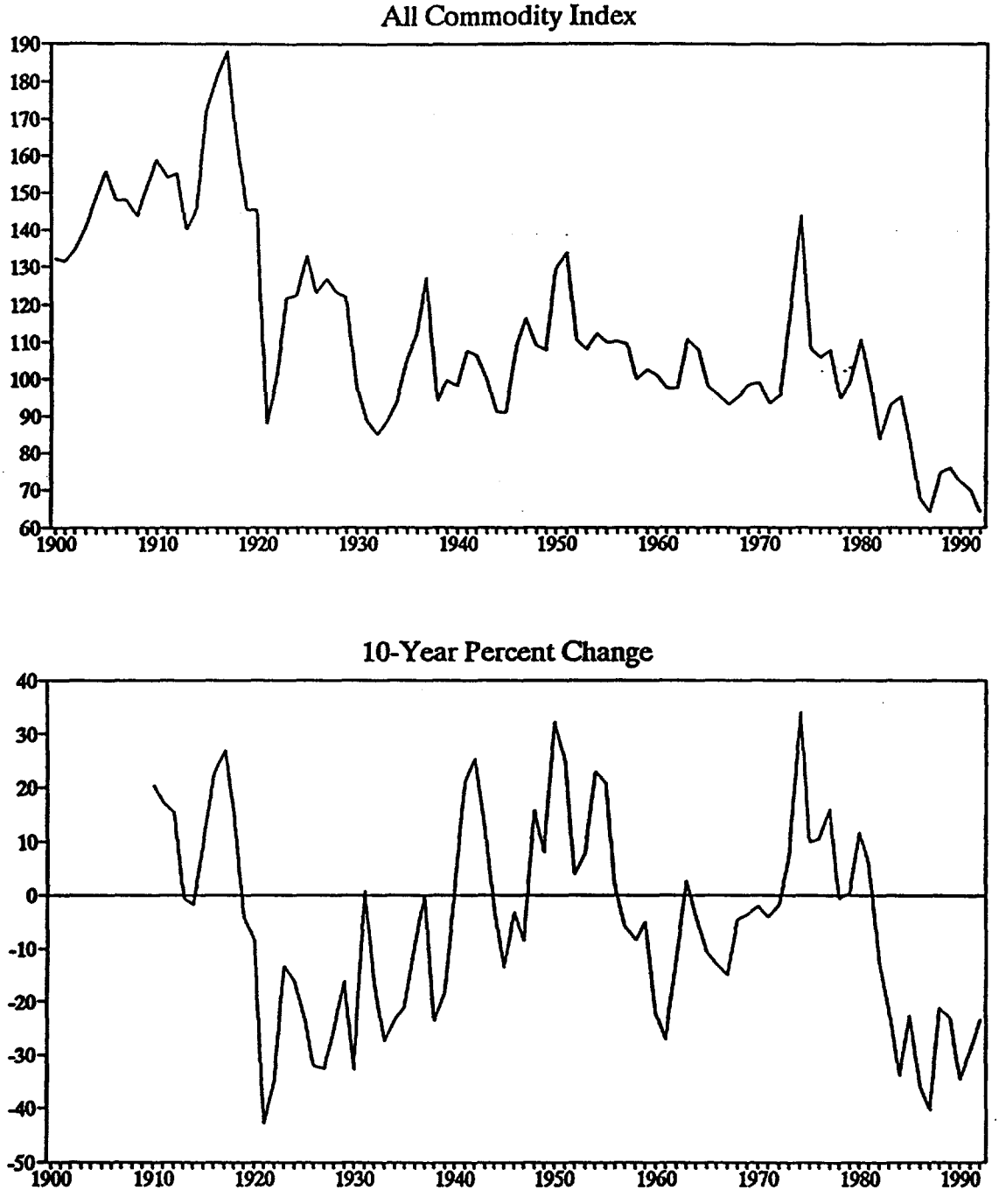
1. Real non-oil commodity prices have been declining almost continuously since the early 1980s and continue to show weakness. Since their short-lived recovery in 1984, real non-oil commodity prices have fallen by about 45 percent, translating into a sharp deterioration in the terms of trade for most commodity-dependent exporters. As Chart 1 illustrates, in 1992 the price of non-oil commodities relative to that of manufactures reached its lowest level in over 90 years. 1/ The issue has important practical implications for policymakers. For example, the presence of a negative trend in commodity prices implies that many developing countries face declining export earnings, and further that efforts to stabilize the incomes of commodity producers for an extended period of time may not be financially sustainable.

2. While the decline in prices has affected all commodity-producing countries in some measure, for some countries the growth in the volume of exports has been large enough, such that they have not experienced a decline in total real earnings from commodity exports. As can be seen from Chart 2, industrial countries and Asian countries have achieved sustained increases in the real value of their commodity export earnings. Latin American countries have generally maintained the real value of their commodity exports, while for the African countries the commodity price decline of the last decade has caused a sharp decrease in the real value of exports, as the volume of their exports has declined as well. As shown in Chart 3, the regional pattern of the evolution of commodity exports suggests broad similarities across commodity groups.

3. The decline in commodity prices is having its largest impact on countries with the least diversified production structures. Primary commodities still account for the bulk of exports in many developing countries. Moreover, this latter group of countries which encompasses many of the lowest-income countries in the world, tends to have less flexible economic systems, making substitution away from commodity production more difficult or costly. In effect, the reliance on primary commodities as the main source of export earnings has only slightly diminished over the last two to three decades for many countries, particularly in Africa, where manufactures often account for less than 15 percent of merchandise exports (see Table 1). While a more diversified export structure is not necessarily an economic objective in and of itself, export diversification is an important way of reducing the vulnerability to volatility and sustained declines in commodity prices.

1/ Throughout this paper references to commodity prices and exports exclude energy products.

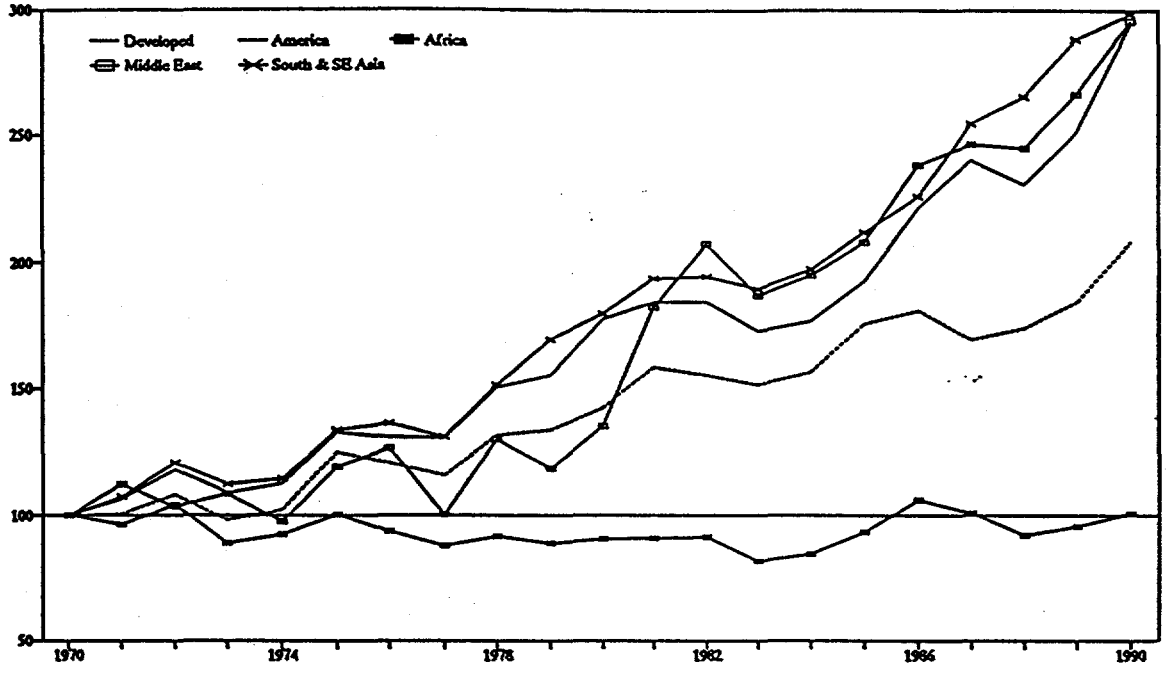
Chart 1. Real Non-Oil Commodity Prices: Long-Term Developments, 1900 - 1992



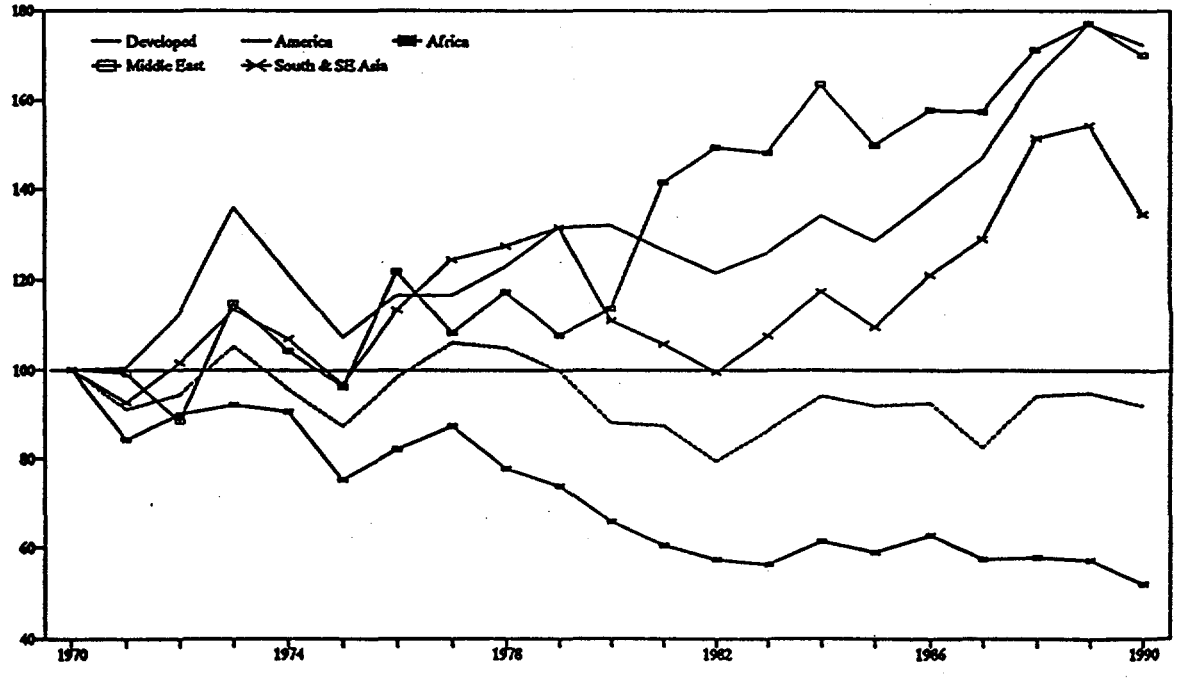
Sources: Grilli and Yang and International Monetary Fund.
Note: Commodity prices are deflated by the export unit values of manufactured goods.

Chart 2. Volume and Real Value of Non-Oil Commodity Exports
(Index Numbers: 1970=100)

Volume of Commodity Exports by Region



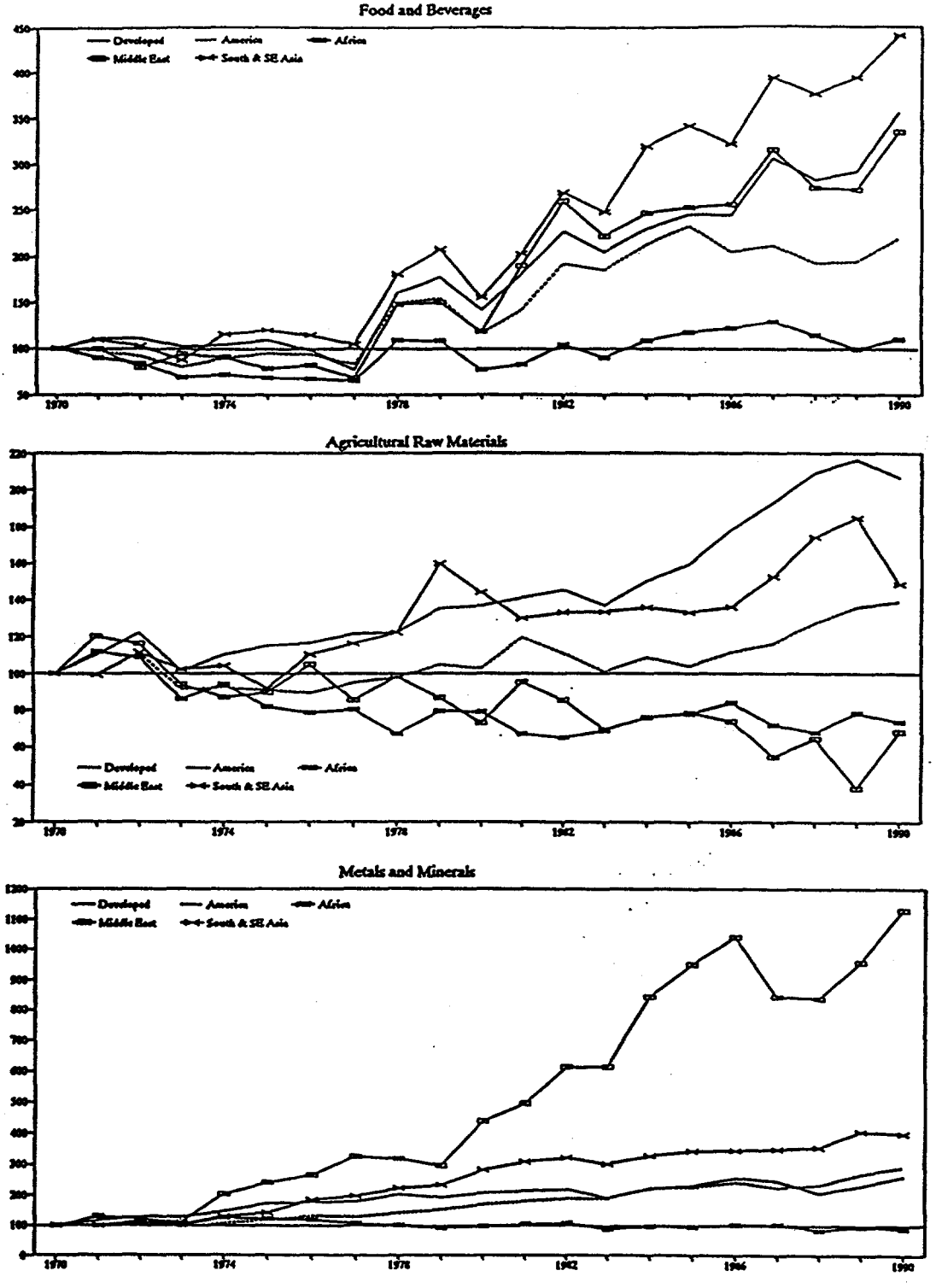
Real Value of Commodity Exports



Source: UNCTAD, Handbook of International Trade Statistics.

Chart 3. Export Volumes by Region and Commodity Grouping

(Index Numbers: 1970=100)



Source: UNCTAD, Handbook of International Trade Statistics.

Table 1. The Structure of Merchandise Exports: Selected Developing Countries 1965 and 1990

(As a percent of merchandise exports)

Country	1965			1990		
	Fuels, minerals, and metals	Other primary commodities	Manufactures	Fuels, minerals, and metals	Other primary commodities	Manufactures
Africa						
Burundi	0	94	6	0	98	2
Côte d'Ivoire	2	93	5	10	80	10
Kenya	13	77	10	19	70	11
Mauritania	94	5	1	81	13	6
Senegal	9	88	3	22	56	22
Tanzania	1	86	13	5	84	11
Asia						
Malaysia	34	60	6	19	37	44
Pakistan	2	62	36	1	29	70
Philippines	11	84	5	12	26	62
Sri Lanka	0	99	1	6	47	47
Thailand	11	86	3	2	34	64
Latin America						
Argentina	1	93	6	6	59	35
Bolivia	93	4	4	69	27	14
Brazil	9	83	8	16	31	53
Colombia	18	75	7	32	42	26
Mexico	22	62	16	43	13	54
Uruguay	0	95	5	0	60	40

Source: World Development Report, 1992, World Bank.

CHARACTERISTICS OF COMMODITY PRICE BEHAVIOR

4. An analysis of commodity price behavior suggests that the recent weak- ness in real commodity prices is primarily of a secular persistent nature, and not the product of a large but temporary cyclical fluctuation. 1/ For illustrative purposes, Chart 4 reproduces from IMF (1994) the estimated permanent or trend component for real commodity prices. The difference between the permanent or trend component and the actual price series constitutes the estimated cyclical or temporary component. As Chart 4 highlights, as of mid-1993, the real value of the non-oil commodity index was very close to its permanent component. Moreover, the temporary shocks that drive the cycle exhibit a fair degree of persistence. While shocks to metal prices are the least persistent (becoming quite small in 6 to 7 quarters), shocks to the prices of beverages persist for 12 to 13 quarters. From a policy perspective, the difference between permanent changes in prices and temporary, but highly persistent, ones may not be that significant as attempts to smooth out their consequences would imply similar sustained costs.

5. These results indicate that there is little evidence that commodity prices will reverse the decline of the past decade, as would be the case if the fluctuations were purely cyclical in nature. It should be noted, however, that the permanent (or trend) component of commodity price movements can itself change over time; while there is some evidence that the downward trend has steepened in the recent past, it nevertheless cannot be ruled out that factors influencing the trend will exert a more positive influence in the future. In effect, there has been has been a recent increase in the prices of many commodities. However, it is too early to determine if the rebound is cyclical and due to the economic recovery in many industrial countries or due to a fundamental change in the underlying trend.

6. There is also evidence that the volatility of real commodity prices has been steadily increasing since the 1970s. Shocks to commodity prices appear to have become larger than in the comparatively stable 1950s and 1960s. The breakdown of the Bretton Woods exchange rate system, and the oil shocks of the 1970s and 1980s are considered to have contributed to the rising volatility. This trend has apparently continued during the 1980s and 1990s, stressing the potential benefits for an exporting country from pursuing hedging strategies using available market-based instruments or, more generally, from precautionary savings to provide a buffer against negative shocks to commodity prices.

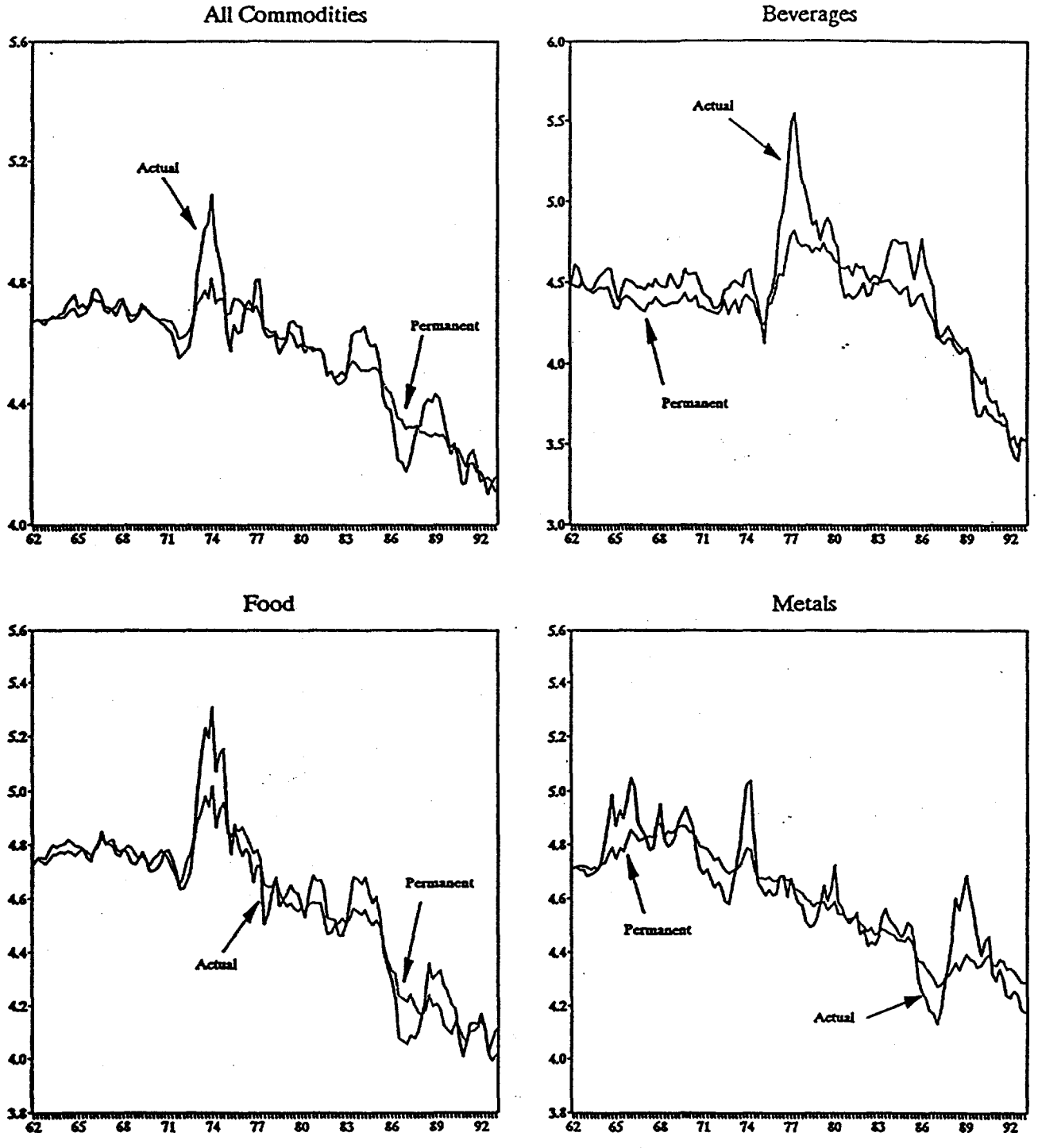
THE DETERMINANTS OF COMMODITY PRICE MOVEMENTS

7. Analyses of commodity market developments have usually focused on the macroeconomic conditions in industrial countries as the principal factor affecting commodity prices. Given the role of many commodities as inputs for production by manufacturing industries, their demand is closely related to the level of industrial economic activity, the major part of which takes place in industrial countries. 2/ Therefore, the trend decline in commodity prices is, at least partially, related to the secular slowdown in the growth of real output in the industrial countries which

1/ IMF (1994); see also Reinhart and Wickham (1994).

2/ Even with an increasing fraction of industrial activity taking place outside the group of industrial countries, indicators of economic activity in that group are still relatively good proxies for world demand because of international linkages.

Chart 4. Real Non-Oil Commodity Prices: Trends & Cycles 1962:I - 1993:II



Sources: IMF, International Financial Statistics and Reinhart and Wickham (1994).

has been observed since the early 1970s, with 1973 marking the end of the strong postwar expansion phase for most countries. In addition, a declining intensity of resource use for some commodities due to technological change, particularly for metals in industrialized countries, has contributed to reduced rates of growth in the demand for commodities.

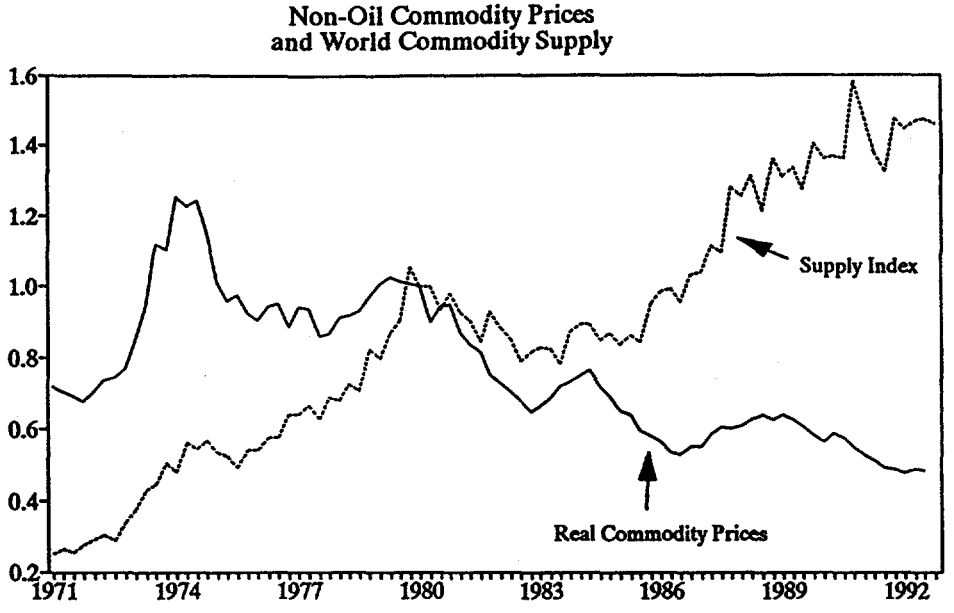
8. However, a remarkable feature of developments in commodity markets in the 1980s has been the vigorous growth in the volume of imports of commodities (Chart 5). Since 1983, the volume of imports of commodities has almost doubled even though, during the same period, GDP of the industrial nations grew by less than 30 percent. Imports of commodities also grew faster than those of other goods, as world imports of all type of goods increased by approximately 70 percent in real terms during the same period. This large increase in the volume of commodity production and trade suggests the importance of supply-side factors in explaining price developments. These data suggest that the decline in prices cannot be explained by demand factors alone, and that rapid expansion in supply outstripping the growth of demand for commodities plays an equal, if not more important, role.

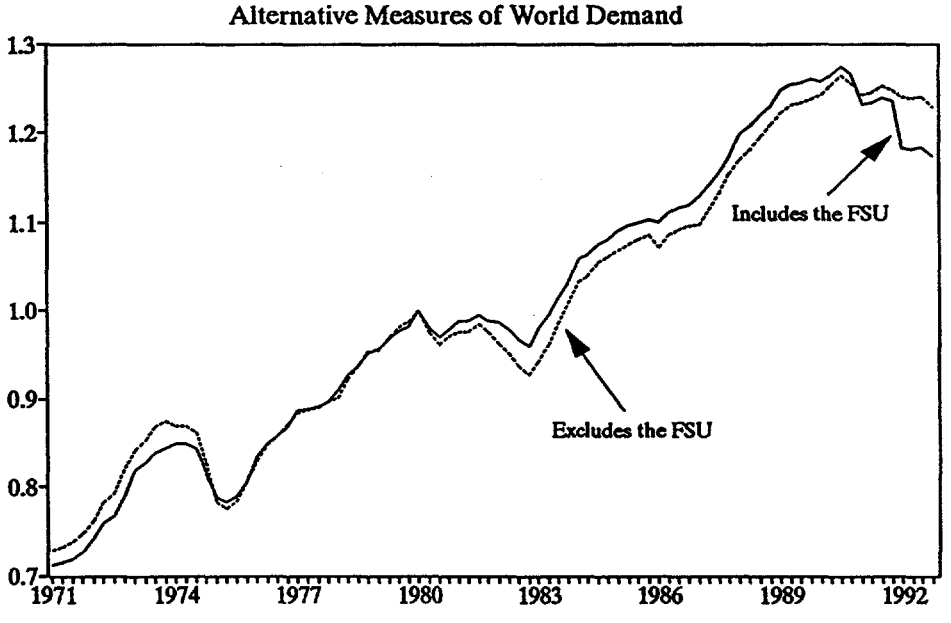
9. A number of factors have contributed to this expansion in supply. Technological innovation and productivity enhancement has contributed to a persistent expansion of supplies of numerous commodities, both in developing and industrial countries. National (or transnational in the case of the European Community) agricultural policies in the industrial countries typically have also acted to stimulate output and discourage consumption, thereby reducing import needs or increasing supplies available for export. In the early 1980s, many developing countries faced considerably more restricted borrowing opportunities in international financial markets as the debt crisis unfolded. This situation required balance of payments adjustment, which brought about policies geared to encouraging exports and may have contributed to the expansion in commodity supplies in some developing countries. Further, the collapse during the 1980s of international stabilization schemes for some major commodities, particularly tin and coffee, also contributed to the supply expansion and the downward pressure on prices.

10. Since 1990, another major shock affected commodity markets, namely, the aftermath of economic developments in Eastern Europe and, particularly, the former Soviet Union (FSU). These countries are large participants in international trade in commodities, both as importers (especially of grains) and as exporters (particularly of metals). Their demand for imported commodities fell concomitantly with the fall in output and aggregate demand that followed the collapse of the centrally-planned economic systems. But the impact of this recent shock is probably more pronounced in the metals markets, where the FSU is an important supplier, and where dramatic increases in exports were observed in some cases. For example, zinc exports from the FSU rose by nearly 700 percent during 1989-92. Some examples of the decline in imports and the increase in exports of commodities by the FSU are shown in Table 2.

11. In general terms, it does not appear that developments in Eastern Europe and the FSU will affect commodity prices in a permanent way. While the restructuring of industrial production into a more marketable composition may take some time and gains in the efficiency of resource use can be expected, it will eventually induce a recovery in domestic demand; unnecessary stocks of metals will be run down, the eventual adjustment of domestic energy prices will reduce excess profitability, and a more complete price and trade liberalization--along with the privatization of industry--will eliminate incentives for arbitrage- or capital flight-motivated exports. However, it

Chart 5. Factors Affecting Commodity Markets





Sources: Commodity Research Bureau, International Financial Statistics, World Economic Outlook, and Borensztein and Reinhart (1994).

Table 2. Demand and Supply for Selected Commodities of the Former Soviet Union

	Percent Change 1989-92	FSU imports as share of world imports: 1989 (percent)
Import Volumes		
Cocoa 1/	-48.1	4.8
Corn	-62.7	26.0
Tea	-55.7	26.9
Wheat 2/	-17.0	21.3
Export Volumes		
Aluminum	219.4	8.3
Copper	71.2	5.4
Zinc	686.0	2.2

Sources: International Tea Committee, World Grain Situation and Outlook, and World Metal Statistics.

is difficult to predict what will be the level of metals exports that will be sustained once the transformation of the economies of the FSU Republics is completed.

12. The current trend towards recovery in growth in industrial countries will help to relieve some of the downward pressures in commodity markets but it appears unlikely that it will be sufficient to reverse the declines of the past decade. 1/ The empirical evidence suggests that a 5 percent growth in industrial countries over the next two years (consistent with current WEO projections) would generate an increase of between 6 1/2 and 9 percent in real commodity prices over the same period. For that increase to materialize, however, it would be necessary that other factors, in particular the trend increase in supplies and the economic developments in the FSU, exert a neutral influence on commodity markets.

POLICY ISSUES

13. Both the volatility in real commodity prices and the downward movement experienced over recent years present serious challenges for many member countries of the Fund and the World Bank because of the impact on export earnings, domestic incomes (and hence private savings and investment), and government budgetary positions. The response to volatility in commodity prices, however, gives rise to issues that are quite different from those emanating from secular changes in the average level of prices. It is therefore crucial to correctly interpret market developments in each case in order to elaborate the appropriate policy response or, in fact, to consider whether a policy response is warranted at all.

1. Temporary price shocks

14. Temporary shocks to commodity prices affect both the private and public sectors in the commodity-producing countries. When facing temporary changes in income, the optimal response by individual consumers is to use saving and borrowing in an attempt to smooth the path of consumption. Similarly, governments facing temporary changes in revenue should adjust their spending to be consistent with sustainable levels.

a. The role of government in smoothing income

15. A traditional argument for government to absorb the effects of commodity price fluctuations is based on microeconomic considerations relating to the behavior of private agents. If private agents bear all the commodity price risk, they will tend to face variable and unpredictable income streams over time, with possibly very limited opportunity to smooth consumption. Therefore, it may be optimal for the government to intervene to stabilize the prices received by private agents and thus enhance the welfare of risk-averse individuals by permitting smoother income and consumption streams.

16. Empirical evidence on savings behavior in developing countries is far from conclusive, but it does suggest that consumption smoothing may well take place to a larger extent than traditionally assumed. At the microeconomic level, the evidence that agents react to commodity

1/ Borensztein and Reinhart (1994). See also World Bank (1994).

price instability in a manner consistent with theory is suggestive. It has been found that rice farmers in Thailand, for example, smooth their consumption quite successfully both within and between harvest years. Also, an analysis of the coffee boom in Kenya of 1976-79 found that as much as 60 percent of boom income went into private savings; farmers were aware that the boom was due to frost damage in Brazil and that their income gains were largely of a windfall nature. In contrast, governments in a number of countries have found it difficult to manage appropriately the proceeds of temporary windfall gains. The evidence suggests that governments may be well advised to reassess their intervention strategies and the responsibility they assume for managing commodity price risk at the country level.

b. Intervention strategies

17. In the presence of fluctuations in international commodity prices on the domestic economy, the types of the intervention has been varied, but the most often-used strategies are outlined below.

(1) Stabilization funds

18. Stabilization funds have been designed to deal with the impact of commodity price volatility on government revenues, especially in countries with a heavy dependence on metals and minerals. These funds act as a buffer for government expenditures and financing and have at least two appealing features. First, they impose a rule on governments, designed to use resources optimally from a long-term perspective. The rule should lessen the risk that governments may be tempted to increase spending excessively during temporary booms. And second, they constitute an institutional device by which governments can even out their expenditure, given that countries, as well as individuals, may be limited in their ability to smooth spending by imperfect access to international financial markets.

19. The implementation of such schemes, however, is not without difficulties. One major problem is to set an appropriate benchmark price in order to determine at what rate disbursements should be made from the fund; this is a particularly difficult when it appears that the underlying trend is negative or changeable in nature.

(2) Agricultural boards

20. The other principal type of institutional structure for government intervention has been the state-owned agricultural board or fund. These are usually charged with a domestic price stabilization function, the transfer of explicit export taxes to central government, and a role in determining the extent to which operating surpluses are channelled into a formal stabilization fund or are transferred directly to central government (or to other uses).

21. The experience with these types of intervention strategies raises a number of issues about their desirability. First, stabilization schemes which transfer most of the effects of commodity price fluctuations to government may in fact be prone to exacerbating a country's fiscal management problems. For some countries the exercise of sufficient control over government expenditure is likely to pose serious difficulties.

22. The situation may be further complicated by the fact that, to achieve a significant amount of income smoothing, it may be necessary for a fund to hold a relatively high level of foreign reserves or be in a position to borrow substantial funds from international capital markets for stabilization purposes during downturns in commodity prices. The need for a relatively high level of foreign reserves (on average) arises from the fact that temporary commodity price shocks show considerable persistence and revert relatively slowly to trend. This fact, and the political pressures that may arise in such circumstances, make such a reserves management strategy difficult to implement. In addition, during boom periods it may prove more difficult to enforce discipline on following appropriate project selection criteria. As for international borrowing, many developing countries do not enjoy a credit rating that would enable them to obtain significant resources from private foreign sources.

23. Second, even if improvements to the institutional framework for stabilization schemes were to be implemented, they are still vulnerable to the difficulty of ascertaining ex ante the appropriate price level around which incomes should be stabilized. This requires an evaluation of the temporariness of price shocks and whether and how the underlying trend is changing. In particular, the difficulties that many stabilization schemes experienced from the mid-1980s onward may be traced to a failure to take into account the underlying trend in commodity prices.

(3) International commodity agreements

24. As volatility in international commodity prices affects the economies of all primary product exporters, there is an obvious basis for the idea of cooperative commodity agreements of some kind with the aim of attempting to achieve greater stability in international commodity prices. However, experience with international commodity agreements (ICAs) has not in general been very successful.

25. Two aspects of ICAs should be differentiated. First, ICAs may attempt to increase the average price of a commodity by restricting its supply by some method. And second, ICAs may simply limit price variability, for example, by recourse to buffer stocks. The first aspect is not considered favorably by importing countries and has been a source of contention, while the second one is perhaps less controversial. However, ICAs (or a producer-only scheme) runs the risk of trying to stabilize prices around the "wrong" (nonmarket clearing) price, which can quickly lead to financial nonviability or to the collapse of output-sharing arrangements. The prospects for ICAs playing a role in addressing the issues raised by recent international commodity price behavior appear poor. 1/

(4) External compensatory finance

26. Another means of trying to smooth out the effects of negative temporary commodity price shocks for credit-rationed developing countries has been external compensatory finance from the Fund under the CFF (and subsequently the CCFF) and from the EC under the STABEX

1/ The ICA for rubber is currently being renegotiated following a price dispute in 1993 between producing and consuming countries. Coffee producers are attempting to implement an export retention scheme to improve price prospects.

scheme. 1/ The compensatory element of the CCFF is designed to work best when temporary price shocks hit export earnings over a short period; then the destabilizing impact of the temporary shock can be offset in part by drawing under the facility, subject to early identification of the shortfall, access limits, and an appropriate policy response. In a similar vein, the contingency element of the CCFF is designed through a mix of financing and adjustment to help protect the programs of member countries being supported by Fund resources from being thrown off course by unanticipated shocks to key exogenous variables, such as commodity prices. Clearly, the design of policy responses and the form of Fund assistance to member countries should take into account the nature of the commodity price shock, namely whether it can be expected to be a short-lived temporary shock or one that is likely to be longer lasting.

c. Market-related instruments

27. In addition to the possibility of reacting ex post to commodity price changes, it is possible for countries to trade away much of the commodity price risk, and the accompanying macroeconomic disturbances, by using financial securities such as futures and options. Producer countries can then limit their exposure to unanticipated price changes while investors in other countries assume it.

28. Short-run volatility of commodity prices rose sharply in the early 1970s, and while the problem does not seem to have worsened in recent years, this feature of commodity price behavior has increased the attractiveness of hedging instruments. In addition to well-developed futures and options markets with short-dated instruments for commodities that account for a significant part of total commodity trade, financial innovation has led to developments in other instruments (commodity swaps, commodity options, commodity-linked bonds, forwards) which have increased the scope for hedging commodity risk.

29. Nevertheless, establishing a coherent hedging strategy is not a straightforward proposition and the use by developing countries of futures and derivative markets has only increased relatively slowly. It was for these reasons that both the World Bank and UNCTAD created technical assistance programs focused on increasing awareness of external exposure in developing countries and providing assistance in risk management implementation. 2/

30. Using exchange-traded futures contracts and options purchases can allow countries to offset some of the exposure to risk due to price volatility at the higher frequencies. Maturities tend to be limited to one to two years and market thinness can become a problem for the longer-dated maturities. There are also the costs of hedging in the form of brokerage fees and the like. Nevertheless, access to such markets could be improved if exchange controls and other barriers to hedging risk in commodity-exporting countries were removed. Creditworthiness considerations may, however, make it considerably more difficult for developing countries to access other financial markets, particularly for nonstandard contracts and longer-dated instruments which

1/ It should be noted that such compensatory finance is a loan or a grant to the monetary authority or government of the country concerned. It need not, therefore, necessarily find its way to those who may be most directly affected by an export shortfall.

2/ Among countries assisted by the World Bank have been Chile, Colombia, Costa Rica, Indonesia, Papua New Guinea, Poland, Tunisia, and Uganda.

would allow risk to be hedged more fully over time. Forward, swap, and option sales contracts all require consideration of the counterparty's creditworthiness. In particular, sovereign risk for contracts with private agents and governments in developing countries constitutes a serious obstacle to greater use of OTC markets.

2. Government policies for the longer-term

31. Apart from international commodity price variability, commodity-exporting countries in recent years have also faced a downward trend in real commodity prices. It seems that it would be unwise to base policies on the assumption that the weakness in real commodity prices will be quickly overcome. A stronger economic recovery (and better growth performance over the medium term) in the industrial countries would certainly help, as would continuing high rates of growth in the newly industrialized countries. Some supply-side factors may ease over time (e.g., recent shocks to metals markets from the FSU), but other factors (e.g., structural change in exporting countries and productivity gains due to technical progress) seem unlikely to be reversed. The decline in commodity prices poses the question of what--if any--are the appropriate structural policies for exporting countries, in particular those concerning resource reallocation away from primary products and those involving the type of international trade regime to be adopted.

32. The lessons from the experience in Latin America with inward-looking development strategies are that while a negative terms of trade shock is certainly an adverse development from an exporting country's viewpoint, adding distortions to the domestic economy does not improve the situation. In addition to standard economic arguments, the increasing body of evidence on cross-country growth performance indicates that distortions to international trade and market-oriented resource allocation can have important deleterious effects on economic efficiency.

33. In addition, as policies and developments in one set of exporter countries have repercussions on others, an issue that can be raised is whether policy reforms aimed at enhancing growth prospects and efficiency have improved commodity export performance to the extent of being a major factor in the decline in commodity prices. However, it is not possible to effectively isolate the extent to which structural reform programs and the removal of distortions in a number of primary-producing countries have contributed to the decline in prices. What can be said is that the building up of distortions, such as punitive export taxation in earlier periods, led to lower exports and a higher price path for certain commodities than would otherwise have been the case, just as the removal of distortions may well have led to higher exports over time and a lower price path. It should, however, be stressed that in aggregate real export earnings from commodity exports have increased over time.

34. The growth in the volume of commodity exports has been fairly uneven across regions. During the past decade, Asian economies and industrial countries have led the expansion, with African exports basically stagnant and Latin American performance somewhere in between. It has also been observed that agricultural productivity growth in Africa has lagged behind that in Asia and Latin America. But the implication is that, while for the economies with higher productivity growth the observed price declines may not imply losses in real revenue, economic difficulties would multiply for countries with the poorer productivity performance. Again, these developments do not imply that African or other commodity-exporting countries could make themselves better off by discouraging production of primary goods if that is where their comparative advantage lies.

35. The experience of the fastest growing developing countries shows that their export structures have evolved over time towards greater diversification (Tables 1 and 2). The recent review of the high performing Asian economies (HPAEs) provides some guidance as to how such diversification was achieved. 1/

36. First, while agriculture's share of output and employment in the HPAEs has declined significantly over time, growth in agricultural output and productivity was much higher than in other developing countries. The governments of the HPAEs provided support to the agricultural sector through extension services, agricultural research, pilot schemes, significant investment in irrigation and rural infrastructure (roads, bridges, transportation, electricity and water supplies), and nonpunitive crop taxation. The experience of the HPAEs indicates that establishing a dynamic agricultural sector constitutes an important phase in the diversification process; for lower-income countries the message is that failure to attach a sufficiently high priority to agriculture in favor of other sectors is likely to be counterproductive.

37. Second, in addition to policies that generally provided a stable macroeconomic environment (including appropriate exchange rates), the HPAEs facilitated the more general process of diversification by public investment and institution building, by opening up their economies, by dismantling many of the regulatory barriers to resource reallocation, and by adopting policies or reforms which produced fewer distortions than in many other developing countries.

VIEWS OF IMF EXECUTIVE DIRECTORS

38. The Executive Board of the IMF met on Wednesday, March 2, 1994 to discuss the issues summarized in this report and to consider the implications for Fund policies and operations.

39. Regarding one of the main findings of the paper, namely, that much of the recent decline in non-oil commodity prices appears to be of a permanent nature stemming largely from the supply side, there was concern on the part of Directors with respect to the future price outlook. Directors noted that there were some positive signs for a modest recovery in non-oil commodity prices over the near term, although it appeared quite unlikely that prices would rebound to the levels experienced in the 1980s. Given these uncertainties and the volatile nature of commodity prices, Directors agreed that it would be prudent not to assume that the upturn in current and near-term prices necessarily heralded an improvement in prices over the long term. Thus, it would be wise to err on the side of caution.

40. Several Directors believed that the staff's analysis should have paid greater attention to the demand side, in particular the subsidization of food production in industrial countries and its adverse effects on export prices and earnings in the commodity-exporting countries.

41. Directors considered that the increased volatility of commodity prices, the persistence of shocks, and the difficulties of distinguishing ex ante between temporary and permanent shocks raised important issues with respect to the type of financing provided to member countries, and to

1/ The review of the performance of the HPAEs provides a detailed assessment of the reasons and policies behind the growth performance of the HPAEs. See The World Bank (1993).

the design of appropriate policy responses. If shocks could be identified with reasonable assurance as being of a temporary nature and of short duration, then the provision of compensatory financing would be appropriate; if not, arguments in favor of a more conditional and adjustment-oriented response should prevail. Many Directors also stressed that the increased variability of commodity prices pointed to the need for continued attention to contingency measures that would safeguard programs supported by the Fund. Directors agreed that the issues involved should be examined in greater depth in reviews of the CCFF, and in future discussions on the use of Fund resources.

42. Directors discussed the role of government in stabilizing prices for exports received by domestic producers. While acknowledging the efficient working of some government stabilization policies, Directors generally agreed that intervention tended to become distortionary, and that the objectives of the schemes tended to become unclear and inconsistent over time. It was thus preferable that agents be exposed to the signals embedded in market prices, as the evidence seemed to indicate that private agents were often capable of handling considerable commodity price risk and the consequences for their income streams. At the same time, it was also noted that, in some countries, lack of access to credit markets and other specific factors might at times limit the extent to which a fully noninterventionist approach was feasible or optimal. In that context, several Directors advocated the use of safety net arrangements to shield low-income commodity producers. With regard to agricultural subsidies in industrial countries, many speakers welcomed the reductions in such subsidies that would be implemented under the Uruguay Round.

43. Directors noted that the volatility of commodity prices had contributed to government revenue instability in a number of developing countries. If temporary positive shocks were misread as being of a permanent nature, costly mistakes could be made with respect to government expenditures, which could prove difficult to rectify.

44. Many Directors also drew attention to the role that market-based financial instruments could play in dealing with commodity price risk and lessening the impact of volatility on export revenues. Access to exchange-traded instruments, such as futures and options purchases, was important, but there were limits to this approach, as legal, financial, and technical barriers could restrain access by private agents from developing countries. Directors noted the technical assistance being provided by a number of international agencies in the area of commodity risk management, which they regard as a favorable development that would help countries to utilize market-based instruments.

45. Finally, Directors noted the importance of increased processing of commodities and diversification of production for reducing the vulnerability of commodity-exporting countries to volatile and sustained declines in commodity prices. The process of diversification needed, however, to be conducted in a nondistortionary way, so that the production of primary goods, if that is where the country's comparative advantage lay, would not be discouraged.

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THE URUGUAY ROUND: A PRELIMINARY ASSESSMENT

(Prepared by the World Bank)

I. PREFACE

1. This paper provides a preliminary assessment of the results of the Uruguay Round as they affect developing countries. It draws on information currently available, following the approval by governments of the Uruguay Round package on December 15, 1993. The Uruguay Round is the eighth multilateral trade negotiation undertaken since GATT's inception in 1947. The negotiations encompassed a far wider range of issues than any previous round, and resulted in many substantive changes in international trade rules, as well as the creation of the World Trade Organization (WTO) to replace the GATT. The main areas upon which the negotiations focused can be summarized under the following broad categories:

- Reductions in tariff and non-tariff barriers to trade. The expansion of GATT disciplines for agriculture and textiles and clothing.

- Reform of GATT rules, most notably those on subsidies and countervailing duties, antidumping, and safeguards.

- Extension of multilateral rules to the "new" areas of trade in services, trade-related intellectual property rights (TRIPS), and trade-related investment measures (TRIMS).

- Institutional reforms relating to the settlement of trade disputes and the functioning of the GATT system.

The main results in each of these negotiating areas are set out in matrix form in an annex to this paper.

2. The reforms will be implemented gradually over ten years from the formation of the World Trade Organization. In several key areas, including market access, negotiations are continuing and results will not be finalized until the ministerial meeting to be held in Morocco during April of 1994. The entire package will then be submitted to national legislatures for approval. The WTO is likely to come into force during 1995.

3. The Round achieved much, but the future international trade agenda will remain full. A number of issues are already under discussion in Geneva, and may feature in a future work program for the WTO. Issues that have been raised include the relationship between trade and the environment, labor standards, exchange rates and competition policy. There is already agreement to include trade and environment in the work program.

4. During the course of 1994, the International Economics Department will carry out an in-depth analysis of the Uruguay Round and of the agenda for future trade liberalization, with an emphasis on the interests of developing countries. A World Bank-sponsored conference will be held in early 1995, at which the results of this work will be presented.

II. OVERVIEW

5. The Uruguay Round is the first multilateral trade negotiation in which many developing countries were major and active participants.[1] Developing countries were interested in improved market access, and a Uruguay Round result that would protect them from discriminatory or unilateral power-based trade actions by larger countries. This reflects a heightened emphasis on openness and market-based policy in domestic reform programs, especially in the 1980s. Since the launching of the Uruguay Round in 1986, over sixty developing countries have reported unilateral liberalization measures to GATT. Twenty-four have joined the GATT since 1986, and over twenty are in the process of acceding, including several former centrally-planned economies. Developing countries' interest in the trading system is, in part, driven by their greater involvement in trade, and particularly in manufactures trade. Between 1970 and 1990, the share of developing countries in world manufactures trade rose from less than 10 percent to nearly 20 percent.

6. Significant increases in trade, incomes and investment are likely to accrue to developing countries from the round. Direct gains will be derived from improved market access, especially in agriculture and textiles, and from enhanced efficiency resulting from their own liberalization commitments. More subtle, but potentially more important gains are likely to be obtained from more clearly defined rules for trade and investment, stronger institutions for their enforcement, and exposure to global competition within these rules. Having made new and substantive commitments over a whole range of issues, developing countries have become more active members of the multilateral trading system sharing in the gains and creating opportunities to gain from future reforms.

7. The impact of the Round will be unevenly spread across different groups of developing countries. The benefits are most likely to favor developing countries with open economies and those that have the capacity to adjust and take advantage of new market opportunities. In contrast, some countries may experience adverse terms of trade effects as a result of trade liberalization in the agricultural sector, and some may lose market share through the erosion of trade preferences. But due to gradual implementation of the agreed reforms both positive and negative effects will be fully felt only towards the end of the decade.

III. MARKET ACCESS

8. Detailed information on market access is mostly available for industrial countries. Market access for developing countries in industrial countries will improve moderately as a result of lower duties on industrial goods, and more substantially from the removal or relaxation of non-

[1] At present, total GATT membership is over 115, of whom nearly 90 are developing economies. Three non-members participated in the Uruguay Round (Algeria, China, Honduras). The GATT group of developing countries includes such high-income economies as Cyprus, Hong Kong, Israel, Kuwait, and Singapore, but excludes low and middle-income countries such as the Czech- and Slovak Republics, Greece, Hungary, Poland, Portugal and South Africa. About 70 low and middle-income countries are not members of the GATT, including, in particular, a number of countries in Eastern and Central Europe and the Middle East.

tariff barriers, especially in agriculture and textiles. In services, preliminary results are available for only a limited number of sectors.

Industrial country commitments

9. **Tariffs**. The initial target of the negotiations was to cut average tariffs by a third. In **industrial goods**, the average trade-weighted tariffs in industrial countries facing developing country exporters have been reduced by 34 percent, somewhat lower than the 39 percent overall cuts by industrial countries for these products. This brings weighted average duties in industrial countries from 6.4 percent to 4.0 percent. Reductions are below average (about 20 percent) in respect of the main export items of developing countries -- textiles and clothing, and leather products, although from higher initial levels. Low cuts will be supplemented, however, by removal of non-tariff barriers resulting from the termination of the Multifiber Agreement, and the elimination of voluntary export restraints (VERs), especially on footwear, electronics and travel goods. On tropical and resource-based products, the cuts were above the target: 42 percent and 35 percent respectively. Available information is insufficient to permit firm judgements on the impact of the cuts on tariff escalation.[2] In industrial goods, tariff cuts in general were higher on raw materials and semi-manufactured goods than on finished products. The share of high duties or tariff peaks (duties above 15 percent) was reduced.

10. **Non-tariff barriers**. Most relaxation of non-tariff barriers will be in agriculture, textiles and clothing, and in sectors subject to voluntary export restraints. In **agriculture**, the main achievement lies in bringing this highly distorted sector under more transparent rules and onto a path of gradual liberalization. Initially, all non-tariff forms of protection will be converted to their equivalent in tariffs using the base years 1986-88. Moreover, the tariffs will be bound, i.e. they cannot be increased above agreed levels without compensation to trading partners. These tariffs will then be reduced by an average of 36 percent over a six-year period. The choice of the base years 1986-88 implies high "tariffied"[3] rates for many products as the level of world prices during that period was exceptionally low. This could result in an initial increase in border protection in some countries as a result of the tariffication exercise. In many sensitive temperate agriculture sectors, initial market access in the highly protected industrial countries is likely to remain modest, although minimum access guarantees are established for all agricultural products.

11. Bringing the sector gradually under GATT rules is an achievement in itself, but successful liberalization may still face obstacles. First, systemic reform in agriculture seems to be more ambitious in some respects than in the manufacturing sector, as all non-tariff measures are eliminated and all tariffs are bound (at applied rates in industrial countries). Tighter rules may induce increasing resort to anti-dumping or countervailing duties and special safeguards in order to combat increases in imports. Second, to the extent that the willingness to reform agriculture in industrial countries is motivated by budgetary constraints, the easing of these constraints from

[2]Tariff escalation occurs along processing chains, with higher tariffs for more highly processed goods.

[3]"Tariffication" signifies the substitution of non-tariff measures with tariffs, expressed either in ad valorem terms, or as specific rates. Tariffication was one of the basic commitments that all countries made with respect to agriculture in the Uruguay Round.

reduced export and production subsidies may reduce the momentum for further reform. Third, current and minimum access quotas could introduce a new aspect of managed trade into the system, in the absence of rules on their administration.

12. The interests of developing countries are diverse when it comes to the elimination of **textile and clothing restrictions** under the Multifiber Arrangement (MFA) or other similar restrictions. Some countries are likely to lose export market share and quota rents in the move to freer trade, while others will gain from increased access to the major markets for these products. The phase-out arrangements for the MFA are gradual and heavily loaded towards the end of the ten-year transition period. Textile and clothing products are to be brought under GATT disciplines in four phases based on 1990 volume of imports. Remaining quotas are to be expanded during the transition period at rates slightly higher than currently provided under the MFA. This favors countries with high existing quota growth rates. While no new products can be brought under quota restrictions during the implementation period, products not yet phased into the GATT can be subject to selective safeguards.

13. The elimination of **voluntary export restraints** (VERs) will represent a significant advance in disciplining non-tariff trade barriers. Whether all VERs and similar measures will be notified[4] and eliminated remains to be seen. Their non-transparent character makes their identification difficult at times. The GATT (1993a) has identified about 80 VERs in force on industrial goods outside textiles and clothing. Few developing countries are restricted by these VERs, the exceptions being Korea, Brazil and China, who are affected mainly on consumer electronics, travel goods, and footwear.

14. **Services**. In services, final market access results will only be known in two to three years, as negotiations in many key sectors require further time. Moreover, assessment of the value of existing offers is made difficult by the very nature of liberalization in the sector, which often entails deregulation measures within countries. Services, especially labor-intensive services, are an important sector for developing countries. Almost half of the developing countries participating in the Uruguay Round receive over 20 percent of their total foreign exchange earnings from exports of commercial services (GATT 1993b). Most preliminary offers include commitments on computer-related services. Construction and professional services and tourism are also covered in a number of offers. Although most offers seem to have bound existing levels of protection rather than lowering them, increased security of market access will be a benefit to foreign suppliers and local consumers and investors.

Developing country commitments

15. The active participation of developing countries in making commitments in the round changed the emphasis of "special and differential treatment" provisions for developing countries in GATT. The term "special and differential treatment" denotes exceptions to generally applicable rules, or to the manner or timing of their application, designed to accommodate the development needs of developing countries. A main concern of developing countries in previous negotiations was to define exceptions from the multilateral rules. This time, their interest in

[4] In GATT terms, a notification is a formal requirement to inform the GATT secretariat of specified measures or policies.

improving the international trading system has led many developing countries to seek special and differential treatment provisions which are largely concerned with defining adjustment times within which commitments would come into force, rather than with the open-ended exemptions of the past.

16. **Tariffs**. Most developing countries made significant commitments on market access during the round. In GATT negotiations developing countries can either offer to bind[5] their duties at some maximum level or reduce already bound duties by a negotiated percentage. In the Uruguay Round some developing countries have committed to cuts in previously bound tariff rates, but no detailed information is yet available on their levels. As most developing countries had few bindings before the round, many tariff commitments from developing countries in the Uruguay Round are in terms of "ceiling" bindings at about 25-35 percent.[6] Although final results will not be available before April 1994, preliminary offers show the proportion of bound tariffs increased five-fold in the agricultural sector (to 89 percent of tariff lines), and three-fold in the industrial goods sector (to 65 percent of tariff lines).[7] Bound tariffs in agriculture will be reduced gradually during the implementation period for the Uruguay Round. Least developed countries[8] are exempted from the reduction commitments.

Box 1. Developing Country Commitments in the Uruguay Round.

The integration of all commitments within a single structure under the World Trade Organization means that all the agreed texts have to be adopted by all participants. In many areas, the special needs of developing countries are acknowledged in longer transition periods in implementing the commitments. Only least-developed countries are totally exempted from some obligations. The following are the main obligations undertaken by developing countries:

i) Increase in the number of duties bound and some tariff reductions on both industrial goods and agriculture. Tighter disciplines on agricultural policies.

ii) Over 70 developing countries made commitments in services including many least-developed countries.

iii) Developing countries have agreed to remove prohibited export subsidies and submit their policies to international rules.

iv) Trade distorting investment measures are to be eliminated in 5-7 years (local content requirements, trade balancing).

v) Protection of intellectual property will gradually be extended in several areas.

vi) Developing countries will adopt the framework agreement on services.

See Annex for details.

[5]Bindings are maximum tariff rates set on individual products, but countries can apply lower rates in practice.

[6]Ceiling bindings are a commitment not to raise tariffs above a specified level which can be above the currently applied rate.

[7]The data refer only to 28 of the nearly 90 developing countries that participated in the round.

[8]GATT uses the United Nations definition of least developed countries.

17. Bindings increase the security of market access, and create a basis for future reductions in duties. But in a good number of developing countries, levels of duties bound in GATT may be substantially higher than applied rates, making the reduction in the bound tariff much less valuable than an equivalent reduction in the applied rate. The substantial unilateral liberalization undertaken in recent years by many developing countries does not count as part of the Uruguay Round offers, as long as these reductions are not bound in GATT.

18. **Other**. Very little precise information is available on other commitments by developing countries. In services, over 70 developing countries have made commitments to open their services markets. Examples of commitments include the right of establishment for foreign banks, or a right for foreign lawyers to practice in one's territory. Developing countries also made substantial commitments to reduce various non-border barriers to trade (Box 1). These measures all reduce discretion in trade policy, increase competition in domestic markets and increase security of market access.

IV. EXPANDED COVERAGE, RULES AND INSTITUTIONS

19. Although less tangible than market access measures, the quality and content of behavioral rules, and the institutional setting in which they are framed, are key determinants of the conditions under which international trade is conducted. Frequently, the rules have to strike a delicate balance between excessive flexibility that dilutes the system, and excessive strictness that strains adherence. Greater restraint on the use of rules in one area may also reduce compliance in another. The elimination of VERs, for example, could provoke intensified use of antidumping measures. The effectiveness of new rules will depend to a significant degree on the ability and willingness of governments to use their multilateral commitments as a vehicle for controlling domestic pressures for protection and defending the public interest. In contrast with previous rounds, developing countries have now agreed to most of the rules, although longer adjustment periods have been negotiated (see Annex).

Rules on safeguards, subsidies and countervailing duties, and antidumping

20. **Safeguards**. The GATT contains safeguards provisions (Article XIX) designed to safeguard domestic producers against damage resulting from rapid increases in imports. The poor functioning of the GATT's safeguards provision was partly responsible for the proliferation of grey area measures.[9] Compromises on non-discrimination and compensation have been designed to make the elimination of VERs more palatable. This means that safeguards can now be applied selectively in some circumstances, have limited time frames and do not require compensation to the affected trading partners for the first three years. The Uruguay Round text revised the rules on safeguards to make them more user friendly to entice countries away from using discretionary, non-transparent and largely uncontrolled measures of contingency protection.

21. **Subsidies**. The round clarified rules on subsidies, which may reduce some of their trade distorting effects or the need to use countervailing duties. Subsidies are now classified as

[9]Grey area measures are protection measures of questionable legal standing under GATT, such as quantity-based bilateral trade restraints (voluntary export restraints).

prohibited, allowable but actionable, and allowable and non-actionable[10]. Certain subsidies are now prohibited for all countries (non-agricultural export subsidies and subsidies contingent on domestic content requirements). Prohibited subsidies are to be eliminated within set time limits. For many developing countries this can imply important changes in existing policies. Another set of subsidies are now clearly permitted under certain criteria (non-specific subsidies, regional aid, structural adjustment assistance, environment and R&D). Other subsidies can be challenged, if they harm the trading interests of other countries. The willingness of developing countries to forego their claim to an open-ended right to use export subsidies should help in reducing friction in the subsidy/countervail area.

22. **Antidumping.** Antidumping has increasingly become the cutting edge of restrictive trade policy. It is the pressure valve of the system. Not surprisingly, antidumping was among the most contentious and intractable subjects on the Uruguay Round agenda. Despite an effort to tighten the rules, they will remain subject to discretionary interpretation in national laws. The most important issue unresolved is the extent of multilateral authority to challenge the substance of national antidumping policies through the dispute settlement provisions. Developing country interest in tighter rules and multilateral surveillance of antidumping investigations has grown along with the caseload against the exports of these countries. Resort by developing countries to antidumping actions of their own is also on the increase, and could undermine gains from trade liberalization.

The new areas -- Services, TRIPS and TRIMS

23. **Services**. The framework agreement for services breaks new ground, and is a major achievement in itself. The central benefit of the services agreement is to establish a framework of disciplines on the conduct of business in this sector. The agreement will also initiate a gradual process of liberalization in services. Defining appropriate rules proved difficult, largely because market access in services often goes beyond border measures and calls for rights of establishment or trans-boundary movement of service providers. The agreement extends the basic principles of non-discrimination and national treatment to services. However, the disciplines are weaker than in goods, as exemptions from the non-discriminatory most-favored-nation (MFN) principle can be made on a time-limited basis. Moreover, national treatment[11] is not automatic, but can be negotiated. The existence of a framework agreement and access commitments may not be enough for welfare improvements in many sectors unless domestic deregulation also occurs. This is likely to be one of the issues to be taken up in future negotiations.

24. **TRIPS**. Protection of intellectual property will be gradually extended to all countries under the agreement. It sets out minimum standards of intellectual property protection in seven areas (see Annex), and establishes mechanisms for their enforcement and for multilateral dispute settlement. Some see adherence to rules on TRIPS as preconditions for attracting investment in high-technology industries and the international transmission of technology. A

[10]Actionable means that a trading partner can challenge the subsidy either in GATT or impose countervailing duties if the subsidy has adverse trade effects.

[11]National treatment means no discrimination between domestic and foreign suppliers.

number of developing countries will derive benefits from the agreement, especially those that have started to develop and export knowledge-intensive products and services. Major examples of this are computer software, and tropical agriculture-related technology. Countries with less immediate scope for attracting high-technology investment or exporting intellectual property tend to regard TRIPS as a mechanism for transferring economic rents to technologically advanced countries.

25. **TRIMS**. The Uruguay Round agreement will limit the use of certain trade-related investment measures such as local content requirements and trade balancing, which have to be eliminated within set time limits. The agreement, while modest, may be a precursor of multilateral discussions on investment and competition policy. Investment rules can act as taxes or subsidies on trade and discriminate among suppliers. The effects of investment measures on resource allocation and trade flows have not been widely researched and there is some disagreement as to their trade-distorting effects. Some measures may only affect the distribution of rents between host and source countries. TRIMs are often related to other investment incentives and only cover a small part of all investment policies that may have trade effects. Disciplines on one sub-set of policies can sometimes shift the distortions to other policies, which may be less transparent. This is undoubtedly an area where more work will need to be undertaken.

Institutional reforms and dispute settlement

26. One of the most visible achievements of the Uruguay Round is the creation of the World Trade Organization and the absorption of virtually all GATT and Uruguay Round agreements under one umbrella. This will have important implications for the multilateral trading system. First, the existence of the WTO is hoped to reduce the use of unilateral trade remedies. The WTO will stand on a firmer legal basis than the existing GATT arrangement. The integrated dispute settlement system will reduce "forum shopping,"[12] and the revised rules will speed up the settlement of disputes. More demanding procedures leave less room for maneuver and intensify pressure on countries to comply with rulings. Second, by transforming the system into a single undertaking, all texts have to be adopted by all participants, including all developing countries. This will reduce the splintering of the system into multiple layers of differing rules. For developing countries, it means fuller participation in the rights and obligations of the multilateral trading system. Third, the text also foresees closer cooperation between the WTO, the World Bank and the International Monetary Fund (IMF), in order to improve the coordination of trade, financial and other policies. In the coming months work will be undertaken to define the nature of the collaboration between the institutions.

V. PRELIMINARY ASSESSMENT OF THE URUGUAY ROUND RESULTS OVERALL IMPACT

27. The Uruguay Round will contribute to increased trade, incomes and investment. An immediate benefit will be avoidance of the costs associated with failure of the negotiations.

[12] "Forum shopping" refers to the practice of choosing between alternative dispute settlement fora. The opportunity to make such choices has arisen due to the existence of multiple agreements under GATT with overlapping coverage.

and substantially delayed recovery in the world economy. Another immediate effect will be to boost confidence, through reducing policy uncertainty. This should stimulate the process of globalization of business, and facilitate investment in areas of comparative advantage. But most of the concrete gains from the Uruguay Round will only be felt in the medium to long term, as the reforms have gradual phase-in periods (ranging from 5-10 years starting in mid-1995). It will also take time for new investments to bear fruit.

28. In the longer run, the results of the round can bring both static and dynamic gains to the world economy. The static gains arise from increased efficiency through the redeployment of resources. These gains go to both developing and industrial countries, and stem largely from countries' own trade liberalization. Most estimates[13] of the static gains from the market access part of the Uruguay Round package suggest about a 1 percent annual increase in world income over the next ten years, with estimates ranging from US$ 200 billion to US$ 300 billion per year in 1992 dollars. The developing country share of this gain is about one third. All models show that the predicted welfare gains are sensitive to the liberalization efforts of the beneficiaries themselves. For example, one estimate (OECD, 1993) is that if only industrial countries and not developing countries were to liberalize, the developing countries' gain would fall from some US$ 86 billion to only US$ 30 billion.

29. The dynamic gains are likely to be more important than the static ones, but are more difficult to measure. Dynamic gains arise from externalities generated by increased competition, economies of scale, greater innovation (technological spillovers), and the positive effect of higher productivity growth on investment and savings. Stronger rules and their enforcement bring stability to policies and contribute to the dynamic gains. All countries will gain from higher growth, and the largest gains for developing countries will be among exporters of manufactures. The lowest gains from growth are likely to go to commodity exporters.

Gains and losses among the developing countries

30. GATT (1993b) expects that, owing to the Uruguay Round, trade will be over 12 percent higher in ten years' time, implying an increase in the annual average growth of trade from 4.1 percent to 5.0 percent. Most of these gains would be in products of interest to developing countries, such as clothing, textiles, agricultural products, and processed food. Tariff reductions and removal of non-tariff barriers tend to favor most efficient producers at the cost of those relying on preferences or constraints on others for their market access.

31. Rapidly industrializing countries in East Asia are among the most dynamic suppliers, with the fewest trade preferences, and are likely to gain most from lower trade barriers against many products. They also have the most diversified product structure, and large shares of trade in their economies. East Asia will also benefit from duty cuts negotiated among industrial countries and extended to all countries via the most-favored-nation principle. In Latin America, efficient producers of agricultural and resource-based goods are likely to gain markets. A number of countries in South and East Asia are likely to benefit in the intermediate term from the gradual

[13]Gatt (1993b), Goldin-Knudsen-Mensbrugghe (1993), OECD (1993).

liberalization of trade in textiles and clothing. Increased security of market access is important for growth of exports from Eastern and Central Europe.

32. The erosion of preferences through generalized trade liberalization is seen as a threat by some countries, most notably in Sub-Saharan Africa, and to some extent in North Africa. Estimates of potential losses from this source are as yet unavailable, but there will undoubtedly be some transition costs. The magnitude of lost market opportunities depends on the size of foregone preference margins, as well as the extent to which preference margins under such schemes as the Generalized System of Preferences are actually utilized.[14] On the other hand, all countries will gain from the growth and income generation effects of trade liberalization under the Uruguay Round.

33. Another concern is that reduced subsidies in agriculture will lead to higher food prices, causing a deterioration in the terms of trade of net food-importing countries.[15] The income losses depend largely on the behavior of food prices as a result of the reform. Opinions vary as to the probable size or direction of the price impact. One view is that the only effect could be to slow down the observed decline in food prices over the past several years (Anderson 1990). Real food prices at present are nearly 40 percent lower than in 1980.

34. Food prices will also be affected by many other developments in the world economy. Natural conditions may cause large seasonal variations in food prices. The likely emergence of China as a net importer, or part of Eastern Europe as a net exporter, will also change world market conditions. The phasing of the reform suggests that any impact there is would be felt toward the end of the decade. Thus, any support to deal with the adjustment problem is likely to be best focussed on reforms that improve supply responses.

35. Part of the Uruguay Round follow up work planned by the International Economics Department for the next twelve months is to analyze in greater detail the nature and incidence of the transition costs for both food importers and for countries that are currently benefitting from preferential trading arrangements. One objective of this work will be to assess how best support the efforts of these countries to adjust to the new opportunities and challenges of the international trading environment following the Uruguay Round agreement.

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[14] In 1991, only half of dutiable imports to OECD countries from countries eligible for preferences under the Generalized system of preferences (GSP) qualified for the preferences. Due to constraints on the benefits only half of the eligible imports actually received the benefits. As 32% of these imports faced zero MFN duties the share of imports actually receiving GSP preferences was only 17% (UNCTAD 1993). In 1988, only 20% of imports to the European Union from African, Caribbean and Pacific (ACP) countries and 32% from the Mediterranean countries were covered by the respective preferences in the Lome convention or the Mediterranean agreements (UNCTAD 1992).

[15] North Africa, the Middle East, and Eastern Europe and Central Asia accounted for 83% of the estimated food deficit of the 95 net-food importing low and middle-income countries in 1991. Sub-Saharan Africa had the largest number of net-food importers (27), but the lowest share in the deficit (6%).

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SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
A. MARKET ACCESS		
1. Tariffs on manufactured goods	- Overall cut of 33%, reductions in peaks and escalation, increased bindings	- Cuts in tariffs in five equal annual reductions, beginning with entry into force of the World Trade Organization (expected in mid-1995). - Provisional results (November, 1993) indicate a 38% cut in tariffs on manufactures by industrial countries, and an increase in tariff bindings (legal maximum rates) to cover 98% of imports (previously 94%). The impact of the cuts on tariff escalation along processing chains is unclear. Peaks of over 15% in industrial country tariffs on manufactures are reduced from 7% to 5% of all imports, and the weighted average tariff is down from 6.4% to 4.0%. - Zero-for-zero agreements in 10 major sectors increase the share of duty free imports from 20% to 43% in industrial countries. - Lower than average tariff cuts made in sensitive sectors, such as textiles, clothing, footwear, and transport equipment. Reductions in most-favored-nation tariff rates by industrial countries will erode preference margins for some developing countries. - Developing country tariff bindings increased from 12% to 56% of imports (according to provisional, November 1993 information).
2. Tariffs on tropical products	- Overall cut of 33%, reductions in peaks and escalation	- Provisional information (November 1993) indicates a 42% reduction in tariffs on agricultural tropical products (simple average), and 57% on industrial tropical products in industrial countries (import-weighted average). The import-weighted average industrial country tariff on industrial tropical products falls from 4.2% to 2.3% (figures unavailable for agricultural tropical products). The impact of these reductions on tariff escalation and tariff peaks is as yet unclear. - Some developing countries will experience erosion of preference margins.
3. Tariffs on natural resource-based products	- Overall cut of 33%, reductions in peaks and escalation	- Preliminary information (November 1993) shows a 34% cut in tariffs, reducing the weighted average from 3.2% to 2.1%. The impact of reductions on escalation and peaks is as yet unclear. Larger than average gains in some metals and minerals, and lower gains for fish.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Tariffs on natural resource-based products (cont.)	-Overall cut of 33%, reductions in peaks and escalation	- Some developing countries will experience erosion of preferences.
4. Agriculture	- Establish a market-oriented trading system, strengthen multilateral rules on agriculture	- The start of a gradual liberalization process in the sector - initially over 6 years for industrial countries and 10 years for developing countries. The agreement secures bindings on agricultural tariffs across-the-board and eliminates virtually all non-tariff barriers by Members. In the final year of the implementation period (defined in the agreement as 6 years), Members agree to engage in negotiations to continue the reform process. - Restrictions against imports are subject to a "tariffication" commitment, with average tariff cuts by industrial countries of 36% over 6 years from a 1986-88 base, and a minimum cut of 15% on all tariff lines. There are a few exemptions from the tariffication commitment (special treatment annex), and in these cases, 4% of domestic consumption in the 1986-88 base period is a minimum access guarantee that must increase by 0.8% annually to 8% by the end of the implementation period. - Tariff bindings increased from 81% to 95% of imports in industrial countries, and from 23% to 90% in developing countries (provisional information as of November, 1993). - Minimum access by tariff-quotas to be guaranteed in respect of all products where imports during 1986-88 do not reach 5% of domestic consumption at the same period. If imports are less than 3% of domestic consumption in 1986-88 base period, access must increase to at least 5% during the implementation period. If the access level is greater than 5% in the base period, this level of access must be maintained (current access). - Domestic supports, as calculated by the Total Aggregate Measurement of Support (AMS), must be reduced by 20% from a 1986-88 base over the implementation period. Domestic supports of less than 5% are exempted from the reduction commitment (*de minimis* provision). The so-called "green box" subsidies -- certain government service programs, decoupled income support, social safety-net programs, structural adjustment assistance, environmental programs, and regional assistance programs -- are exempted from reduction commitments. Also exempted are non-decoupled income support provided this support is linked to production-limiting programs. - Export subsidies must be reduced by 36% in value and 21% in volume over the implementation period from a 1986-90 base. In certain cases during in the initial years, however, the reduction commitments can be calculated from a 1991-92 base, and there is some flexibility in phasing the cuts between the second and fifth years.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Agriculture (cont.)	- Establish a market-oriented trading system, strengthn multilateral rules on agriculture	- Special safeguard provisions, triggered by volume increases or price reductions, permit the imposition of additional duties up to specified limits. The volume trigger is sensitive to the degree of import penetration. The price trigger is related to 1986-88 average prices expressed in domestic currency (no price deflator). The volume trigger leads to the non-discriminatory application of additional duties, whereas the price trigger leads to additional duties fixed on a consignment by consignment basis. - Several provisions introduce greater flexibility for developing countries: - Reductions in tariffs, domestic supports and export subsidies are set at two-thirds the levels specified above, and spread over ten years. - Least-developed countries are exempted from all reduction commitments. - Exemption from the tariffication commitment on any agricultural product that is a primary staple in a traditional diet, subject also to the tariffication exemption provisos mentioned above (special treatment annex), but with slightly different minimum access commitments. Minimum access must rise from 1 percent of base period domestic consumption to 4 percent at the end of ten years. - Ceiling bindings (legal maximum tariffs set above applied rates resulting from the tariffication exercise) are permitted as the basis from which tariff reductions are to be calculated during the implementation period. If a ceiling binding is adopted instead of tariffication, the special safeguard remedy is not available. - Exemptions from domestic subsidy commitments when subsidies relate to investment (and are generally available), diversification away from production of illicit narcotic crops, and input subsidies for low-income producers. The *de minimis* provisions on domestic subsidies apply at a 10% level of support (5% for industrial countries). - Exemptions from export subsidy reduction commitments when the subsidies relate to export marketing and internal transport. - Food aid exempted from export subsidy commitments, provided aid is not tied to commercial exports, complies with FAO principles, and is supplied on terms no less favorable than those of the 1986 Food Aid Convention.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Agriculture (cont.)	- Establish a market-oriented trading system, strengthen multilateral rules on agriculture	- The ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries contains commitments on maintaining adequate levels of food aid and preferential treatment in relation to agricultural export credits. It also note that developing countries may be eligible to draw on the resources of international financial institutions under existing facilities, or such facilities as may be established, in order to meet any adjustment needs emanating from the Uruguay Round. - A "peace clause" (9-year duration) constraining the use of anti-subsidy actions. In the case of subsidies excluded from the reduction commitments (the green box subsidies), the measures will be considered non-actionable in terms of countervailing duties and legal challenge (on grounds of non-violation nullification or impairment, injury, and serious prejudice). In the case of subsidies subject to domestic reduction commitments and export subsidies, countervailing duties may be levied upon proof of injury or threat thereof, and certain restraints are imposed on legal challenges.
5. Textiles and clothing	-Phase out the Multifiber Arrangement (MFA) and integrate the textiles and clothing sector into mainstream multilateral arrangements	- Gradual integration of the sector into the WTO (GATT 1994) in a four-stage phase-out over 10 years, under the supervision of a Textiles Monitoring Body (N.B. GATT 1994 is the original GATT as modified by the Uruguay Round, and is an integral part of the WTO agreement). - Products accounting for not less than 16% of total volume of imports (in terms of the stated HS lines or categories in the Annex) in 1990 to be integrated into GATT 1994 upon entry into force of the WTO. After the third year of the phase-out period, at least 17% of total 1990 import volumes of the listed products to be integrated, followed by at least 18% after the seventh year, and the remainder (49%) at the end of the ten-year period. Each phase-out must encompass products (chosen by the restricting country) from four groups -- tops and yarns, fabrics, made-up textiles, and clothing. - Outstanding quota restrictions shall be expanded by the prevailing quota growth rate plus 16% annually in the first three years, by 25% in the subsequent four years, and by 27% in the final three years. Swing, carryover, and carry forward provisions shall continue to apply as they do under the MFA. - A commitment is made to take the necessary anticircumvention measures to deal with transshipment, rerouting, false declaration of origin, and forgery - Establishment of a "transitional safeguard" only on products not yet integrated into GATT 1994, which can include restricted and unrestricted products. This safeguard may be applied selectively to particular exporters. Safeguards may be maintained for a maximum of three years, and phased

Subjects	Main Goals	Results
Textiles and clothing (cont.)	- Phase out of Multifiber Arrangement (MFA) and integrate the textiles and clothing sector into mainstream multilateral arrangements	out over their duration. There is less flexibility in the useof safeguards against small exporters, least-developed countries, wool producers, outward processors, and cottage industries. - Provisions to redistribute quotas in favor of quota-constrained and efficient exporters.
B. RULES		
1. Safeguards	Improve rules for the use of temporary import restrictions to protect industries in difficulty	- More flexible use of safeguards under tighter disciplines. Safeguards may discriminate among suppliers only in exceptional circumstances, where imports from a Member increase disproportionately. - Duration of safeguard measures is a maximum of four years in the first instance, but can be extended for a further maximum period of four years, provided conditions warrant this and there is evidence the industry concerned is adjusting. Safeguards must be reviewed if they last more than three years, and progressive liberalization must take place during the life of the measure. Developing countries can maintain measures for a maximum of ten, instead of eight years. - Safeguard measures cannot be re-introduced for a period equal to the time they have been previously applied, and in any event not until two years after the previous application of the measure. Developing countries may re-impose safeguard measures after half the time of a previous application, provided the minimum two-year period of non-application has elapsed. - No compensation or retaliation is foreseen during the first three years during which a measure is applied. - Developing country exporters accounting for less than 3% of a country's imports of a product shall be exempt from safeguard action, provided that all Members with less than a 3% share account for less than a 9% share overall. - Existing safeguards also to be eliminated in 5-8 years. - Voluntary export restraints (VERs) and similar measures on exports or imports are to be eliminated within four years, although each Member has the right to maintain one VER until the end of 1999. Governments are not to encourage or support the adoption of VER-like measures by

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Safeguards (cont.)	Improve rules for the use of temporary import restrictions to protect industries in difficulty	public or private enterprises. However, a safeguard measure taken in the form of a quota under this agreement could, by mutual consent, be administered by the exporting Member in the same way that VERs are administered.
2. Anti-dumping (AD)	Strengthen rules on AD measures	- Some improved provisions, including in relation to dumping margin calculations, injury determination, the definition of domestic industry, investigation procedures, and standard of evidence. - There are *de minimis* provisions relating to the margin of dumping (less than 2%), the volume of dumped imports (less than 3% of imports, or cumulatively 7% among exporters supplying less than a 3% share), and the degree of injury. Cumulation of imports from more than one country in an injury investigation is not permitted under circumstances of *de minimis* (nor unless circumstances so warrant). - A "sunset" provision requires that antidumping duties remain in place no longer than five years unless a review demonstrates that the removal of a duty would likely lead to continuation or recurrence of dumping and injury. - The standard of review provisions curtail the reach of dispute settlement procedures. In addressing the facts of a case, panels are limited to a consideration of whether facts were properly established and their evaluation unbiased and objective. If these standards are satisfied, a decision by national authorities cannot be overturned, even if a panel might have reached a different conclusion as to the justification for an action. In considering matters of law, if there is more than one permissible interpretation of an issue, a panel shall find in favor of the antidumping authorities if their case rests upon one of these interpretations. - Developing countries are to be given special consideration, and the possibility of constructive remedies explored, before antidumping action is taken against their exports. - Anti-circumvention provisions, allowing for antidumping action against producers that shift the location of production in order to avoid antidumping duties, are excluded from the agreement, but remain subject to negotiation.
3. Subsidies	Restrain use of all subsidies and improve the rules on countervailing duties	- Subsidies are defined as: i) prohibited (export subsidies, and subsidies contingent on the use of domestic over imported goods); ii) actionable (if they cause injury, nullification or impairment of benefits, or serious prejudice); and iii) non-actionable (non-specific subsidies, assistance for certain

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Subsidies (cont.)	Restrain use of all subsidies and improve the rules on countervailing duties	research activities, regional subsidies, and subsidies for environmental adaptation). Subsidies on agricultural products are not covered by many of the provisions of this agreement. - Serious prejudice is presumed to exist when subsidization of a product exceeds 5%, subsidies are used to cover operating losses (except in certain circumstances), or where there is direct debt forgiveness. Developing countries are exempted from the presumption of serious prejudice. Non-recurring subsidies linked to privatization programs in developing countries are not actionable under this agreement. - Least-developed countries are allowed to maintain export subsidies, as are other developing countries whose per capita income is less than US$1,000 per annum. Developing countries that are not, or cease to be, in these categories are required to phase out export subsidies within eight years (with the possibility of extension). Economies in transition are granted a seven-year period within which to eliminate prohibited subsidies. - Export subsidies cannot be increased from 1986 levels, or levels prevailing when the agreement enters into force, and must be removed if export competitiveness is attained (defined as 3.25% of world trade in the relevant product for two consecutive years). - The prohibition of subsidies linked to the use of domestic over imported products shall not apply to developing countries for five years, and to least-developed countries for eight years. - Provisions very similar to those on antidumping are included in the text on countervailing duties (including deferral of the anti-circumvention issue). The *de minimis* provisions establish exemptions for developing countries from countervailing duties when subsidy levels do not exceed 2% (or 3% if a country accelerates the timetable for eliminating export subsidies), or import shares are less than 4%, and cumulatively among countries benefitting form this provision, less than 9% of total imports.
4. Preshipment Inspection	Establish rules and disciplines for user governments, and the governments of exporting countries.	- Creates a framework for dealing with activities of preshipment inspection companies relating to the verification of the quality, quantity, price, and customs classification of goods in the territory of an exporting Member. - Sets out non-discrimination, transparency, confidentiality and appeals procedure obligations of user governments, and non-discrimination, transparency and technical assistance commitments of

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Preshipment Inspection (cont.)	Establish rules and disciplines for user governments, and the governments of exporting countries	exporter governments. Establishes guidelines for price verification, and the basis on which comparisons may be made (but leaves customs valuation aside). - Introduces independent review procedures for disputes between preshipment inspection entities and exporters. Majority decisions are taken by the review body and are binding on both parties.
5. Rules of Origin	Harmonize and provide disciplines for rules of origin-	Establishes disciplines for rules of origin used in non-preferential commercial policy instruments, explicitly excluding origin rules relating to preferential trading arrangements. Sets out a three-year work program to harmonize non-preferential rules of origin (in cooperation with the Customs Cooperation Council). - Disciplines spelled out on transparency, consistency, the use of positive criteria for the definition of origin, transparency, consultation, review, and protection of confidential information. Seeks a common definition of substantial transformation, and creates a presumption in favor of the change in tariff heading criterion over an ad valorem rule or criteria relating to processing operations. - Contains a Common Declaration on preferential rules of origin that commits Members to general disciplines, but not to harmonization.
6. Technical Barriers to Trade (TBT)	Improve transparency and coverage disciplines to prevent the use of technical norms and testing procedures as barriers to trade	- Strengthens provisions in the Tokyo Round agreement on technical barriers to trade, notably in ensuring that standards do not create unnecessary barriers to trade, nor engender unwarranted discrimination among Members. Seeks to ensure that standards are the least trade restrictive possible. Establishes a code of good practice for the preparation, adoption and application of standards. - Emphasizes a presumption in favor of harmonized international standards, technical regulations, and conformity assessment systems, without, however, denying any Member the right to establish levels of standards it considers appropriate to ensure the quality of its exports, or for the protection of human, animal or plant life or health, of the environment, or for the prevention of deceptive practices. - Extends the coverage of the agreement to sub-national entities and to product-related process and production methods, and establishes new disciplines for voluntary standards. This agreement does not apply to sanitary and phytosanitary measures.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
7. Agreement on Sanitary and Phytosanitary Measures	Establish rules to clarify and harmonize these measures to prevent their use as unnecessary obstacles to trade.	- Similar in many respects to the agreement on technical barriers to trade. One distinction, however, is that while the standards agreement refers to technical regulations not being "more trade-restrictive than necessary," this text says that Members shall ensure that sanitary and phytosanitary measures are "not more trade restrictive than required." - Encourages harmonization towards international standards (but does not prevent the use of higher standards), emphasizes that standards should be based as far as possible on scientific criteria, and encourages better procedures for risk assessment.
8. GATT Articles (a) Bound tariff schedules, under Article II:1(b)	Also bind "other duties and charges"	- Requirement to include other duties and charges in bound schedules
(b) Balance of payments provisions (Articles XII, XIV, XV and XVIII:B)	Greater disciplines for the application of import restrictions on balance-of-payments grounds.	- Recommendation for the greater use of price-based measures. - Public announcement of time schedules for removal of measures. - Improved procedures for balance-of-payments consultations.
(c) State-trading enterprises (Article XVII)	Enhance transparency and improve notification and review procedures	- Develops a clearer working definition of state-trading enterprises for notification purposes, and makes provision for the review of notifications and counter-notifications.
(d) Customs unions and free-trade areas (Article XXIV); GATT compliance by state, provincial, and local authorities (Article XXIV:12)	Improve transparency and disciplines relating to the formation and enlargement of regional trading arrangements; improve compliance of sub-national authorities	- Establishes a methodology for the evaluation of duties before and after the formation of regional trading arrangements - Sets out clearer criteria for the review of new or enlarged regional trading areas. - Clarifies procedures to be followed when renegotiation of tariff bindings are needed. - Reiterates the responsibility of Members for the actions of regional and local governments and authorities within its territory, and establishes that provisions relating to compensation and suspension of concessions or other obligations apply where a Member has been unable to secure compliance with GATT 1994 by a sub-national authority.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
(e) Waivers from GATT obligations (Article XXV:5)	Time limits and stricter surveillance	- Sets time limits for waivers with annual review for those granted for more than a year. These provisions are contained in the text establishing the WTO. - All existing waivers to be terminated in two years unless renewed.
(f) Renegotiation of tariff bindings (Article XXVIII)	Broaden number of countries with negotiating rights when a tariff binding is renegotiated	- New procedures for determination of Members with negotiating rights; in addition to established negotiating rights, one additional negotiating right is established -- for the Member with the highest proportion of the product concerned in its exports.
(g) Non-application of the GATT (Article XXXV)	Allow use of nonapplication provisions after start of bilateral tariff negotiations with a prospective new Member	- The agreement establishing the WTO allows invocation of the non-application clause only if a notification of the intention not to apply the agreement to a new Member is made before approval of the terms of accession.
(h) "Grandfather clause" (in Protocol of Provisional Application), under which inconsistent measures that predate GATT membership are maintained.	Phase out the clause under agreed time limits	- The WTO eliminates the grandfather clause (although one national measure for which the grandfather clause provided legal cover will still be maintained). GATT 1947 contracting parties may invoke non-application only, if at the rate of entry into force of the agreement if Article XXXV was effective between those contracting parties.
9. Import licensing	Reduce discretion and increase transparency in import licensing procedures	- Establishes greater clarity on procedures for automatic and non-automatic licenses, strengthening provisions on the administration of licensing procedures, and on publication requirements. Emphasizes that licensing requirements should not in themselves constitute obstacles to trade.
10. Customs valuation	Facilitate universal application of the transaction value method of customs valuation	- The Tokyo Round agreement remains unchanged, but a ministerial decision recognizes difficulties faced by some customs administrations in detecting fraud. The decision permits a partial reversal of the burden of proof away from the authorities and onto the importer in cases where doubts persist regarding the transaction value. - Another ministerial decision reiterates the right of developing countries to retain officially established minimum prices for valuation purposes under terms and conditions agreed to by the Members. Developing countries can delay implementation of the customs valuation agreement for a five-year period, which may be extended if conditions so warrant. On the question of valuation of imports by sole agents, sole distributors and sole concessionaires, the decision recommends

Subjects	Main Goals	Results
Customs valuation (cont.)	Facilitate universal application of the transaction value method of customs vaulation	support and studies from the Customs Cooperation Council, as developing countries perceive this to be a problem.
C. NEW AREAS		
1. Trade-related intellectual property rights (TRIPS)	-Develop rules to protect intellectual property rights	-Establish disciplines on trade in counterfeit goods- Establishes standards for the protection of intellectual property rights, provisions for their enforcement, and provisions for dispute prevention and settlement. - National treatment and most-favored nation treatment are to apply in respect of all intellectual property rights covered by the agreement. - Minimum standards of protection for intellectual property are provided in respect of copyright, trademarks, geographical indications, industrial designs, patents, lay-out designs of integrated circuits, protection of undisclosed information. - In the patent area, for example, minimum standards provide for patent protection in all areas of technology, including pharmaceuticals, for 20 years. Members cannot require the local working of patents, but can invoke compulsory licensing under certain conditions. - The agreement recognizes the right to control anti-competitive practices, and to this end, provides for consultation and cooperation among Members. - The enforcement provisions are designed to ensure that intellectual property rights established under the agreement can be effectively and expeditiously enforced under national law. - The dispute settlement provisions exclude non-violation complaints for a period of five years and foresee further discussion on the issue. - A one-year delay period is envisaged for the implementation of the TRIPS agreement following the establishment of the WTO. Developing countries and transition economies are permitted to delay implementation for a further four years, except for the national treatment and most-favored-nation commitments. Where patent protection is called for in areas of technology not actually so protected in developing countries, a grace period of an additional five years is provided in respect of the technologies in question. The least-developed countries are permitted ten years on the same

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Trade-related intellectual property rights (TRIPS) (cont.)	- Develop rules to protect intellectual property rights	basis, with the possibility of further extensions. During any of these delayed implementation periods, no action should be taken to lessen the consistency of existing intellectual property protection regimes with the TRIPS agreement. Notwithstanding the above transition provisions, all patentable inventions on pharmaceuticals and agricultural chemical products made after entry into force of the WTO must be protected. Least developed countries may have the transition period extended upon request.
2. Trade-related investment measures (TRIMS)	-Consider whether to establish disciplines in relation to the trade restrictive and distorting effects of investment measures	- All TRIMS inconsistent with Articles III and XI of GATT 1994 to be notified within 90 days and eliminated within two years. Elimination should be achieved by developing countries within five years, and by least developed countries within seven years, with the possibility under certain circumstances of an extension of the transition period for both developing and least-developed countries. - An illustrative list of prohibited TRIMS identifies local content requirements and trade balancing requirements as contrary to Article III, and foreign exchange balancing and export limitation requirements as contrary to Article XI.
3. Trade in services	Bring about liberalization and establish multilateral rules and disciplines in relation to trade in services	- Extends multilateral rules to a large segment of world trade (20%), improves predictability of conditions for investment in service sectors, although many initial liberalization commitments consolidate the *status quo* in the first instance. - The General Agreement on Trade in Services (GATS) establishes the non-discrimination principle. It includes most of the GATT-type provisions for controlled departures from most-favored-nation treatment (regional arrangements, general exceptions, security exceptions, etc.). Specific exemptions from this commitment are to be listed by Members, and shall be reviewed if they are still in existence after five years. In principle, they should be eliminated after ten years. More than 70 countries have registered exemptions from the most-favored-nation treatment provision. - The GATS provides the necessary framework for establishing and maintaining liberalization commitments, including provisions on transparency, domestic service-related regulations and adjudication procedures, and recognition of qualifications and other prerequisites for service suppliers. - Continuing negotiations are called for on provisions relating to safeguards, subsidies, and government procurement.

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Trade in services (cont.)	Bring about liberalization and establish multilateral rules and disciplines in relation to trade in services	- The participation of developing countries in services liberalization is anticipated as a gradual process, which will continue ion line with the development situation of each Member. - Special annexes and/or decisions have been drawn up on the movement of natural persons, professional services, financial services, telecommunications, transport services, and on negotiations relating to basic telecommunications. These annexes and decisions address the specificities of the sectors, and the terms and conditions of negotiations in these areas. - National treatment and conditions of market access are subject to negotiation. Access restrictions may be defined in terms of mode of delivery (cross-border trade, foreign provision, commercial presence, movement of service providers). Additional commitments may be negotiated on such matters as professional qualifications, standards, and licensing. All liberalization undertakings negotiated by Members are inscribed in their schedules of specific commitments. The GATS provides for progressive liberalization through successive rounds of negotiations, starting not later than five years from the establishment of the WTO.
D. INSTITUTIONAL		
1. Integrated dispute settlement	-Strengthen the dispute settlement mechanism	- Introduces greater speed and automaticity into dispute settlement procedures under fully integrated arrangements (eliminating competing dispute settlement fora within the system). - Provides greater automaticity in the adoption of reports by dispute settlement panels and in the right of retaliation in the event that a Member does not comply with adopted panel recommendations. - Establishes a binding appellate review process. - Limits unilateral actions by requiring that multilateral dispute settlement procedures must be followed, and that unilateral determinations must not be made of violation of obligations or nullification or impairment of benefits under the WTO. - Allows, under prescribed conditions, for the possibility of cross-retaliation in relation to rights in the areas of goods, services, and intellectual property.

ANNEX 1

SYNOPSIS OF THE URUGUAY ROUND RESULTS

Subjects	Main Goals	Results
Intergrated dispute settlement (cont.)	- Strengthen the dispute settlement mechanism	- Establishes that Members are answerable for non-compliance by sub-national authorities within their territories with WTO obligations (see reference above to Article XXIV:12 of GATT).
2. The world Trade Organization (WTO)	-Enhance GATT surveillance, improve overall effectiveness of GATT, increase its contribution to coherence in policy making	- Establishes the legal basis for the new multilateral trading system as a single, indivisible undertaking (only the "Plurilateral Trade Agreements" -- on civil aircraft and government procurement, and the International Dairy Arrangement and Arrangement Regarding Bovine Meat remain legally distinct). Membership of the WTO is conditional on countries having schedules of concessions and commitments on market access (industrial and agricultural products and services). It also implies acceptance of the revised GATT (GATT 1994) as well as all Uruguay Round agreements. The single undertaking concept underlying the WTO means that developing countries are assuming more extensive and higher levels of obligations than ever before - Surveillance is improved by regular reviews of Members' trade policies (Trade Policy Review Mechanism) and annual reviews of international trade. - Regular ministerial meetings are provided for in order to improve the effectiveness of the WTO. - Improved and centralized notification arrangements for trade measures are instituted. - Collaboration on policy coherence and ongoing cooperation between the WTO and the World Bank and International Monetary Fund are strengthened. - The incorporation of waiver, nonapplication, and grandfather clause provisions in the WTO extend these from their traditional area of application in trade in goods to the domains of services and intellectual property.

MIGRATION AND TRADE: CHALLENGES FOR THE 1990s

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SUMMARY

"Man is of all sorts of luggage the most difficult to be transported." Adam Smith

The world appears to be on the move. There are about 100 million persons living and often working outside their countries of citizenship, making this "nation of migrants" equivalent in size to the world's tenth most populous country. Second, the three factors that influence the direction and volume of migration are evolving in ways that promise more rather than less south to north movement in the 1990s. Third, too little is known about the relative importance of demand-pull, supply-push, and network factors in particular migration flows, and how these factors change over time.

This paper summarizes recent migration patterns and recommends a three-pronged strategy to deal with the interactions between economically-motivated migration in the 1990s. In particular, we need (1) a better understanding of migration and its impacts at areas of origin and destination (e.g., what are the impacts of migrant workers who move from one developing nation to another?), (2) more research on the migration transition, the process by which an emigration country transforms itself into an immigration country, and (3) more exploration of a basis for international coordination in migration matters. It might be noted that migration is probably the most important international phenomenon that is not coordinated by an economically-oriented international organization.

A WORLD ON THE MOVE

There appears to be a great deal of confusion on basic migration facts. Three seem important:

- most people never cross national borders to live or work in another country 1/
- at least half of all migrant workers move from one developing country to another
- countries that have successfully made the transition from exporting to importing labor range from Korea to Spain.

Given economic differences between nations, the surprise may be how *little* international migration occurs.

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* *I am indebted to Peter Lindert, Tom Merrick, Sharon Stanton Russell, and Ed Taylor for helpful comments.*

1/ There is a considerable amount of internal migration, especially that associated with rural-urban migration.

The world's population in 1994 is about 5.6 billion, and almost 3.5 billion people are in the 15 to 64 age group from which the world's 2.5 billion workers are drawn. The world's population and its potential work force are increasing by 90 to 95 million persons annually.

Neither people nor income are distributed equally around the globe. The World Bank divides the countries on which it collects data into 22 "high-income" and about 100 middle and low income countries. High-income countries--the United States and Canada, Western European nations such as from Sweden to Spain, and Asian countries such as Japan, Singapore, and Australia--include 15 percent of the world's population, but they accounted for over three-fourths of the world's $22 trillion GDP in 1991. 2/ The average income in these rich countries was over $21,000 annually, versus a worldwide average of $4,000.

These data suggest that an average person from one of the poorer 100 countries could increase his or her income 5 to 6 times by moving into one of the 22 richest countries. Young people are responding to the opportunity to "go abroad" for opportunity. Most of them travel only a short distance, often from one developing country to another. Over half of the world's "nation of migrants" is in developing countries--indicating that there is a great deal of not-well-studied labor migration between developing countries.

However, almost 50 million immigrants, refugees and asylees, and authorized and unauthorized migrant workers in the industrial democracies are an important socio-economic and political issue. Many are unwanted, in the sense that their settlement was not anticipated--as with guestworkers who settled in Western Europe or applicants for asylum whose claims that they would face persecution at home are rejected, but who nonetheless are allowed to stay. The United States also receives unwanted immigrants. Of the 9 million persons who are today considered legal immigrants who arrived since 1982, one-third were previously illegal aliens whose status was regularized. Opinion polls in North America and Europe indicate that a majority of the public wants such unwanted immigration curbed.

WHY INTERNATIONAL MIGRATION?

Migration research has identified three major factors that influence economically-motivated international migration. They are:

- demand-pull factors that draw migrants into another country,
- supply-push factors that encourage migrants to leave their own countries, and
- networks of friends and relatives already settled in destination countries who serve as sources of information and anchor communities for newcomers. 3/

2/ According to the 1993 World Development Report, the 822 million people in the "high income countries" that, when ranked by GDP per capita, begin with Ireland and end with Switzerland are 15.4 percent of the 1991 world population of 5.350 billion (p289).

3/ Both historically and today middlemen recruiters and transporters have been involved in the migration process. Today, these understudied middlemen--who might be considered as arbitrageurs of differences between international labor markets-- play a role in much of the illegal labor migration that occurs, usually

The relative importance of each factor changes over time in particular migration streams; the most common pattern is that the importance of demand-pull factors declines as a migration stream matures.

DEMAND PULL

Most labor migrations began in the industrial countries, as employers there, with or without explicit government approval, recruited migrant workers. During the early years of such labor migrations, demand-pull factors so dominate that, for example, in Germany during the 1960s, the annual influx of workers could be explained almost entirely by fluctuations in the German unemployment rate, giving governments a false assurance that they really can regulate with precision migrant worker flows.

However, in what has become a familiar story, demand-pull, supply-push, and network factors evolved in a manner that justifies the aphorism that there is nothing more permanent than temporary workers. In all of the industrial democracies, migration has seemingly taken on a life of its own, with migrant workers continuing to arrive in Western Europe, the United States, and Japan despite historically high unemployment rates. Migrant workers are often prized for their flexibility: they are willing to accept jobs that offer low wages, unpleasant or seasonal work, or unusual hours. As a result, migrant workers are found in the same industries and occupations in all industrial democracies: construction, agriculture, and service jobs that offer low wages, such as in restaurants and hotels, or night and weekend work, such as nursing.

Relatively few migrant workers are employed in industries in which trade in place of migration is a near-term option. Labor-intensive manufacturing industries such as garments and shoemaking are often dependent on migrant workers and protected from developing-nation imports, but freeing up trade in goods would directly affect less than one-fourth of the migrant workers in most industrial countries. Thus, while free trade is desirable as a means to accelerate economic growth, it will not immediately curb the desire to employ migrant construction workers, janitors, and nurses. 4/

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extracting a fee from migrant workers or their employers equivalent to 25 to 100 percent of what the migrant will earn in his first year abroad.

4/ Some industrial countries are engaged in a debate over whether the best way to discourage their employers from preferring to employ unauthorized workers is to step up border and interior enforcement so that such workers are not available, whether it is better to enforce labor laws so that migrant workers are not "exploited," or whether both immigration and labor law enforcement is needed. Generally, pro-migrant groups favor placing the emphasis on labor law enforcement, while restricionist groups favor border and interior immigration enforcement.

Over the past 5 years, a new element has entered the debate over immigration control. In both North America and Western Europe, the argument is that some immigrants come to obtain social welfare program benefits, from education to health care to assistance payments. Such arguments are made most often by those who advocate reducing social welfare programs for citizens and migrants alike.

SUPPLY PUSH

The demand-pull of jobs in industrial democracies is matched neatly by the supply push of low wages and joblessness in the developing countries from which most migrant workers come. About 5 in 6 of the world's workers are in the world's poorer nations, and every year another 80 million workers join the 2 billion strong workforce there. This leads to an enormous job creation challenge. Developing nations from Mexico to Turkey to the Philippines must create 500,000 to 1 million new jobs annually for the youth who every year enter the workforce. 5/ In addition, they need to find jobs for the 20 to 40 percent of the workforce that is currently unemployed or underemployed. On top of these job creation challenges, developing nations must find jobs for ex-farmers and for workers who are not seeking work because there aren't enough jobs.

Two examples may help to illustrate the dimensions of the job creation challenge. Almost half of the workforce in developing nations are farmers, but 1 billion farmers are not needed to produce the world's food and fiber--in the industrial democracies, less than 5 percent of the workforce produces such an abundance that rich countries feel compelled to prop up prices and incomes for their farmers. 6/

Developing countries, on the other hand, often tax their farmers by requiring them to sell their cotton or coffee at below-world prices to a government agency, which in turn exports the commodity at the world price and pockets the difference. Farming thus generates only one-fourth to one-third of the average income in countries such as Mexico and Turkey, and ex-farmers crowd booming cities from Mexico City to Manila. Once rural residents arrive in these capital cities, it is much easier for them to migrate, either by boarding an airplane and, a day or two later, arriving in Frankfurt or Los Angeles, or by making contact with a middleman who promises to smuggle them abroad.

A second example of the job creation challenge facing the world is the fact that many workers in developing nations do not seek work because they know jobs are scarce. In the industrial democracies, half of the population is typically in the workforce, so that the United States, with a population of 260 million, has a workforce of about 130 million. In developing nations, one-third of the population is typically in the workforce, so that Mexico, with 90 million people, has a workforce of about 30 million. Many of the Mexicans who are not in the workforce are urban women who would seek jobs if they were available.

5/ The youthful age structure in developing nations guarantees a continuing influx of teens. In the United States, for example, about 20 percent of the population is less than 15. In Mexico, almost 40 percent of the population is less than 15.

6/ If only 5 percent or 50 million of the world's one billion farmers and farm workers produced food, then an additional 950 million jobs would be needed, or 3 times more than currently exist in the industrial democracies.

NETWORKS

The demand pull of jobs is linked to the supply push of low wages and joblessness by migration networks. Migration networks encompass everything that enables people to learn about opportunities abroad and take advantage of them. These networks or linkages have been shaped and strengthened by three of the major revolutions of the past generation: the communications revolution, the transportation revolution, and the rights revolution.

The *communications revolution* refers to the fact that potential migrants know far more about opportunities abroad than did turn of the century migrants from southern and eastern Europe who set out for North and South America and Australia. The major source of information is countrymen already settled abroad who can tell the migrants about opportunities in Paris or Los Angeles, and in many cases provide advice and funds to migrate, legally or illegally. The industrial democracies perhaps unwittingly add to their allure by portraying, in TV shows such as Dallas and Dynasty that are exported even to the remote corners of the globe, a life of opulence.

Some migrants have their expectations raised by these portrayals of life in the industrial democracies, and many hope to achieve a better life for themselves by migrating to richer areas. Others are motivated to go abroad by contractors, labor brokers, and other often shadowy middlemen who promise, for a fee equivalent to 1/4, 1/2, or even more of the migrant's first year's earnings abroad, access to the promised land.

The *transportation revolution* is simply the fact that the cost of traveling has dropped enormously, while convenience has increased geometrically. Even the most remote peasant is less than one week away from the bright lights of New York--once he gets to the capital city of his country, the international network of flights can take him anywhere within a day or two for less than the average monthly earnings of even an unskilled and seasonal worker in an industrial country, $1000 to $2000.

The third revolution that encourages migration is the *rights revolution*, or the spread of individual rights and entitlements within many nations. All of the industrial democracies have strengthened personal rights vis-a-vis government agencies, and most have signed international treaties that, for example, commit them to provide refuge to those fleeing persecution. One effect of this rights revolution is that, once an migrant arrives in an industrial country, he or she can avoid deportation for 2, 3, or even 4 years.

While a migrant's case winds its way through the legal system, industrial countries face a Hobson's choice. If they prohibit the migrant from working because his legal right to do so is in doubt, then the government must support the migrant. If the migrant is permitted to work, then the humanitarian right to due process becomes a backdoor guestworker program.

THE MIGRATION CHALLENGE

Demand pull, supply push, and network factors are evolving in ways that encourage more migration. In light of these easily understandable forces, the world should be on the move, and it may seem to some that it is: the migrant nation is 100 million strong, and it has in recent years

been increasing by between 2 and 4 million annually in the industrial democracies. 7/

But the surprise to many observers is how few, not how many, migrants move into the industrial democracies. Most people do not move: most people will live and die within a few miles of their birthplace. International migration remains an extraordinary event despite the evolution of demand, supply, and network factors that encourage migration. Furthermore, most of those who migrate internationally move only a short distance, so that most of the world's migrants move from one developing nation to another. One country, Iran, includes almost one-fourth of the world's 19 million refugees.

The 50 million migrants in the industrial democracies **are** significant. But it should be emphasized that most people do not migrate despite ever more incentives to do so. The industrial democracies are not being overrun by a tidal wave of immigrants. 8/ The migration challenge remains manageable, and responsible policymakers may not be well-served by doomsday scenarios such as those painted in the film The March, in which desperate Africans set out for Europe accompanied by news crews while political leaders there debate how to stop them. The logical quick fix for such mass migrations is tight border controls and relief outside the borders of the industrial democracies to avoid rights and settlement, but there are medium-term steps that can be taken to avoid such crises.

NEEDED MIGRATION RESEARCH

With a nation of migrants that is growing, at least three types of research seem desirable to deal with the migration challenges of the 1990s. These include:

- a better understanding of the demand-pull, supply-push, and network factors that regulate particular migration flows, and how they change over time
- a better understanding of how countries make the migration transition from labor exporter to importer, and how much unwanted migration is avoided by economic integration between emigration and immigration nations
- a better understanding of basic migration facts and interests in order to lay a basis for adopting trade and other policies that affect migration in the short and long runs, and perhaps lead to the coordination of policies that affect migration.

There are also a number of specific questions that deserve more attention, from how the 3 R's of recruitment, remittances, and returning workers can be harnessed to accelerate stay-at-home development, to how trade and migration patterns and policies interact to cause migration flows in some instances to increase in snowball fashion and in other cases to decrease.

7/ There is a considerable amount of return migration, but the proportion of newcomers who leave is hard to predict and changes as a migration stream matures. In the United States, for example, it is believed that emigrants are equivalent to 20 to 30 percent of immigrants.

8/ It is instructive to remember that labor migration often remains region- and village-specific, even after decades of migration. Over two-thirds of Mexico's U.S.-bound migrants originate in seven of the country's 32 states; they often come from specific villages within these provinces.

UNDERSTANDING PARTICULAR FLOWS

In the industrial democracies, policymakers feel that migration has increasingly become a supply-push driven phenomenon, which explains why the G-7 nations in July 1991 called for international organizations to explore ways to accelerate stay-at-home development. It is true that demand-pull factors have probably declined in importance since the 1960s in explaining developing-to-industrial country labor migration, but it is also true that the three factors that influence migration probably never had equal one-third weights in any migration flow. Indeed, the paradox of the immigration control measures adopted in many industrial countries is that the employer sanctions introduced to curb demand-pull forces are often put in place only after network factors are strengthened enough to make them insufficient to operate effectively.

It would be very helpful to catalog the various migration flows, isolate the relative importance of demand-pull, supply-push, and network factors in each, and determine when and why one factor diminished in importance and another became more important. Such information is especially needed on developing-to-developing country migration.

THE MIGRATION TRANSITION

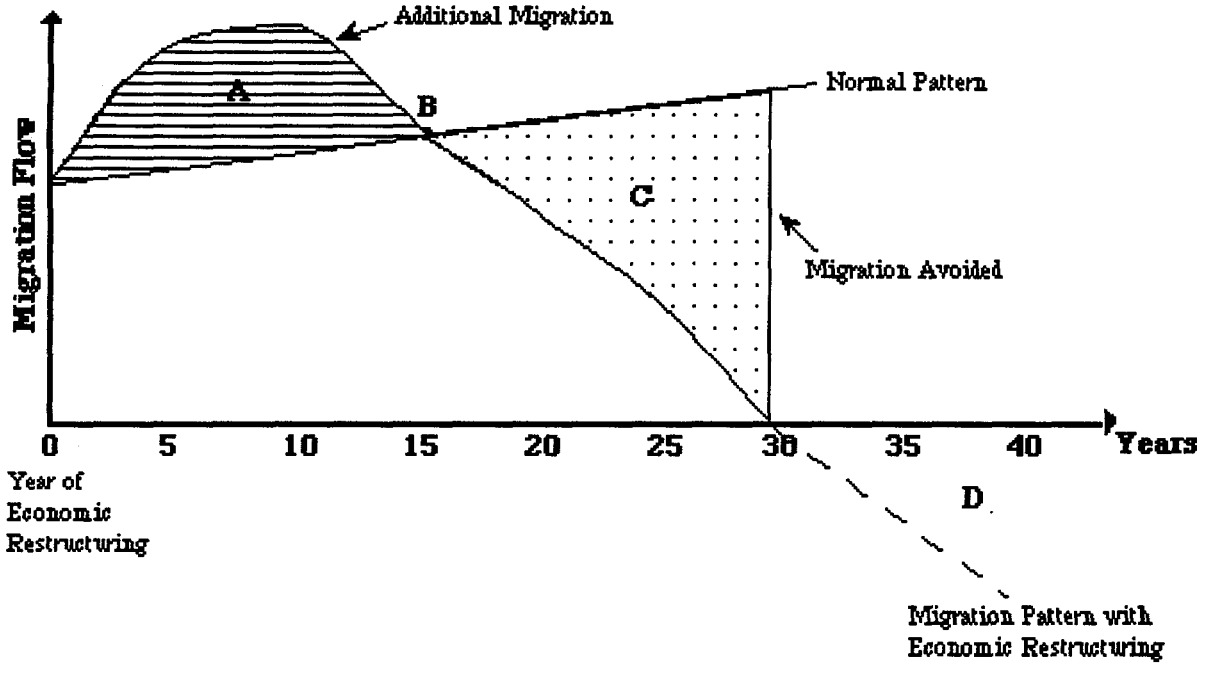
There is a migration analog to the well-known demographic transition. Just as a country's population temporarily grows faster when death rates fall before birth rates, so an established labor migration typically swells temporarily as a country restructures for accelerated economic growth.

In economies that fail to restructure--to adopt outward-oriented and market-driven economic policies--economically-motivated emigration pressure mostly depends on demography. 9/ Without restructuring and economic growth that exceeds population growth, emigration pressure in Turkey, Mexico, or the Philippines could be expected to have the "normal pattern" shape in the figure below.

Economies that restructure by deregulating, privatizing, and opening up to the world economy, on the other hand, tend to experience migration humps. The "hump" reflects the fact that economic restructuring often displaces workers and promotes rural-urban migration. A country on the move economically is also awash with internal migrants, some of whom spill over its borders if there is already an established international migration pattern. It has been hypothesized that such a hump would characterize Mexico-US migration, Turkey-EU migration, and East-to-West European migration.

9/ Jonas Widgren notes that fewer than 18 of the 180 member nations of the UN have ethnically homogeneous populations. The end of the Cold War has unleashed ethnic tensions in many countries, producing in 1994 an estimated 25 million internally displaced persons.

THE MIGRATION HUMP



Source: Philip Martin. 1993. Trade and Migration: NAFTA and Agriculture. Washington: Institute for International Economics.

A migration hump or transition has three important parameters. First how big is the hump **A**, or how much additional migration is there during the economic takeoff phase of restructuring? Second, when is point **B** reached - when does migration return to its pre-take-off levels? Third, how large is **C**, the migration that did not occur because of stay-at-home development? We could also ask a fourth question - what enables countries such as Italy, Spain, and Korea to get to D - to be net labor importers - within two decades of economic restructuring?

We know very little about parameters such as A, B, C and D - neither in already completed migration transitions such as those of Southern Europe or Korea, nor those underway today, such as Thailand and Malaysia. The Asian tigers may have lessons to teach the world in both economic growth policies and in accelerating the migration transition.

The migration hump can serve as an argument for increasing interest in and funding for polices that promote stay-at-home development. Industrial countries today are spending far more on immigration control and integration assistance than on official development assistance, 10/ and if there were a more concrete path that could be shown to reduce migration pressures, it may be possible to shift funds toward such policies.

10/ ODA in 1991 totalled $56 billion.

However, before migration funds can be shifted from migration control to development assistance, more needs to be learned about how development affects migration. The questions that need answers include: how much do wage and job differentials need to be reduced in order to stop migration? How do network and other factors affect such migration-stopping ratios? To what extent does emigration substitute for "missing markets" for e.g. insurance in rain-fed farming areas? It is clear that wage and job opportunity ratios do not have be one (equal in the origin and destination areas) to stop labor migration; indeed, it appears that a wage ratio of 1 to 4, and wages growing faster in the area of origin, is sufficient to practically stop labor migration.

TRADE AND MIGRATION

Trade theory has focused mainly on the extent to which migration is a substitute or complement for trade--Box A of what are at least four possible trade and migration linkages. Trade theory recognizes that free trade can eventually reduce migration, as trade in labor-intensive goods is substituted for labor migration, and that an increase in trade can increase migration, as complementary workers accompany especially specialized goods across borders. The substitution relationship often applies to economic integration between industrial and developing nations, and the complementarity to increased trade between industrial countries.

Four Trade and Migration Linkages

	Trade Patterns	Trade Policies
Migration Patterns	(A) Migration and trade can be substitutes, so that barriers to trade increase migration and freer trade reduces migration. Trade and migration can be complements if as when specialists migrate to service complex equipment.	(B) Migration can create a dependence on an external labor market for which trade and investment policies try to create a local substitute, e.g., the maquiladora program was a trade response to the termination of the Bracero program.
Migration Policies	(C) Importing workers can reflect a decision not to import goods from the emigration country. However, migrant worker remittances can be spent on goods produced in the country of employment, thereby increasing trade.	(D) Trade policy exceptions can lead to migration policy exceptions, as when protections for the U.S. sugar industry justify the H-2A foreign farm worker program. Immigration can increase trade or music imports.

The other trade and migration interactions have not received as much attention, in part because some are extensions of Box A. One of the most discussed cases in migration circles is Box D--the case of a trade policy exception that leads to a migration policy exception, or a

migration policy exception that affects trade policies. In some cases, eliminating these policy exceptions would allow trade and migration to be substitutes; in other cases, they would be complements.

A frequently-cited example of a trade policy of protectionism that led to an immigration exception is the U.S. policy that protects U.S. sugar growers by limiting imports. About 40 percent of U.S. grown-sugar produced in 1990 was from sugar cane, and over half of the sugar cane was produced in Florida. Sugar cane in Florida has been hand-harvested since the early 1940s- in 1990 with about 10,000 workers imported from Caribbean islands whose sugar exports to the United States are limited by quotas. With free trade in sugar, there would presumably be more sugar production and jobs in the Caribbean and elsewhere, thus reducing emigration pressures there, and less demand for foreign sugarcane cutters in the United States.

Immigration can increase trade in a complementary fashion. Migrant workers create a demand for travel, banking, and tradelinks to their countries of origin. It is for this reason that some argue that the United States, as the world's first "universal nation," will be able to use diverse immigrants to forge trade links to their countries of origin.

Many industrial countries recruited guestworkers during the 1960s. Box C is the interaction between a policy to import workers and its effects on trade patterns. An industrial country decision to import foreign workers should reduce trade, since the industry in which they are employed presumably expands, so that there is less room for imports of that product. But migrant workers earn wages in industrial nations, and some of the remittances sent home are in turn spent on imported goods and services. If one-third of the at least $75 billion in worldwide remittances are spent on goods imported from the industrial countries, then $25 billion in industrial to developing-country trade would be traceable to migrant remittances. 11/

Finally, Box B illustrates how trade policies can change in response to migration patterns. One example is on the U.S.-Mexican border. Some of the Bracero farm workers who migrated seasonally to the United States moved their families to Mexican border cities, where they lived off remittances. When the United States terminated the program in 1964, there were several million Mexicans in border areas who could no longer depend on U.S. earnings. Mexico responded with the maquiladora program in 1965, under which U.S. investors could operate border-area plants and pay U.S. duties only on the value added by Mexican workers. The maquiladora program was a trade and investment response to create jobs in Mexico to replace those eliminated in the US labor market.

The most fundamental trade and migration interaction is that of Box A, in which trade is generally a substitute for migration. Among industrial countries, trade and nonimmigrant labor flows appear to be complements. When there is economic integration between industrial and

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11/ By comparison, the successful completion of the Uruguay round of GATT trade negotiations is expected to expand trade worldwide by $250 to $300 billion annually. Even if developing countries shared in this expanded trade only in proportion to their share of world trade (about 20 percent of $3.3 billion in merchandise exports in 1991), they would be earning an additional $60 billion annually in foreign exchange (20 percent of $300 billion), or more than annual ODA commitment.

developing nations with a pre-existing migration relationship, there is often a migration hump. The other boxes outline policy-pattern interactions which illustrate how trade and migration can be substitutes or complements. While suggestive of the complexity of trade and migration, these other interactions tend to be extensions of the basic model.

TOWARD INTERNATIONAL COOPERATION?

Migration is probably the most important international economic phenomenon that is *not* coordinated by an international organization. Unlike defense or economic policies, which are coordinated in international organizations from NATO to GATT, immigration policy has remained largely country-specific, although in Western Europe there is a free labor market and steps have been taken toward regional visa and related immigration control polices.

Existing or new international economic organizations are likely to find migration on their agendas in the 1990s for three reasons. First, the migrants living in the industrial countries send remittances to their countries of origin, making labor migration an important source of financial transfers from industrial to developing countries. Remittances already one and one-half times the level of Official Development Assistance, and growing faster than ODA. From Algeria to Yugoslavia, labor is the most important export of many nations, and remittances are the quickest and surest source of foreign exchange.

Many countries try to increase the remittances they receive, and channel them to accelerate development. However, there has been relatively little research on how to increase and channel remittances, especially in comparison to the vast literature that evaluates the use of development assistance funds. The research available suggests that most efforts by labor-exporting governments to manipulate and channel remittances have been expensive failures. Instead of offering dual exchange rates or other incentives to attract migrant savings, this literature suggests that correct fundamentals are most effective way to promote voluntary remittances, such as having a correctly valued currency whose exchange rate is likely to remain stable. If this conclusion is generally true, then remittance-manipulating efforts such as dual exchange rates and special migrant accounts should be discouraged. Governments that want to increase remittances should be advised to get and keep the basic economic policies right and make it easy for migrants to remit by e.g., extending banking services to migrants abroad and in their areas of origin.

Second, we are at a very early stage in having the economically-oriented international organizations deal with migration. One issue that arises as these organizations begin to deal with international labor flows is whether it makes sense to promote international coordination in migration policies. There are a great many trade and migration interactions that could develop into points of contention, ranging from whether restrictive migration polices impede trade in services to whether programs that admit migrant workers represent a trade-distorting subsidy for the garment or agricultural industries in which they are employed.

We are at a very early stage in bringing migration into international economic organizations. One strategy to help these organizations get involved would be to agree on a division of responsibility for basic issues such as definitions and data collection. Just as it was hard to bring agriculture into the international trade system until the effects of the various ways in

which countries intervene in that sector could be standardized and compared, so it may be useful to launch a coordinated effort to establish uniform measures of migration pressures or migrant presence. It would be very helpful to agree on basic concepts, and then assemble and publish standardized data in a widely-distributed publication such as the WDR.

Once there is some agreement on basic concepts and data, we could deal with the third issue--how should migration enter into ongoing organizations and agreements that deal with everything from trade to development assistance ? For example, migration is linked to trade, both because the volume of imports in many countries depends on the volume of remittances, and because trade in services often involves migration. There seems to be much more research on how trade can be a substitute for migration, which leads to the conclusion that free trade will reduce migration pressures, and too little appreciation for the fact that trade and migration can also be complements, as occurs when technicians accompany specialized goods, when migrant workers create a demand for transportation, banking, and goods links to their countries of origin, or when construction firms include imported workers in their bids.

The WB could enhance our understanding of worldwide migration by developing country-by-country estimates of immigrants and emigrants, remittance flows, and the stability of migrant employment and remittances. We know that migration is a more important link to the global economy than trade for many countries and, although there are many agencies that evaluate the prospects for goods markets, little attention has been paid to prospects in the global labor market. Devaluations can spur migration, as occurred in West Africa after the CFA franc was devalued with respect to the Nigerian naira, and recession in a labor-importing country can lead to belt-tightening thousands of miles away, as occurred in Pakistan as a result of lower oil prices and remittances from workers in Saudi Arabia.

THE INDONESIAN POPULATION PROGRAM

(Prepared by the Government of Indonesia)

Introduction

The principal target of the Indonesian Long Term Development Program is to improve the quality of Indonesia's people and society, achieve physical and spiritual progress in a peaceful prosperous atmosphere, in a system based on *Pancasila*, the 1945 Constitution, and the Main State Policy Guidelines (GBHN). As expressed by President Suharto, the goal is for the life of the Indonesian people to be in harmony and in balance as a society, and between individuals and the environment, living in obedience to God Almighty.

Indonesia considers population as being central to sustainable development. Indonesia has long realized that large numbers can be an asset in the process of development in all fields. However, without improvements in population quality, the large numbers can be a burden, and can reduce the development benefits to be enjoyed by the population. Therefore, to control and also benefit from large numbers, it is necessary to formulate initiatives in respect of family planning, including legitimization of small family norm, and creating conditions of prosperity and stability for Indonesian families.

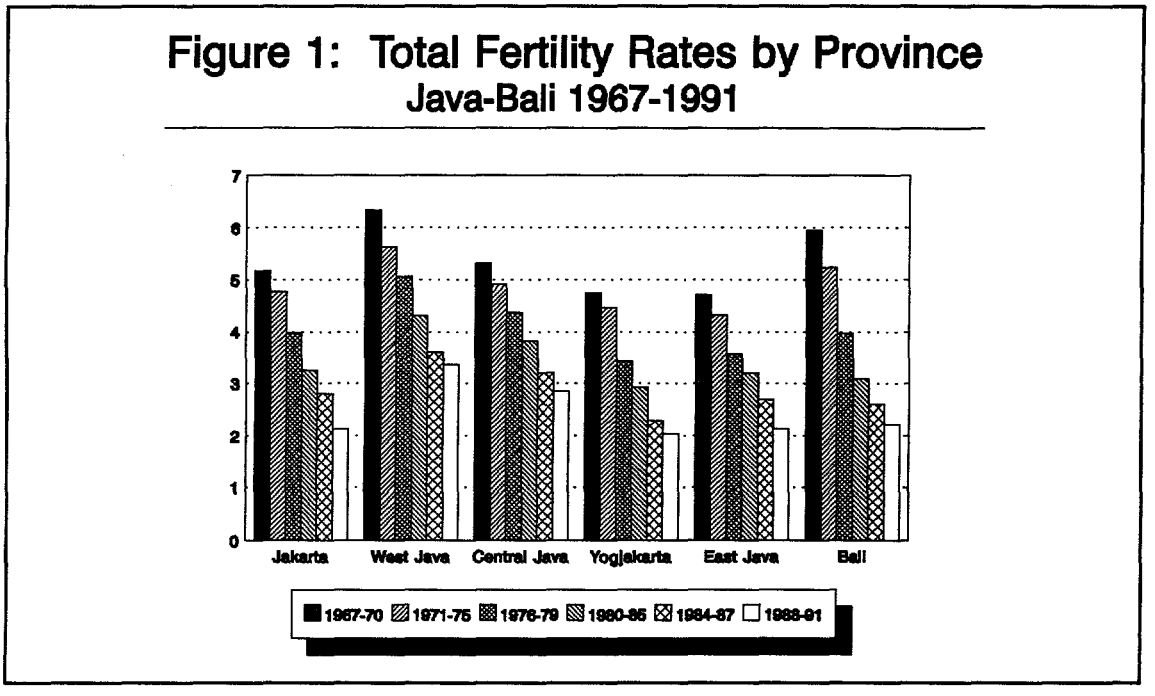
In this regard, the country's most striking and noteworthy accomplishment to date may have been the widespread adoption of contraceptive methods and the associated rapid decline in fertility and population growth rates over a period of two decades. These achievements occurred primarily as a result of an innovative family planning program, designed and implemented by BKKBN, the National Family Planning Coordination Board. BKKBN was recently subsumed in a new State Ministry for Population.

The paper reviews Indonesian experience with family planning and population policy. This paper reports in Section I on the demographic background and the scope of the changes in fertility and contraceptive behavior which have occurred, and then turns in Section II to a discussion of how these changes came about. Section II describes key program elements, distinguishing between those that appear to be specific to Indonesia or at least to Southeast Asia, and those likely to be widely replicable. Section III examines the role of donor assistance in program development and execution. The paper concludes in Section IV with a discussion of the future issues facing the Indonesian population program.

I. Demographic Achievements

Between the late 1960s and late 1980s, the total fertility rate nearly halved, falling from 5.5 (1967-70) to 3 (1988-91) births per woman. The decline in fertility rates was observed in most provinces, especially Java and Bali (Figure 1). The crude birth rate fell from 43 to 28 births per 1,000 population. The overall population growth rate decreased from 2.5-2.7 percent in 1970 to 1.6 percent in 1991. This represents a 41 percent reduction in the population growth rate. If the population growth rate had remained constant at 2.5 percent between 1970-1990, the total population in 1990 would have been 191.7 million, rather than the actual figure of 179.3 million.

The most important immediate cause of the fertility decline (and the decline in population growth) was an increase in the use of contraception by married couples to limit the number of children and to extend the spaced interval between births. In the 1960s, the



contraceptive prevalence rate was probably less than 10 percent. By 1976, it had increased to 19 percent and, by 1991, it had reached 50 percent. In Java and Bali regions the contraceptive prevalence rates increased from 26 percent in 1976 to 51 percent in 1987 and 53 percent in 1991 (Table 1). Between 20 and 25 percent of the fertility decline was due to an increasing age at marriage. Most of the remainder is accounted for by increased use of contraception.

TABLE 1
PERCENTAGE OF CURRENTLY MARRIED WHO ARE CURRENTLY USING ANY FAMILY PLANNING METHOD BY PROVINCE, JAVA - BALI, INDONESIA

Province	1976 (IFS)	1987 (NICPS)	1991 (IDHS)
Jakarta	28	54	56
West Java	16	46	51
Central Java	28	54	50
Yogyakarta	40	68	71
East Java	32	50	55
Bali	38	69	72
Indonesia	26	51	53

IFS = Indonesian Fertility Survey.
NICPS = National Indonesian Contraceptive Prevalence Survey.
IDHS = Indonesian Demographic and Health Survey.
Source : IDHS, 1991

The increase in contraceptive use reflected an increasing demand for small, planned families. Between 1976 and 1982 the mean desired number of children decreased from 4.6 to 3.2 and the proportion of women who wanted no more children increased from 37 to 51 percent. By 1991, 50 percent of mothers with two children and 69 percent of those with three said that they did not want any additional children. Forty percent of all currently married women of childbearing age in 1987 who were not yet using contraception either wanted no additional children or hoped to postpone the next pregnancy for at least two years.

Indonesia's achievements in the family planning domain can be gauged through reference to patterns of fertility decline and contraceptive use in other developing countries. In this regard, the Indonesian case is extraordinary. Program success in creating awareness, making safe and affordable methods available at convenient and culturally acceptable village supply points, and attracting low income and poorly educated clients has enabled Indonesia to "fast forward" through the better part of the fertility transition, catching up in several cases with more favorably placed countries. For instance, during the 1965-1985 interval, contraceptive use rose and fertility fell at rates approaching what had taken place somewhat earlier (and at higher income levels) in South Korea and Thailand. By the late 1980s, Indonesian use of family planning methods had matched or exceeded that in countries -- Malaysia, the Philippines, Zimbabwe, and Mexico -- with significantly higher per capita income levels (Figures 2A and 2B).

II. The Family Planning Program

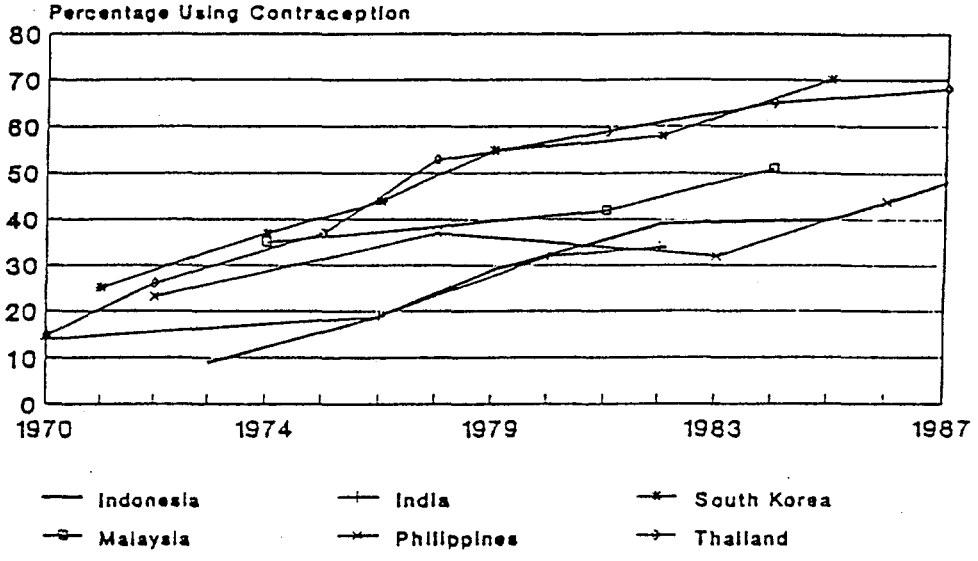
The Indonesian family planning program aims to expand contraceptive coverage, to promote continued use of contraception, and to institutionalize family planning and the small family norm by shifting responsibility for decisions about practising family planning to the individual, the family and the community. The program is implemented by a wide range of governmental, non-governmental, and private units. BKKBN plays a major role in planning, coordinating and monitoring the family planning program and together with the Ministry of Health (MOH) represents the major implementing agency.

The Indonesian program evolved through a series of adaptive phases. The first program period (1970-73) involved of a clinic based approach in six provinces in Java and Bali, where the population densities were high and infrastructure was more developed. Through these efforts, BKKBN realized the need to expand services to the majority of the population who reside in rural areas without access to fixed facilities.

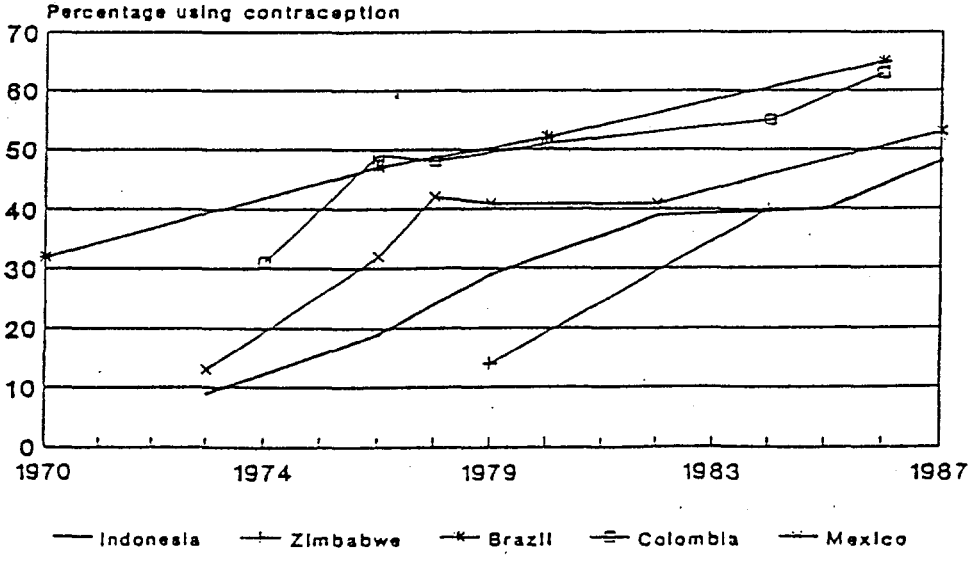
During the second program period (1972-79), village contraception distribution centers (VCDCs) were established in Java and Bali. At the same time, the program continued its expansion -- activities were extended to 10 additional provinces. The third program period (1979-84) involved the placement of BKKBN staff at the regency and district levels. That was accomplished and the expansion of the program continued, covering the remaining provinces. BKKBN in conjunction with the MOH introduced another innovation to service delivery in 1984 when integrated health services were made available at the village level through monthly meetings organized by village volunteers with technical support from the MOH and BKKBN staff.

Figures 2A and 2B

Percentage of Currently Married Women
Ages 15-44 Using Contraception (1970-87)
Figure 2A Asian Sample



Percent of Currently Married Women Ages
15-44 Using Contraception (1970-87)
Figure 2B Selected Developing Countries



Source: Mauldin W.P. & Segal, S.J. (1988). Trends in Contraceptive Use by Method, and Their Relationship to Fertility. Center for Population Studies, Working Paper No. 139.

On another front, BKKBN's strategy vis-a-vis contraceptive practice began to shift from strong government involvement to promotion of individual responsibility and encouragement of greater participation by the private sector. Hence, the self-reliance campaign was launched in 1986.

The Indonesian family planning program includes three major types of program activities, each of which is carried out by a set of implementing units: (a) contraceptive information and services with medical backup and distribution points; (b) motivation for family planning and the small family norm (IEC); and (c) promotion of women's economic and social well being.

Contraceptive information and services, the core program activity, are provided through a number of delivery mechanisms. At the base of the system, there are more than 63,000 villages and 190,000 sub-village contraceptive posts (VCDC) which are organized and supervised by village family planning volunteers who resupply contraceptives and provide simple medications against side effects. These volunteers are trained and guided by BKKBN field workers. Complementing the VCDC in distribution of contraceptives is the posyandu, which according to schedule is held once a month, and is organized by the village head with assistance from village volunteers and technical support from the MOH and BKKBN, and offers services in family planning, nutrition and maternal and child health.

Health centers and sub-centers act as referral facilities for VCDCs and posyandus in the case of medical complications associated with contraception. In addition, the staff at these facilities offer family planing information and services. Moreover, in order to extend the reach of contraceptive services, staff from health centers participate in mobile family planning clinics called "safaris" which offer services and handle complaints of side effects and medical complications. Regarding voluntary surgical contraception, each province has a central hospital and several regency hospitals providing these services.

Village Family Planning

During the 1970s and 1980s, the Indonesian family planning program adopted "village family planning" as a national policy and program designed to reach the majority of couples in rural areas who had limited access to fixed health facilities. The program was launched following a field trail in West Java where village volunteers, with basic training, served as community distribution agents for oral contraceptives and condoms. The volunteers also referred clients for other methods to health facilities. The village volunteers were recruited, supervised and supported by the government network of family planning field workers. The village distribution centers were later complemented by an integrated health service posts, at the village level, whereby health, nutrition and family planning services were provided (Posyandu).

The success of the approach was clear when the 1980 census revealed that contraceptive prevalence was higher in the rural areas than in the urban centers. This is contrary to the experience of most other developing countries, but reflected the success of the village contraceptive distribution centers and their complementarity with other BKKBN initiatives.

The village family planning program was the government's first social program to reach the 66,000 Indonesian villages and hamlets. Extensive community participation and the use of village volunteers have made this program a model for the introduction of other social services to the rural communities.

A second set of program activities involves individual and community motivation toward the practice of family planning and acceptance of the small family norm. Motivation is carried out by the field staff, other government officials at the local, regency, and provincial levels. Certain activities have been designed to promote a climate of community support for family planning and to make it a less sensitive topic. These include support to family planning by religious leaders, the formation of contraceptive acceptors' groups in villages, training and motivation of traditional birth attendants, organization of frequent public discussions on family planning, and linking provision of family planning with health services, nutrition programs and other less sensitive activities. The program also targets youth through in-school and out-of-school programs with messages that emphasize the advantages of delayed marriage and small families and the importance of acquiring education and skills in preparation of productive work.

The last component of the national family planning program consists of activities designed to raise the economic and social conditions of women, particularly in the rural areas. These include: low interest loans which are made available to members of contraceptive acceptors' groups; training for village-based manufacture of craft items which can be sold for extra income; scholarships for children of couples who have long practices of family planning; and village-based pre-school activities for women with only one child. BKKBN provides financial and technical assistance and training for these activities, in cooperation with other relevant government departments.

Elements of success

What made the Indonesian program successful? Which ingredients of success were idiosyncratic and/or unique to Indonesia or possibly Southeast Asia, and which have broader relevance? Some key contributory factors and lessons are summarized below. These are grouped into three main categories: external elements, policy framework, and program elements.

External Elements

- Political support. The program has enjoyed continuous, strong government support from the President and through him the entire administrative structure. No other developing country has given more public backing to family planning than that in Indonesia in the last 25 years. This political support increased the level of acceptability of family planning throughout the country. Further, the strong political commitment and BKKBN's effective leadership invited effective involvement from many ministries and agencies, including Health, Education, Religion, Home and Defense, and inspired interest and support from various non-governmental organizations, including religious entities and the intelligentsia.

- Socioeconomic development. Improvements in socioeconomic conditions especially female education, have reinforced efforts to reduce fertility. Socioeconomic development affected attitudes about marriage, family life, and reproduction, increased openness to new ideas, and created transportation and communication infrastructure through which the program could function.

- Support of religious leaders. The program achieved considerable success in working with religious leaders. This has been facilitated by a tradition of working out problems through frequent conferences and discussions that avoided confrontation and stressed consensus. Religious leaders were asked for advice and, in that fashion, were drawn in to a common enterprise.

Policy Framework

- Population policies. The adoption of a highly visible and clear-cut population policy in support of the national family planning program helped galvanize popular support for the program. The fact that the policy was framed in terms of specific goals was important for setting quantifiable goals and using these as targets in program management.

- Strategic planning. The family planning program has employed creative strategic planning in most aspects of its operations. For instance, the phased evolution of the program throughout the country was the result of an innovative approach that maximized its impact in reaching the population and in reducing fertility levels. This was done by targeting areas of greatest population density (Java and Bali) in the first stage of the program expansion and by providing services at the village level to ensure service availability to the vast majority of population in the rural areas.

- Financial and technical support. BKKBN has been generally successful in gaining and coordinating donor assistance for its policies and it has worked closely with donors in developing new initiatives. In addition, the program has received and used considerable financial and technical support from the international and bilateral donors. This support did not subvert indigenous Indonesian direction of the program, in part because the government contributed an increasing share of program costs, reaching 70 percent by 1980.

Program Elements

- Strong Information, Education and Communication (IEC) campaigns. Indonesia excelled in its creative use of traditional and mass communications to promote family planning. Approaches have ranged from support at the Presidential level to use of conventional media and development of logos and slogans. The latter has received national and international recognition for its effectiveness and innovation.

- Community participation. BKKBN adopted the traditional village organization into an approach that translated into widespread community support for the Indonesian national family planning program. The community participation approach capitalized on existing cultural traits in Indonesia. For instance, cooperation and respect for the views of elders (especially from formal and informal leaders in the community) are important elements of the village life in Indonesia. BKKBN built on these traits and established an extensive system of volunteers at the community level, under the guidance of the community and/or religious leaders to help the family planning movement. This genuine and widespread community participation is one of the keys to the program's success.

- Contraceptive logistic system. The program realized early on that the continuous availability of contraceptive supplies was essential for its success and developed strategies to ensure a steady flow of contraceptives at all levels from the villages and sub-villages to the provinces.

- Organization and management. BKKBN is an organization widely recognized for its success in achieving its goals. Its organizational structure gave it the flexibility needed to draw on a variety of resources from different agencies. Further, the management style adopted by BKKBN put a premium on staff stability and motivation. This was a result of substantial staff development effort, supportive supervision and appropriate incentives.

- Leadership. The family planning program has benefited from stable and strong leadership within BKKBN that has enabled the program to develop and stick to a long-term vision, and afforded the freedom to test new approaches, even those considered unconventional (like the village distribution system).

III. Donor Assistance

The family planning program has received extensive financial and technical support from donors since its inception particularly from the United Nations Fund for Population Activities (UNFPA), US Agency for International Development (USAID), and the World Bank. The Government of the Netherlands has also provided commodities, technical expertise and financing of training and pilot tests of initiatives concerning NGOs and community involvement; the International Planned Parenthood Federation has supported the development of the Indonesian Family Planning Association. World Health Organization has contributed funds for contraceptive clinical trials and other research activities. The Japanese assistance program has supported the development of a condom factory and also provided audio-visual equipment. A brief description of the contribution of the three main donors follows below.

UNFPA. The UNFPA has provided population assistance to Indonesia since 1972. In four country programs totaling $83 million, UNFPA has financed family planning service expansion, physical infrastructure development, training, family planning promotion, and other family planning-related activities. In general, UNFPA has supported various program components and has tended to concentrate its assistance on specific locations and provinces. The latest project 1991-94 for US$25 million is mainly geared to five Outer Island provinces. In information, education and communication, financing is mainly for design of approaches and prototypes.

USAID. Since 1968, the USAID provided nearly $250 million for technical assistance, training, contraceptives, and funds for local support for various aspects of policy and program development. The funds provided by AID have been directed, in part, at the expansion and improvement of family planning services. This has involved support for contraceptives; development of computerized logistics and management information systems; technical expertise and equipment to establish local production of contraceptives; technical assistance, medical equipment, and training for the expansion of voluntary sterilization services; vehicles; introduction of the village family planning program; and advertising and technical assistance to promote the use of private doctors, nurses, and midwives to expand family planning, primarily in urban areas.

USAID funds have also been used to strengthen the capacity of BKKBN and other Indonesian institutions to organize, manage, and evaluate their family planning programs. This has involved support for long- and short-term training in the U.S. and locally; the development of computerized logistics system to manage contraceptive distribution; management information systems and data processing; and key operations research and national demographic and health surveys to measure program performance and impact.

The World Bank. The first World Bank-supported population project was approved in 1972. To date, the Bank has financed five population projects in Indonesia for a total of US$211.8 million. The first four population projects have been completed. The Fifth Population project is in its third year of implementation. The primary objectives set in the first four Bank population projects were to help BKKBN develop its family planning program initially in easy to reach and densely populated areas and then in the remaining areas of the country.

The **first project** reaffirmed GOI's commitment to family planning and contributed, together with support from other aid agencies, to the transition from a clinic-centered approach to one based on an outreach network and community mobilization. The **second project** was aimed at supporting and expanding the national family planning efforts beyond Java and Bali; it also sought to increase the mobility of family planning field staff to enable them to take services to remote areas. Project inputs, in particular physical facilities such as training centers and vehicles, played a major role in meeting objectives. Without these facilities, extension of the family planning program would not have been possible.

The **third and fourth projects** had the objective of consolidating gains in the program's physical capacity while contributing to staff development and complementing other donors in various innovative program aspects. These projects reached the planned objectives as evidenced by the current strong BKKBN staff operating countrywide, the success achieved by the agency in coordinating many departments and in mobilizing communities and by the deep social and individual level of awareness about the benefits of family planning. The ongoing **fifth population** project aims at making family planning services more accessible to hard to reach rural and poor urban populations, and to enhancing BKKBN's capacity to deal with the strategic changes facing the program. The Fifth Population project also supports various safe-motherhood initiatives, including those concerned with training and deploying village-band midwives.

The World Bank has also conducted a variety of informal and formal sectoral analyses including a major study, issued in 1989, of the challenges and opportunities facing the family planning program in the 1990s. Most recently, OED sponsored a detailed case study of the history of population lending in Indonesia.

IV. The Road Ahead

The 1993 GBHN classifies the population concerns which will continue to dominate for the next 25 years into three main issues or categories. These are: continuing large population size due to high growth rate (quantity), relatively low population quality (quality), and uneven distribution of the population (distribution).

The first issue continues to be population growth and quantity. Indonesia's population is currently the fourth largest in the world, estimated at 189.1 million at the end of 1993 with an average growth rate of 1.66 percent per annum. It is projected that population size will increase by at least 50 percent before the population stabilizes. Issues associated with population growth remain important and complex in Indonesian developmental planning. For instance, the large cohort entering the labor force provides a major challenge to development planners and the increasing numbers of elderly population has significant social and health implications, among others.

The second issue is the low quality of the population. Quality determines productivity and capability for improving the quality of life and the carrying capacity of the natural, manmade, and social environments. The term population quality is understood both in its physical and non-physical dimensions. Furthermore, population quality can be observed, measured and analyzed at individual, social, aggregate and country levels. Though the exact definition and operationalization of the concept of "quality" of the population have not been

finalized, efforts in this direction are likely to give special attention to vulnerable groups such as disabled persons, isolated communities, families headed by poor and uneducated women, children and the elderly.

The third issue is uneven distribution among islands and regions. Sixty percent of the population (110 million) live on a single island, Java, which comprises less than seven percent of the total land area of the nation, while most islands are not inhabited or are very sparsely populated. The government has already initiated efforts to address this issues through transmigration and regional development programs. However, population distribution continues to be uneven and the growth rates of the different areas is further enhancing the differentials. This issue remains a challenge for development planning in the future.

It should be noted that there is a growing recognition in Indonesia that these three major population issues cannot be solved without integrated efforts covering all sectors. Moreover, since population issues are linked to all sectors of development, including the environment, there is also an increasing awareness of the importance of population information for sectoral and cross sectoral efforts.

What is (are) the main vehicle(s) for addressing these issues? There is an increasing recognition that the decision making process for most of these issues does not take place based on quantitative or aggregate analysis, but at the **family** level. This central institution in Indonesia has been given extensive emphasis in government thinking. It is then necessary to adjust programs to family needs and not vice versa. These are the philosophical and cultural basis of the Indonesian Population Development and Development of Prosperous Family Law (Act No. 10/1992).

In this regard, policy efforts to develop prosperous families (*Keluarga Sejahtera*), including family planning, are not merely intended for birth control, but also to create happy and prosperous families. Efforts of family planning implemented through the development of the norm of a small, happy, and prosperous family will provide the basis for families to achieve ideal size that in turn will facilitate families' ability to achieve happiness and prosperity. Efforts in population development and development of prosperous family are firmly based on conscience, responsibility, voluntarism, and take into account religious values, and social and moral norms.

What are the main challenges for the family planning movement? Despite its success to date, the Indonesia family planing movement is at a critical stage. The movement still faces a series of challenges to achieve its fertility objectives and to provide family planning services to the increasing number of clients. The movement is also embarking at a new stage of program development whereby family welfare is the focus and the family, rather than the individual, is the nucleus for change.

The current challenges for the family planning services have been summarized as: first, the large number of women entering the reproductive age group implies substantial increases in the number of clients that need to be reached by the program even if the contraceptive prevalence level remained constant. If contraceptive prevalence is to increase to the set targets, the demands on program inputs will be even greater. Second, the program,

which till now has been based on strategies and managerial principles applied country-wide, will need to redirect and differentiate strategies for areas where initial success has been limited, especially in less developed, more sparsely populated provinces.

The third issue facing the family planning program is reaching the poor and less educated groups. This calls for strategy changes including well targeted and defined programs for these hard-to-reach communities. The program is also faced with additional challenges resulting from the rapid changes in the demographic composition of the program clientele. That will imply a shift in the contraceptive method mix with more emphasis on long acting and permanent methods. Fourth, there is also a growing level of demand for higher quality services that will require more careful assessment of quality of care issues, especially of clinical services. Meeting these challenges will require responsiveness and adaptability in the IEC strategies as well as better capacity at research and evaluation efforts in the program. Fifth, meeting the financial requirements for this evolving program will remain a major challenge and concern.

At the same time and in addition to the current challenges, the family planning movement is now embarking on a new stage where "**the family**" is the focus of the program's initiatives and efforts. Focusing on the family is not totally new to the program. BKKBN has already begun to develop "beyond family planning" activities since the 1970s -- aimed at establishing linkages between having a small family, on the one hand, and being happy and prosperous, on the other. However, the program is now taking a quantum leap in that direction. The focus is to be on the family per se, rather than family planning. By placing emphasis on the family, the program is trying to develop an alternative basis for planning and development efforts. The program, however, acknowledges the difficulty of translating this principle into a meaningful strategy.

Annex 1

TABLE 1
BASIC DEMOGRAPHIC INDICATORS, INDONESIA 1971-1990

INDEX	1971 Census	1980 Census	1990 Census	1993 Estimates
Population (million)	119.200	147.400	179.300	189.100
Annual Growth Rate (%)*	2.100	2.320	1.980	1.660
Density (pop/km)	62.000	77.000	93.000	95.000
Percent Urban	17.300	22.400	30.900	33.000
Crude Birth Rate (CBR)**	40.600	35.500	27.900	24.500
Crude Death Rate (CDR)	19.100	13.100	8.900	7.900
Total Fertility Rate (TFR)***	5.605	4.680	3.326	2.873
Infant Mortality Rate (IMR) $				
Male	158	118	79	65
Female	134	100	64	52
Total	145	109	71	58
Life Expectancy at Birth				
Male	44.2	50.6	58.1	60.8
Female	47.2	53.7	61.5	64.5
Total	45.7	52.2	59.8	62.7

Notes: * Growth rates : 1961-1971, 1971-1980, and 1980-1990
** CBR is estimated using the formula CBR = 9.48968 x 0.00555 TFR
*** TFR in estimated using own children method:
$ IMR is estimated using indirect technique (Trussell and Preston, 1983).
CDR = CBR-Growth Rate

Source: CBS, 1992.

Annex 1

TABLE 2
TOTAL FERTILITY RATES BY PROVINCE, BASED ON THE 1971, 1980 AND 1990 CENSUSES

Province	Data Sources 1971 Census (1968)*	1980 Census (1977)	1990 Census (1987)	Percent Decline 1971-90
Indonesia	5605	4680	3326	40.7
Sumatra				
DI Aceh	6265	5235	4367	30.3
North Sumatra	7195	5935	4289	40.4
West Sumatra	6180	5755	3890	37.1
Riau	5940	5435	4088	31.2
Jambi	6390	5570	3759	41.2
South Sumatra	6325	5585	4223	33.2
Bengkulu	6715	6195	3969	40.9
Lampung	6355	5750	4054	36.2
Java				
DKI Jakarta	5175	3990	2326	55.0
West Java	6335	5070	3468	45.3
Central Java	5330	4370	3049	42.8
DI Yogjakarta	4755	3415	2082	56.2
East Java	4720	3555	2456	48.0
Nusa Tenggara				
Bali	5955	3970	2274	61.8
West Nusa Tenggara	6655	6490	4975	25.2
East Nusa Tenggara	5960	5540	4608	22.7
East Timor	u	u	5729	u
Kalimantan				
West Kalimantan	6265	5520	4437	29.2
Central Kalimantan	6825	5870	4029	41.0
South Kalimantan	5425	4595	3238	40.3
East Kalimantan	5405	4985	3275	39.4
Sulawesi				
North Sulawesi	6790	4905	2687	60.4
Central Sulawesi	5630	5900	3538	41.0
South Sulawesi	5705	4875	3538	38.0
Southeast Sulawesi	6445	5820	4908	23.8
Maluku	6885	6155	4593	33.4
Irian Jaya	7195	5350	4701	34.7

Notes: * Reference periods for the 3 data sources are: 1968, 1977, and 1987
** Rates are calculated using the Own Children Methods.
u = unavailable;
Source: CBS, 1993.

Annex 1

TABLE 3
PERCENTAGE OF POPULATION 10 YEARS OF AGE AND OVER BY EDUCATION ATTAINMENT

Education Attainment	Male 1990	Female 1990	Male + Female		
			1971	1980	1990
Never/Not attended School	10.6	21.8	40.4	27.5	16.3
Not Yet Finished primary school	31.8	31.1	33.2	41.0	31.5
Primary school	35.6	37.0	19.6	29.2	36.2
Junior High school	13.5	12.0	4.4	8.3	12.8
Senior High school	13.1	9.8	2.0	5.9	11.6
University	2.2	1.4	0.4	0.7	1.2

Source: CBS, 1990

TABLE 4
PROJECTED BASIC INDICATORS, INDONESIA 1995-2020

INDEX	PROJECTION					
	1995	2000	2005	2010	2015	2020
Population (million)	195.800	210.400	225.200	238.900	251.300	262.600
Annual Growth Rate (%)	1.600	1.450	1.290	1.120	.960	.840
Density (pop/km)	102.000	109.000	117.000	124.000	130.000	136.000
Crude Birth Rate	23.600	21.900	20.200	18.300	16.500	15.900
Crude Death Rate	7.700	7.400	7.200	7.000	7.000	7.400
Total Fertility Rate	2.758	2.507	2.300	2.158	2.019	2.010
Infant Mortality Rate						
Male	61	53	46	39	34	29
Female	49	42	35	30	25	21
Total	55	47	40	34	29	25
Life Expectancy at Birth						
Male	61.5	63.3	64.9	66.4	67.8	69.0
Female	65.4	67.2	68.8	70.4	71.7	73.0
Total	63.5	65.3	66.9	68.4	69.8	71.1

Source: CBS, 1993.

ABBREVIATIONS AND ACRONYMS USED

BKKBN	-	Badan Koordinasi Keluarga Berencana Nasional, National Family Planning Coordinating Board
GBHN	-	Garis-garis Besar Haluan Negara, Main-State Policy Guidelines
GOI	-	Government of Indonesia
IEC	-	Information, Education and Communication
MOH	-	Ministry of Health
OED	-	Operation Evaluation Department of the World Bank
Pancasila	-	State philosophy. Five inseparable and mutually qualifying fundamental principles, i.e.: the belief in one supreme God, a just and civilized humanity, the unity of Indonesia, democracy through deliberation and consensus among representatives and justice for all
Posyandu	-	Pos Pelayanan Terpadu, Integrated Health Service Post
UNFPA	-	United Nations Fund for Population Activities
USAID	-	US Agency for International Development
VCDC	-	Village Contraception Distribution Center

POPULATION AND DEVELOPMENT: INVESTMENT IN THE FUTURE

(Prepared by Dr. Nafis Sadik, Executive Director of UNFPA)

> "There is an imperative need to slow population growth in those many countries where it is too high to permit sustainable development. Offering people in developing countries the opportunity to plan the size of their families now taken for granted in the industrialised countries, is essential to avoid an aggravation of the already difficult social, economic and environmental problems. DAC members are ready to help developing countries to establish, fund and implement effective population strategies and programmes as a matter of priority."
> *The Development Assistance Committee (DAC) of the OECD, December 1989*

The work of UNFPA during its 25 years of existence has been largely dedicated to helping individuals realize their own fertility choices and assist developing countries to achieve a greater balance between population, available resources and development. In most countries, the cor responding strategy at the macro level has sought to reduce the too rapid growth of population. Much has been achieved to reach these goals. In response to individual demand, the use of contraceptives has increased rapidly in many developing countries along with socio-economic transformations. The transition to low mortality and low fertility is, however, far from complete in several poor regions of the world where rapidly expanding populations are still creating enormous demands for basic services, infrastructure and employment as well as putting added stress on the environment. Other population aspects have also come increasingly to the fore, including population movements and distribution, rapid urban growth, the special needs of adolescents and other groups to whom reproductive-health services have not been easily available and the ageing of populations.

The first part of this paper looks at economic linkages between population and development, leaving aside other powerful rationales for supporting population programmes such as the health benefits accruing from reduced fertility and the equity question of providing all groups in society with equal chances to exercise the right to regulate their own reproductive behaviour. The second part of the paper describes the policy process that is occurring in the international arena leading up to the International Conference on Population and Development (ICPD) in Cairo this September and suggests what the national and global responses should be.

I. THE URGENCY OF POPULATION ISSUES

A. Impact on human resource development

There is rather strong evidence that high fertility, close birth-spacing and large family size tend to reduce human capital formation by impairing child development. High fertility can lead to unfavourable child development by reducing endowments of nutrition, parental care, health interventions and education per child.

Many studies have found statistically significant associations between family size and child development. Cross-household surveys have revealed an inverse relationship between the number of offspring in a family and per-child educational expenditure; there is also evidence that unwanted births, which are likely to be higher-parity births, are associated with lower school enrolment rates for all children in the family. A strong inverse empirical relationship has been found between the number of children in the household and child nutrition. There are indications that large family size is inversely related to children's health. Large family size is generally associated with early child bearing, with short birth intervals, and many studies have concluded that closely spaced infants are subject to higher mortality. Substantial reductions in infant mortality would to be gained from wider birth spacing (UNFPA 1993a).

At the national level, rapid growth of the school-age population makes it increasingly more difficult for countries to provide an adequate education to children. These added numbers of children place an additional stress on poor countries already struggling to upgrade the quality of their educational systems in order to keep students already enrolled from dropping out prematurely. Growing numbers of school entrants means adding new teachers and building extra schools, investment burdens investment which many countries are incapable of fully achieving leading to increased school crowding and rising pupil-teacher ratios.

Another important aspect of human resource development concerns raising the status of women in society. In many parts of the world, women are trapped in a web of tradition that determines their worth solely in terms of their reproductive role. Prevailing cultural patterns prevent women from developing a sense of self esteem, and customary practices make girls second-class citizens within their own households. For too many women, choice and opportunity are largely unknown experiences.

There is no question that the conventional prescriptions for development have not worked, especially for women. A cornerstone of new development thinking is the full integration of women into the mainstream of development and concern for progress in all aspects of their lives -- health, education, employment, nutrition, legal and political rights. In traditional development thinking, investment in social development was seen as a luxury, a fruit of economic success. But we now know that the opposite is true: the basis of economic progress is a healthy, socially stable and slowly growing population. Instead of being the fruit of development, social programmes, especially those addressing the status of women, are at its very foundation.

If women are to realize their full potential in their productive and community roles, they must be guaranteed their reproductive rights and must be able to manage their reproductive role. The ability to decide freely and in an informed manner the number and spacing of one's children is the first step in enabling women to exercise choices in other areas. When a woman realizes that she can make decisions regarding her reproductive function, this experience of autonomy spreads to other aspects of her life. It is a first, essential step on the road to empowerment and to making contributions to the real development of her society.

As mentioned, the importance for socio-economic development of human development has not been sufficiently appreciated in the past. Development too often meant the development of physical capital. The grim economic experience of the 1980s in much of the developing world contrasted with the rapid growth demonstrated by several Asian countries -- powered by develop-

ment of human resources, greatly lowered fertility and advances in the status of women -- have been convincing arguments for policy makers to start giving much greater weight to social-sector programmes aimed at enhancing the quality of a population's level of human capital.

B. Impact on income distribution and poverty

Population growth tends to increase inequality in the distribution of income. In populations where the the "fertility transition" is underway -- that is, in countries where it is possible to detect fertility differentials among different social groups -- a general empirical observation is that low-income families have larger families than those in higher-income strata.[1] The larger the number of children in a family with a fixed budget of time and money, the lower the proportion of income, time and wealth available to provide each child the nutrition, health and education he/she needs to reach a given level of earning capacity. At the micro-level, then, population growth widens the gap between rich and poor by depressing the earning capacity and wages of children from poor families and by perpetuating the inter-generational transmission of poverty.

At the macro-level, too, economic theory supports the notion that rapid population growth tends to worsen income distribution. As the labour supply expands rapidly, it becomes relatively abundant compared to the other main factor of production, namely, capital. This results in a general tendency for wages to be depressed as compared to returns from capital. As the poor depend to a greater extent on wage income than do the rich, *ceteris paribus*, the distribution of income will become even less equal in the presence of a rapidly growing population.

Fertility decline, especially in the rural areas and among the urban poor of developing countries is likely to help improve the average quality of their labour by increasing the amount of private and public resources devoted to poor each child. A combination of fertility decline and educational improvement would act synergistically to make the distribution of income more equitable.

Macro-level studies of population growth and poverty, mainly correlation analyses, do not, however, demonstrate a strong relationship. The causal relationships between population and poverty are complex and efforts to model them have so far been inconclusive. It should be noted that demographic change is by no means the only factor which affects the level of poverty, not even the most important. It is, therefore, not entirely surprising that empirical research has failed to turn up the expected relationship with poverty. In a sense, the important question that countries experiencing a high rate of population growth should ask themselves is: How much less poverty there would be if, in the past, growth had been low or negligible instead of high?

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1 Often, unequal access to the means for regulating fertility explains much of this difference.

C. Economic impact

The two principal routes through which population growth may affect economic performance are via an investment effect and via a labour-force effect. The evidence concerning the first effect is at present inconclusive. For the most part studies have examined population-savings linkages rather than direct effects on investment. Some of these studies have shown negative demographic effects on rates of savings while others have not. It is fair to say at this point that the "jury is still out": the definitive study of the population-savings-investment linkage has not been done. This is a pity because much of the "neutrality" which certain economists display towards the population issue stems from a lack of adequate research. [2]

Convictions of this group of economists were largely, if not wholly, formed from correlation studies of population growth and economic growth -- typically GDP *per capita* -- from the 1960s and 1970s which, in general, showed no relationship between the two measures using data from developing countries. However, in the 1980s and beyond a significantly negative association has appeared in the same sorts of correlation analyses. This has led to discomfort on both sides of the debate: those who previously dismissed correlation analysis as an inappropriate tool for forming judgments on the matter should now have difficulty accepting recent findings, while those who accepted the non-relationship of the 1970s should now have difficulty rejecting contrary findings.

The second path by which demographic circumstances may condition economic performance can be illustrated by the following identity (Sussangkarn 1993):

$$\frac{Q}{N} = \frac{L}{N} \cdot q$$

where: Q = aggregate output
N = population
L = labour
q = output per worker.

This simple equation states that output *per capita* is determined by two elements related to labour: the share of the labour force in the population (*L/N*) and labour productivity (*q*). How does population growth, especially rapid growth, effect each of these components?

Considering the first of these two factors (*L/N*), rapid population growth causes a shift in age distributions towards young age groups and increases the youth dependency of the population. This is not only an empirical observation: it is a mathematical certainty derived from "stable population theory". For example, in Zambia, with a total fertility rate (TFR) of 6 children per woman, there are 50 children under 15 years of age for every 100 aged 15-59. Contrast that with, say, Japan where the figure is only 21 per 100 working-age adults and where the corresponding

[2] As with so many other aspects of the population-development nexus, what may be hard to prove at the macro-level often seems close to being self-evident at the micro-level: *ceteris paribus*, the birth of an additional child will shift a household's budget towards greater consumption at the expense of the household's savings.

TFR is 1.7. Thus, rapid population growth tends to lower economic growth by decreasing the proportion of workers in the population.

Demographic growth also effects participation in the labour force. This is particularly true of female participation -- male participation tends to be close to 100 per cent in most developing societies. For females, a lesser number of children to look after leads to greater participation in the labour force, a fact which has been well documented. Thus, lower fertility (and slower population growth) will increase the *L/N* (labour to population) ratio and, *ceteris paribus*, income *per capita*.

The second component of output *per capita* from the above identity is labour productivity (q) or output per worker. There are a number of ways that high population growth may alter productivity. Population pressure could lead to greater efforts to utilize natural resources -- for example, by expanding the area of land under cultivation. This has in fact happened in many developing countries, but it is not a sustainable practice over the long run since the natural-resource base will become depleted and/or degraded, as happens, for instance, when uplands or arid land becomes intensely cultivated.

Slowing population growth also tends to increase the average quality of the labour force. There is clear evidence that as average family size declines, education per child increases. A labour force of higher quality is, other things being equal, a more productive labour force. A counter argument often made concerns the so-called "vintage effect": the slower the growth of the labour force, the slower its quality composition will be altered by the addition of high-education young entrants. This argument may be valid in a mechanistic way, but it is doubtful that in a regime rapid labour-force growth adequate resources could be marshalled, either at the household or at the macro-level, to assure that new entrants would in fact be of higher quality.

D. Environmental impact

For many, especially those concerned with safeguarding the environment, the impact of population growth on the consumption of natural resources and the degradation of the environment ranks among the gravest of all negative impacts of a rapidly growing population. As numbers grow over time, resources become scarcer and are used up at an increasing rate. Equally, an increasing population, especially one that is developing economically at the same time, seems certain to make a whole range of environment problems worse.

Indeed statistical studies have pointed to population growth as being significantly associated with instances of resource depletion such as deforestation or environmental degradation such as marine pollution. Certain facts are indisputable: tropical forests are currently being destroyed at a rate of 11 million hectares a year; 70,000 square kilometres of farmlands become unproductive and are abandoned every year; the global catch of fish peaked in 1989 and has declined since then; 88 developing countries, with 40 per cent of the world's population, already have fresh water deficits.

In most such cases it is "open access resources" -- forests, ocean resources, water supplies -- that are being depleted or polluted. Associated, and in many cases more important, determinants of these ecological problems, it has been noted, are institutional ones: lack of clearly defined property rights and a paucity of enforced systems of regulated access charges. This results

in irrationally priced resources and large externalities so that there is little incentive to conserve resources which essentially have no economic value put on them.

Institutional changes which would place market prices on open-access resources to adequately reflect changes in their scarcity and degradation would, no doubt, go a long way to solving many environmental problems in the short run. It can be argued, however, that such institutional reform may take place only slowly. In situations of rapid population growth, allowing surplus population unregulated access to common resources (e.g., upland forests) may even have been used as a stop-gap policy measure to deal with increasing rural poverty. Even though such a response is non-sustainable in the long run, in the past it may have provided a tempting short-run solution to mounting population pressures.

Lower population growth and policies favouring good environmental management are mutually reinforcing. Neither an adequate institutional framework for properly pricing open-access resources nor a policy aimed at lowering population growth alone will solve environmental problems. But a situation which combined low population growth with secure, transferable property rights to natural resources, an accounting system that internalized environmental externalities, and a broad sharing of the benefits of economic growth among all population groups would, in all likelihood, produce environmentally beneficial results.

Even though, in an ideal world, institutional changes such as those mentioned above would allow market forces to bring about beneficial changes in the rate of resource depletion, it must be seriously doubted whether countries with widespread poverty and weak institutional capacity of government will be able to make these changes. In such a context and in the face of imperfect knowledge about long-term permanent environmental damage, it seems prudent to also formulate policies which aim at lowering high rates of population growth.

II. FINDINGS OF COST-BENEFIT STUDIES

This section of the paper will present evidence that demonstrates that spending on population programmes can be an excellent investment for countries to make, one that is repaid several times over in terms of opportunity costs avoided.

In the past two decades several national studies have analyzed the future stream of costs and benefits (discounted to the present) of spending on family planning programmes. As in all such studies, neither all the costs nor all the benefits could be incorporated in the analysis: some data are unavailable and some costs and benefits may be difficult or impossible to value. Generally, studies in the area of family planning have focused on a narrow, but quantifiable set of measures. Costs refer to those directly incurred by family planning programmes; benefits are restricted to costs averted in certain social sectors, such as education and public health. It is generally held that more benefits are omitted from the studies than are costs, making the analysis a conservative one.

Another limitation in cost-benefit analyses concerns the problem of substitution. To what extent would family planning services be sought and paid for privately if a public-sector programme did not provide them? Public expenditure, in other words, may be just substituting for private

expenditure. The studies presented here take this concern into account. Choosing the right rate of discount to estimate the present-day value of future costs and benefits is another methodological difficulty in this genre of study. If the rate is unrealistically low, the valuation of benefits will be exaggerated and the study will lack credibility. This is not a problem in the cases presented here.

A. The Mexican social-security system

A cost-benefit analysis of the family planning program of the Mexican Social Security system (IMSS) examined the hypothesis that IMSS's family planning services yielded a net savings to IMSS by reducing the load on its maternal and infant care service (Nortman *et al.* 1986). This study is of exceptional value because it is based on data for past expenditures, not projected ones. It takes advantage of a well-financed, well-run institution (IMSS) in a developing country which had accurate data over several years as well as a functioning service for family planning spanning many years.

> "The cost data are believed to be of exceptionally high quality because they were empirically ascertained by a retrospective and prospective survey of unit time and personnel costs per specified detailed type of service in 37 IMSS hospitals and 16 clinics in 13 of Mexico's 32 states" (Nortman *et al.* 1986, p.1).

The Mexican analysis found that for every peso (in constant terms) that IMSS spent on family planning services during 1972-1984, the agency saved nine pesos. It is important to realize that only a narrow range of benefits were considered in this study, namely, the costs avoided by the IMSS in maternal and child care. Benefits to the society at large -- for instance, reduced expenditures in education -- were specifically omitted from the study in order to rely only on the high-quality data available within the IMSS system itself.

> "The inception of the family planning program in 1972 had an impressive impact on the IMSS budget by 1984. Of the total 1984 budget of 539 billion pesos, 12.9 percent, or 70 billion pesos, was spent on family planning services, pregnant and postpartum women, and infants up to age one year. Without the program, expenditures on pregnant and postpartum women and infants would have amounted to 21.4 percent of the 1984 budget, or 115 billion pesos. A savings in maternal and child care expenditures of 45 billion pesos, or 8.5 percent of the 1984 budget, was thus available for other IMSS services" (Nortman *et al.* 1986, p.2).

As to the question of the proportion of the births averted by the IMSS family planning programme that would have been averted in the absence of IMSS's family planning services, a conservative assumption was made. Even if half of the IMSS client's -- a highly unlikely supposition given the level of acceptability of fertility regulation in Mexico at the time of the survey -- would have used another source to obtain contraception in the absence of an IMSS programme, the benefit-cost ratio would still have been an impressive 4.7 to 1.

B. Thailand case study

Another cost-benefit analysis examined the highly successful family planning programme of Thailand (Chao and Allen 1984). The cost-benefit estimates are projections, over 40 years, of (1) government expenditures for family planning and (2) government expenditures averted as a result of births averted by the family planning programme. The specific sectors considered in the study where benefits accrued included public education, public health, public infrastructure (such as water supply and sewage) and other public expenditures. A discount rate of 13.5 per cent, as used by the Central Bank of Thailand, was applied to all projected costs.

The results of this analysis are presented in the accompanying table (page 19. Between 1972 and 2010, 16.1 million births are projected to be averted by the programme; this number is achieved at an estimated total cost of $536 million for the family planning programme. The averted births, however, yield an estimated cumulative savings of $11.8 billion in government expenditures in other social sectors.

III. THE ICPD PROCESS

The main outcome hoped for from the International Conference on Population and Development (ICPD) will be for Governments to agree on an action-oriented programme for the next 20 years that addresses key population issues as integral concerns for sustainable development. The ICPD will seek a new international consensus on population policies and programmes that focus on the well-being of individual women, men and children to meet their needs and their rights as human beings. The programme of action seeks to establish a number of clear goals over a 20-year time frame; the human and financial resource requirements; and the roles to be played by Governments, the international community, non-governmental groups, and others.

The ICPD is not an isolated event. Twice before, at the World Population Conference at Bucharest in 1974 and the International Conference on Population at Mexico City in 1984, the international community assembled to consider the broad issues of human population growth and distribution and their implications for social and economic development. The draft document for the 1994 Conference builds upon the considerable international consensus which has developed since 1974. It also reflects a deeper understanding of the synergistic interactions among high quality family-planning services, other programmes to improve maternal and child health and advances in the educational and economic status of women.

Intensified efforts are needed in the medium term in a range of population and development activities, bearing in mind the crucial contribution that early stabilization of the world's population would make towards the achievement of sustained growth and sustainable development. The recommendations for action in the draft Cairo document are formulated in a spirit of consensus and international cooperation, recognizing that the formulation and implementation of population policies is the responsibility of each nation. The proposed draft Programme of Action commits the international community to quantitative goals in three areas that are mutually supporting and which are of critical importance to the achievement of other important population and development objectives. These areas are: education, especially for girls; infant, child and maternal mortality

reduction; and the provision of universal access to services for family planning and reproductive health.

UNFPA, and other organizations active in the population field, have built up practical experience in the management of successful population programmes. Among the ingredients needed for success, political commitment has proved to be the main factor influencing the strength of any population programme. Not only is such commitment essential for the appropriate allocation of resources towards population programmes, but it is also the precondition for change in favour of smaller family-size ideals.

Successful family planning programmes start with an idea: that each individual can make a choice about family size; and that it is a necessary part of everyday life. It must be based on full information about the services available, and counselling if necessary to assist in making it. It must be completely voluntary, not mere acquiescence to the wishes of a service provider.

This approach rules out the practice of setting quotas or targets for family planning programmes. Programmes driven by the need to meet targets will inevitably be led to skimp on human contact between provider and acceptor, to take less time with clients, to regard acceptance as the end of the process rather than the beginning. The choice-based approach also rules out single-method programmes of family planning. Contraceptive needs change with age, family status and parity.

Abandoning quotas and broadening choice does not imply relaxing commitment to family planning. In fact a choice-based approach demands more of everyone concerned, if it is to be effective. Such services require more careful planning and organization and supply, staff to administer than those programmes where the options are limited. But in the long run, the investment will be repaid many times over in a population which accepts family planning as the norm, and does not require to be re-motivated in every succeeding generation.

Many of the quantitative goals enumerated in the draft document for Cairo clearly require additional resources, many of which could become available from a reordering of priorities at the individual, national and international levels. However, none of the actions required -- nor all of them combined -- are expensive in the context of current global development expenditures. To meet the resource needs of those actions which do require increased public expenditures over the next two decades, it is proposed that 20 per cent of public-sector expenditure in all countries should be devoted to the social sector, as well as at least 20 per cent of international development assistance. This is known as the "20-20 solution".

In 1992, somewhat less than US$ 1 billion was provided for international population assistance. Less than 1.4 per cent of official development assistance in recent years has been directed to population and related reproductive health programmes. This percentage should increase to at least 4 per cent of ODA, a level already reached and sustained for over a decade by one donor country (Norway). In the eyes of many, the success of the Conference will be measured by the strength of the specific commitments made there, as part of a new global compact among all the world's countries and peoples, based on a sense of shared responsibility for each other and for their planetary home.

IV. GLOBAL RESOURCE REQUIREMENTS

The ICPD will raise the consciousness of the world about the present state of population issues and, more importantly, will give the world a practical blueprint from which concrete programmes to meet these population challenges can be launched or redirected. The Cairo Conference should also raise the level of commitment from all actors involved: the Governments of the developing countries themselves, the international donor community, the international and regional development banks as well as private and non-governmental groups from around the world.

The ICPD draft document spells out the level of resource mobilization that will be needed globally if this blueprint is to be realized. Although it may seem obvious to some, it is worth stressing that, demographically, the developing world is not a homogenous whole. There are several "success stories" of countries which have reduced the level of fertility to nearly replacement level and many others which are close to doing so. There are many others which have made substantial financial commitments to population programmes and are now beginning to see positive results flowing from those investments. Nonetheless, in sub-Saharan Africa in general, in much of south and western Asia and in some pockets in other developing regions, population problems are still grave and the resources to tackle them have not yet been mobilized.

National resource mobilization demands great attention if countries are to meet both the current unmet demand and the projected growth in demand for reproductive health and family planning services over the next two decades. There are at present an estimated 120 million couples with unmet fertility-regulation needs. Efforts to generate domestic resources and to rationalize their use, in support of service-delivery programmes and associated information, education and communication activities, will need to be intensified in the coming years, with greater emphasis being placed on new resource mobilization modalities such as the selective use of user fees, social marketing, cost-sharing and other forms of cost recovery.

The envisaged reduction of unmet needs for family planning information and services in the period up to 2015 implies that the number of couples using contraception in the developing countries and countries in economic transition would rise from some 550 million in 1995 to nearly 640 million in the year 2000 and 880 million in 2015. The contraceptive prevalence rate as derived from these figures would increase from about 58 per cent in 1995 to 69 per cent in 2015.

A basic package of population and family planning programme activities (including family planning commodities and service delivery; many components of primary health clinic-based maternal and child health programmes, information, education and communication activities; family planning training; and management information activities) would cost (in 1993 US dollars) $10.2 billion in 2000 and 13.8 billion in 2015.

An expanded package of activities for reproductive health care within the primary-health approach, but going beyond the usual components of family planning programmes, is also called for in the draft Cairo document. However, it is important to note that this expanded package is based on the understanding that the existing infrastructure and available staff will have to be mobilized for this purpose. Because many of the personnel, the facilities, the equipment and supplies needed for family planning programmes and reproductive health programmes at the primary health level are the same. This package covers education and services for prenatal, normal delivery and post-natal

care; prevention and treatment of infertility; prevention and treatment of reproductive tract infections and sexually transmitted diseases; prevention and treatment of other reproductive health conditions; and information, education and counselling, as appropriate, on human sexuality, sexual and reproductive health and responsible parenthood; referral for further diagnosis and treatment as required, for complications of pregnancy and delivery, infertility and reproductive tract infections. This additional package would have a global cost of $1.2 billion in 2000, rising to $1.4 billion in 2015.

A third package of activities for the prevention of sexually transmitted diseases (including HIV infection), comprising mass-media and school education programmes and expanded condom distribution would cost an additional $.26 per capita per annum and amount (in 1993 US dollars) to an additional $1.3 billion in 2000 and approximately $1.5 billion in 2015.

An additional package of activities to meet the expanded population data collection, analysis and dissemination, and policy formulation needs would add between $220 million and $670 million per annum. Averaged over the period 1995-2015, this would amount to about $.08 per capita per annum.

In its entirety, the projected resource requirements of national population programmes described above would total $13.2 billion in 2000 and $17.0 billion in 2015.

It is important to recognize that these are global estimates. As suggested above, even today, resources must be concentrated in certain regions more than others. The composition of the sources of mobilization will also change: as countries modernize, the private sector and individual initiative should provide an increasing share of the total resources required. These estimates should not be read, therefore, as the total of amount public funds needed. In some countries, to be sure, the public sector is and will be for some years to come the main channel for providing services for fertility regulation, but this role should diminish as programmes attain greater "sustainability" or self-reliance.

It is expected that up to two thirds of the costs of family planning/reproductive health programmes will continue to be met by the countries themselves. But to meet the goals outlined above, greater commitment will also be required from the international community via the many channels open to it (direct assistance through bi-lateral, multi-lateral and non-governmental organizations and loans via development banks).

In recent years, international resources for population activities have come under severe pressure, due to economic difficulties in many traditional donor countries. As a result, during the past two decades, although international financial assistance to population programmes has increased in absolute terms, it has decreased in relative terms, from 2 per cent of official development assistance (ODA) in the early seventies, to 1.34 per cent in 1991. Developing countries, on the other hand, have increased their financing to approximately 75 per cent of total expenditures on population programmes, highlighting the importance that they place on population activities and their commitment to them.

The international community should adopt funding targets for population programmes securing contributions commensurate with the scope and scale of activities required to achieve the

objectives and goals presented above. Given the magnitude of the financial resources needed for national population programmes and assuming that recipient countries will be able to generate sufficient increases domestically to cover two thirds of the total costs, the need for complementary resource flows from donor countries would be (in 1993 US dollars) $4.4 billion in 2000, possibly rising to $5.7 billion in 2015, depending of course on the growth and maturity of the domestic economies in the recipient countries. These estimates are consistent with the call made in the draft Conference document to raise the population share of ODA assistance to 4 per cent.

V. CONCLUSIONS

This paper has concentrated on economic rationales for support to population programmes. The impacts that population growth has on natural resources, the environment, investment in human resources, income distribution and poverty and the labour force have been discussed in some detail. Rapid population growth can have a detrimental effect in each of these areas, even though it is not the only factor, or even always the most important factor leading to negative consequences. It is, however, a factor whose force will only increase if it is neglected. Fortunately, most of the developing countries which even 15 years ago expressed official unconcern for demographic change now view rapid population growth as an important constraint on their aspirations for socio-economic advancement.

The paper also reviewed the narrow cost-benefit justification for implementing population programmes. In most countries where such studies have been carried out, benefits greatly outweigh costs. In terms of social-sector spending, family planning programmes are one of the best investments possible.

The ICPD process was then described. The world will come together in a few months' time to set a new course by enunciating a set of specific goals for the next two decades and by making a renewed commitment to mobilize sufficient resources to achieve these goals. A blueprint will be adopted that sets out a plan for actions required of developing and developed countries working together in a partnership.

The financial resources that should be marshalled for this two-decade action plan have been spelled out at the global level. These sums are not large. In many cases they do not imply added resources but just a re-ordering of resources towards social sectors, with a small percentage, but larger than the current average share, devoted to population matters.

It is hoped that the ICPD will bring overtly to the world's consciousness a fact which has become more apparent than ever since the last international conference on population in 1984. This is that population is not a sectoral concern: rather it is multi-sectoral in nature touching on every aspect of development from education and health to concerns over resources and the environment to issues of the empowerment of women to impediments to economic growth. As such, population concerns must be integrated and taken account of in development plans, both globally and in each sector. The multi-sectoral nature of population issues means that Ministries of Planning and Finance should become involved in the population dimension of development rather than leaving the matter to a particular line Ministry. United Nations developmental agencies, bi-lateral

developmental agencies and NGOs should likewise see population issues as an integral part of their developmental assistance efforts and build up capacity to incorporate population concerns into their programmes.

There is a point that cannot be overstressed: population programmes have been successful in many countries. In some countries they have been spectacularly successful (the trajectory of Mauritius is shown in the graph on page 19). In many others, those in mid-course so to speak, much progress has been recorded and the finalization of their "demographic transitions" seem inevitable if the programme efforts made so far can be maintained. It is also no mere coincidence that countries which have actively sought to bring population growth down to manageable proportions have made rapid strides in achieving economic development.

Contraceptive prevalence in the developing world has risen from around 12 per cent of married women in reproductive ages in 1970 to around 55 per cent today. This is truly a remarkable accomplishment, unmatched in speed by any other social development. What is more, the stage is set for further advances. As mentioned, a further 120 million couples worldwide have indicated an unmet need for family planning; and such demand should continue to grow in the future. Moreover, a wealth of valuable experience has been garnered from population programmes in a wide variety of developing settings that make the implementation of successful programmes far more certain than 25 years ago when concerned agencies such as UNFPA were just beginning to experiment with "delivery" systems.

Population programmes have been among the most successful and the most cost-effective developmental interventions over the past three decades. Starting from a small base and in the face of much scepticism, the regulation of fertility, the most intimate and personal of all human behaviour, has grown and spread as the numbers quoted in the previous paragraphs indicate. Even in sub-Saharan Africa, where since 1980 other developmental efforts have stalled or even lost ground, the last decade has been one of progress in the population field, with declines in fertility levels being registered in a handful of countries for the first time in their recorded history and surveys showing encouraging signs that desired fertility has begun to decline in several other countries.

With the expected action plan of the Cairo conference in place and an enlightened commitment of resources assured, population concerns can be effectively addressed. In this respect resources dedicated to population differ from many other development sectors: fertility regulation and the small-family-size norm become inculcated in the fabric of society as a result of the initial efforts of population programmes, and eventually become self-sustaining without further programmatic intervention. On the other hand, neglecting to invest sufficient resources in population programmes only serves to delay taking programmatic actions at some time in the future to solve problems which will by then have become graver and more magnified.

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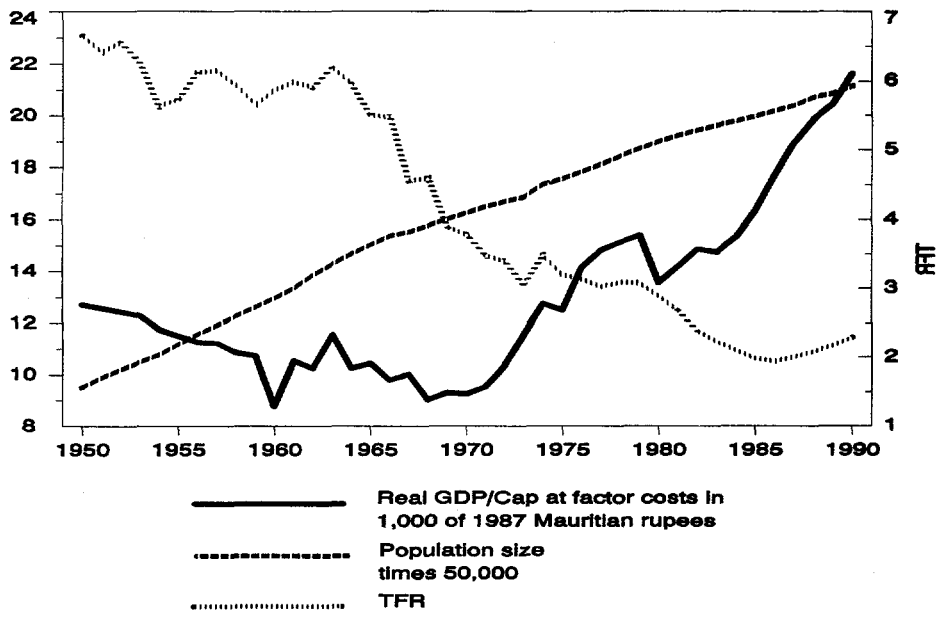
Projected savings in government social service expenditures as a result of the family planning program, and projected cost of the program, Thailand, 1972-2010 (in 000s of dollars)

	Savings in Government Expenditure					Cost of Programme	Net Savings
	Education	Health	Infrastructure	Other	Total		
1972	0	2,650	50	1,589	4,289	1,974	2,315
1975	0	6,200	250	4,387	10,837	3,883	6,954
1980	129,000	23,200	900	12,273	165,373	11,792	153,581
1985	299,000	32,500	1,700	19,200	352,400	12,873	339,527
1990	361,000	37,700	2,500	24,800	426,000	14,229	411,771
1995	265,000	44,700	19,900	30,950	360,550	15,695	344,855
2000	210,500	53,850	33,450	38,100	335,900	17,194	318,706
2005	243,500	65,500	40,100	46,800	395,900	18,652	377,248
2010	335,000	75,650	40,850	55,500	507,000	20,008	486,992
Total	**8,500,000**	**1,550,000**	**650,000**	**1,050,000**	**11,750,000**	**536,195**	**11,213,805**

Source: Chao and Allen, 1984.

Total Fertility, Per Capita Income and Population Size in Mauritius, 1950-1990.



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April 26, 1994

COMMUNIQUE

1. The 48th meeting of the Development Committee was held in Washington DC on April 26, 1994, under the chairmanship of Mr. Rudolf Hommes, Minister of Finance and Public Credit of Colombia. 1/

RESOURCE FLOWS

2. Ministers welcome the increased flows of resources to developing countries; 1993 was another record year. Particularly noteworthy was the sustained growth in private flows, which went mainly to the faster-growing and outwardly oriented countries which have implemented successful reforms. Similarly, much of the increase in official flows has been concentrated on nonconcessional loans to middle-income countries. Much of the concessional official development assistance has been targeted on poorer countries, although its total increased only modestly in 1993 and the outlook continues to be unfavorable. In that connection, Ministers welcome the progress made and the increased amounts pledged at last week's meeting on the Special Program of Assistance for Africa, and the recent extension and enlargement of the IMF's Enhanced Structural Adjustment Facility.

POPULATION

3. The Committee reviewed some of the issues which will be raised at the forthcoming United Nations Conference on Population and Development to be held in Cairo in September 1994. They welcomed the Secretary-General of the Conference, Dr. Nafis Sadik, who addressed their meeting.

4. Trends The world's population has grown by 1.7 billion in the past two decades. Almost all the increase was in the developing countries. The total population now stands at nearly 5.7 billion, about a billion of whom still live in poverty. Although the rate of growth is now slowing down,

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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, and Mr. Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

another 2.8 billion will be added to the total by 2025, on the current United Nations "most likely" projections. On this basis, world population will probably double in less than 50 years. Ministers agree that the massive economic, social, political and environmental consequences of these changes cannot be ignored.

5. Policies Ministers believe that an integrated population policy in developing countries must recognize the links between economic growth, population, poverty reduction, health, investment in human resources and environmental degradation. All couples and individuals have the right to decide freely and responsibly on the number and spacing of their children. Family planning is only one of the available instruments and needs to be seen in the broader context of changing social patterns and the increased awareness of women's role. Population programs are therefore becoming increasingly diverse, depending on the stage of the demographic transition in each country. Moreover, experience demonstrates that improved education and employment prospects (particularly for girls), improved health, and increased income all tend to reduce the birth rate. Institutional arrangements for the delivery of services may need to be strengthened, and must be tailored to local conditions and needs, taking full advantage of available non-governmental and private sector organizations. They must pay full regard to the social and cultural traditions of each country.

6. Priorities Ministers note that the Cairo Conference will seek to establish clear and realistic objectives for future population policy. Without prejudging the outcome of the Conference, they agree that three objectives in particular deserve special attention:

First, improvements in the primary school enrollment rate in low-income countries to achieve universal primary education;

Second, improving access to family planning and related health services, estimated by UNFPA to require a doubling of investments by the year 2000;

Third, reductions in maternal and child mortality in developing countries.

7. Developing Countries In general, the resource requirements are affordable, compared with other major expenditure programs. Many developing economies can meet the costs. In some cases costs are already covered by user fees. But for the poorest people, continued public support will be essential, and is justified by the benefits. Ministers agreed that developing countries should consider giving these three objectives priority within total budgets.

8. Donors The poorest countries will still need help from donors. Bilateral and multilateral donors currently contribute about $1 billion a year to population programs in developing countries. Ministers hope that many individual bilateral donors will be able to improve the present average 1.25% share of existing aid budgets allocated to population programs, as well as their support for health and education.

9. The World Bank At the multilateral level, Ministers welcome the increasing share of the World Bank's social sector programs which have risen from 6% to 16% of the total portfolio in the past five years. Within this program, about $1.8 billion annually is currently allocated to population, health and nutrition, and $1.9 billion to education. Much of this affects the demand for population services indirectly. There are currently ten or more projects a year with significant

direct population components, costing $200 million, concentrated mainly in the poorest developing countries. Ministers welcome the Bank's readiness to respond rapidly to requests for more assistance in this field. Ministers recognize that the Bank is not the principal organization concerned with population, but that its policy dialogue and wider operations give it a unique opportunity to promote population policies. They therefore call on the Bank, other donors, the other multilaterals such as UNFPA, and the borrowing governments to collaborate fully in operations and in mobilizing the institutional and financial resources needed; and re-evaluate their efforts following the Cairo Conference.

10. Migration Ministers discussed the related issue of international migration, and its social, political and financial consequences for importing and exporting countries alike. They note that relatively little is known about the nature of these issues. Ministers noted the need for policies addressing these issues. They call for more policy-oriented research on migration and closer collaboration between the different international agencies concerned.

TRADE

11. Impact of the Uruguay Round on the Developing Countries and Countries in Transition Ministers greatly welcome the successful conclusion of the Uruguay Round and the agreements reached at Marrakesh and call for their rapid ratification and full implementation. These agreements reduce the risk of a relapse into protectionism, which would have greatly damaged many developing countries and countries in transition. They open up the prospect of faster economic growth for the world as a whole. All countries stand to gain. For countries to reap the full benefits from the Round, it is essential that they maintain stable macroeconomic environments and intensify their structural reform programs and trade liberalization, while improving their access to world markets.

12. Ministers note that some developing countries may be adversely affected in the transition to the new world trading system, by the loss of preferences or by higher prices for food imports, although these effects will only be felt gradually, leaving time for adjustment. They urge the Bank and the Fund to take account of these possible adverse effects in designing country assistance strategies and operational support for the affected countries.

13. Ministers welcome the creation of the new World Trade Organization. They urge the WTO, the Bank and the Fund to cooperate fully and, within their own areas of responsibility, to help developing countries and countries in transition to take advantage of the new market opportunities. They also hope that all developing countries and countries in transition will soon join, so as to increase market access for their exports. They note that both Bank and Fund are engaged in fuller study of the impact of the Round, of future trade policy, and of their own future activities in the trade area. Ministers will resume discussion of these questions at their next meeting.

14. Commodities Ministers also reviewed recent work in the Bank and the Fund on commodity prices. They agree that despite signs of a modest recovery in the short term, prices are unlikely to return to the levels of the 1970s and early 1980s. Given these uncertainties, Ministers agree it would be prudent not to assume an improvement in the long term, and wise to err on the side of caution.

15. Ministers agree that if price shocks are expected to be only temporary, then provision of compensatory finance may be appropriate. But if the fall in prices is expected to be permanent, then an adjustment-oriented response should not be deferred in the hope of a recovery. Ministers therefore believe that developing country governments should continue to diversify their economies. They will need the ongoing support of the World Bank, the Fund and the donor community. Ministers call on the Bank to explore additional measures in its investment work in this area. The continuing volatility of prices also requires the maintenance of contingency measures to safeguard programs supported by the Fund.

16. Ministers note that few international commodity agreements have maintained price levels in the face of falling demand, increased production, and lower costs. Government price stabilization schemes do not generally work well when commodity prices are expected to fall further or remain low; they tend to create distortions and place considerable strain on government budgets. For many countries and products, hedging instruments in commercial futures markets now permit private agents to protect themselves against price fluctuations, although there remain a number of legal, financial and technical barriers. Ministers welcome the technical assistance being given by UNCTAD, the World Bank and other agencies, to help smaller producers overcome these obstacles and take advantage of such markets. They welcome the studies being undertaken by the Bank of new guarantee mechanisms which would permit these poorer and less creditworthy countries to undertake market-based hedging operations.

DEVELOPMENT BANKS

17. The Committee agreed in principle to establish a small Task Force to review the development role being played by the Multilateral Development Banks, including the World Bank, and the four main regional banks . This Task Force, whose Chairman, terms of reference, and composition will be agreed after consultation with the governments, will aim to complete its work by October 1995.

CHAIRMAN

18. The Committee selected Mr. M'Hamed Sagou of Morocco to be its next Chairman in succession to Mr. Rudolf Hommes of Colombia. The Committee expressed its warmest thanks to Mr. Hommes at the end of his period in the Chair.

NEXT MEETING

19. The Committee agreed to meet again in Madrid, Spain, on October 3, 1994, when it will discuss the question of Aid Effectiveness and the work of the World Bank and IMF in the light of the Uruguay Round.

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)

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April 4, 1994

NOTICE OF MEETING

The 48th meeting of the Development Committee will be held on Tuesday, April 26, 1994, commencing at 9.00 a.m., in the Meeting Hall of the International Monetary Fund, Washington, D.C.

PROVISIONAL AGENDA

1. Main Topic for Discussion:
   Population and Migration 1/ 2/

2. Additional Topics:
   Commodities 3/
   Trade after the Uruguay Round 4/

3. Selection of Chairman

4. Other Business

1/ This issues paper, to be prepared by the World Bank in consultation with the IMF, was requested by the Committee in para.11 of the September 1993 Communique.

2/ In addition, supplementary papers from UNFPA, the Government of Indonesia, and an independent consultant will be available.

3/ A background paper by IMF staff will be available. In addition, Ministers may wish to refer to Global Economic Prospects 1994; and to the report by the President of the World Bank.

4/ This topic was originally requested in the April 1993 Communique. A background paper by IBRD staff, based on recent Board discussion, prepared in consultation with IMF staff, will be available. The Managing Director's written statement to the Development Committee on the World Economic Outlook 1994 will refer to this topic. Ministers may also wish to refer to World Economic Outlook 1994.

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 April 26, 1994)

Members	Executive Directors	Countries
1. Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia	Muhammad Al-Jasser (Fund) Ibrahim A. Al-Assaf (Bank)	Saudi Arabia
2. Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	A. Shakour Shaalan (Fund) Faisal Abdul Razzak 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
3. Edmond Alphandery Minister of Economy France	Marc-Antoine Autheman (Fund and Bank)	France
4. Piero Barucci Minister of the Treasury Italy Alternate Member: Mario Draghi Director General General Directorate of the Treasury Ministry of the Treasury	Giulio Lanciotti (Fund) Enzo R. Grilli (Bank)	Albania, Greece, Italy, Malta, Portugal, San Marino
5. Lloyd M. Bentsen Secretary of the Treasury United States	Karin Lissakers (Fund) (Vacant) (Bank)	United States
6. Franz Blankart Secretary of State, Director Federal Office for Foreign Economic Affairs Switzerland	Daniel Kaeser (Fund) Jean-Daniel Gerber (Bank)	Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Turkmenistan, Uzbekistan (Tajikistan)
7. Kenneth Clarke Chancellor of the Exchequer United Kingdom	Huw Evans (Fund and Bank)	United Kingdom
8. Helle Degn Minister for International Cooperation and Development Denmark	Jarle Bergo (Fund) Jorunn Maehlum (Bank)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
9. Hirohisa Fujii Minister of Finance Japan Alternate Member: Kosuke Nakahira Vice Minister of Finance for International Affairs Ministry of Finance Japan	Hiroo Fukui (Fund) Yasuyuki Kawahara (Bank)	Japan

Members	Executive Directors	Countries
10. Rudolf Hommes Minister of Finance and Public Credit Colombia Alternate Member: Mario Read Vittini 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
11. Wim Kok Deputy Prime Minister and Minister of Finance Netherlands Alternate Member: Henk J. Brouwer Treasurer-General Ministry of Finance Netherlands	Godert A. Posthumus (Fund) Eveline Herfkens (Bank)	Armenia, Bulgaria, Cyprus, Georgia, Israel, Moldova, Netherlands, Romania, Ukraine
12. Liu Zhongli Minister of Finance China Alternate Member: Jin Renqing Vice Minister of Finance China	Zhang Ming (Fund) Wang Liansheng (Bank)	China
13. Paul Martin Minister of Finance Canada Alternate Member: Huguette Labelle President Canadian International Development Agency 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
14. Philippe Maystadt Minister of Finance Belgium	Willy Kiekens (Fund) Walter Rill (Bank)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Turkey (Slovenia)
15. Festus G. Mogae Vice President and Minister of Finance and Development Planning Botswana	L.J. Mwananshiku (Fund) O.K. Matambo (Bank)	Angola, Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
16. Mar'ie Muhammad Minister of Finance Indonesia Alternate Member: J. Soedradjad Djiwandono Governor Bank Indonesia Indonesia	J.E. Ismael (Fund) Aris Othman (Bank)	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam (Cambodia)

	Members	Executive Directors	Countries
17.	N'Goran Niamien Minister Delegate to the Prime Minister in charge of Economy, Finance, Commerce and Planning Cote d'Ivoire	Corentino V. Santos (Fund) Jean-Pierre Le Bouder (Bank)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Republic of Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, Zaire
18.	M'Hamed Sagou Minister of Finance Morocco	Abbas Mirakhor (Fund) Mohamed Benhocine (Bank)	Islamic State of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
19.	Crispiniano Sandoval Minister of Finance Paraguay	A. Guillermo Zoccali (Fund) Nicolas Fiano (Bank)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
20.	Aleksandr N. Shokhin Deputy Prime Minister Russian Federation	Konstantin G. Kagalovsky (Fund) Andrei Bugrov (Bank)	Russian Federation
21.	Manmohan Singh Minister of Finance India Alternate Member: C. Rangarajan Governor Reserve Bank of India India	K.P. Geethakrishnan (Fund) Bimal Jalan (Bank)	Bangladesh, Bhutan, India, Sri Lanka
22.	Julio Sosa Minister of Finance Venezuela Alternate Member: Luis Xavier Grisanti Deputy Minister of Finance Venezuela	Roberto Marino (Fund) Angel Torres (Bank)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
23.	Carl-Dieter Spranger Federal Minister for Economic Cooperation and Development Germany	Stefan Schoenberg (Fund) Fritz Fischer (Bank)	Germany
24.	Ralph Willis Treasurer Australia Alternate Member: George Gear Assistant 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)

OBSERVERS OF THE DEVELOPMENT COMMITTEE
April 26, 1994

African Development Bank	Ferhat Lounes Vice President
Arab Bank for Economic Development in Africa (Associate Observer)	Ahmed Harti El Wardi Director General
Arab Fund for Economic and Social Development	Abdulatif Yousef Al-Hamad Director General and Chairman of the Board
Commission of the European Communities	Michael Green Head of Division General Economic Problems North/South Relations Directorate General for External Relations
Commonwealth Secretariat	Sir Humphrey Maud Deputy Secretary General
GATT	Gary P. Sampson Director Regional and Preferential Trade and Trade and Finance Division
Inter-American Development Bank	Nancy Birdsall Executive Vice-President
International Fund for Agricultural Development	Vera Gathright Representative Office in Washington
Islamic Development Bank	Osama Jaafar Faquih President
OECD	Bernard Wood Director Development Co-operation Directorate
Development Assistance Committee (Associate Observer)	James H. Michel Chairman
OPEC Fund for International Development	Y. Seyyid Abdulai Director-General
United Nations	Jean-Claude Milleron Under-Secretary-General for Economic and Social Information and Policy Analysis
UNCTAD (Associate Observer)	Roger Lawrence Deputy to the Secretary-General and Director, Global Interdependence Division
UNDP (Associate Observer)	Mahbub ul Haq Special Adviser to the Administrator
UNFPA	Nafis Sadik Executive Director
Asian Development Bank	(was not able to attend this meeting)
European Investment Bank (Associate)	(was not able to attend this meeting)

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)

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