Annex 1

Terms of Reference

EXTRACT FROM THE COMMUNIQUÉ OF COMMONWEALTH FINANCE MINISTERS MEETING, KINGSTON, JAMAICA (SEPTEMBER 1989)

World Economic Situation

2. Ministers noted that the economic growth in industrial countries, which had been sustained for seven years, is threatened by a resurgence of inflationary pressures. They noted the continuing adjustment difficulties among major industrial countries. They emphasised the need to maintain control over inflation, noting that, while high interest are currently necessary to curb inflation in industrial countries, they have serious adverse effects on indebted developing countries.

3. Growth is now slowing down and Ministers emphasised the importance for the world economy as a whole of maintaining non-inflationary growth in industrial countries. They asked industrial countries to review their mix of monetary and fiscal policy in order to minimise pressure on interest rates and facilitate orderly adjustment. They recognised the value for adjustment and growth of policies to enhance competitiveness and flexibility, and the use of market mechanisms. They stressed the importance of closer policy co-ordination among major countries, keeping in view the impact of industrial country policies and growth on developing countries and they supported an enhanced IMF surveillance role in that process.

4. Ministers noted that, while in much of Asia economic performance was strong, a deep and protracted development crisis continues to affect large parts of the developing world, particularly in sub-Saharan Africa

and Latin America and in the Least Developed and small island developing countries. They were encouraged by the large number of countries which sought to establish sound policy frameworks for growth through the adoption of adjustment programmes. There have been a few successes. However, in some cases sustainable growth has not been attained in spite of economic reform and adjustment programmes. In many countries, implementation and effectiveness have been hindered by unfavourable factors such as negative resource transfers, high international rates of interest, increasing protectionism and continuing low commodity prices. Ministers expressed concern at the very poor prospect for improvement in the living standards in many countries in the foreseeable future.

5. In the light of recent changes and emerging trends in the world economy, Ministers invited the Secretary-General to set up an Expert Group to review how these changes affect the interrelationship between the developed and developing economies and their specific implications for management of the debt problem and the adjustment policies and growth strategies of developing countries; and report to Finance Ministers.

EXTRACT FROM THE COMMUNIQUÉ OF COMMONWEALTH HEADS OF GOVERNMENT MEETING, KUALA LUMPUR, MALAYSIA (OCTOBER 1989)

Paragraphs on the Establishment of an Expert Group

63. Heads of Government emphasised that an important opportunity was offered by reduced East-West tensions to reinvigorate efforts to tackle other major world problems, particularly poverty. They expressed hope that assistance to support economic reform in East European countries should not result in decreased financial flows to developing countries. They called for greater global solidarity in response to the major economic and environmental challenges and for a special effort to improve development cooperation.

64. Heads of Governments noted the rapid changes in the world economy. These needed continuing review, especially as regards their impact on economically weak countries. They were pleased to note that Commonwealth Finance Ministers in Kingston had asked for a Commonwealth Expert Group to examine how recent changes and emerging trends in the world economy affected the inter-relationship between developed and developing countries. They asked that major international institutions, including official and private financial institutions, should be associated with the examination. They also asked that the Expert Group should report as soon as possible, if necessary confining

itself in the first instance to an interim report summarising the main issues of concern to the world community.

65. Recognising that existing economic consultations among industrial countries (G7) largely reflect the perspective of those countries, Heads of Government believed that this dialogue should be supplemented by appropriate consultations with developing countries. They noted the proposed Special Session of the United Nations General Assembly on International Economic Cooperation and Reactivation of Economic Growth and Development, and also the Four-Nation Paris Initiative for North-South consultations at summit level.

66. They felt that the Commonwealth might have a particular role to play. They believed that the global political and economic climate was much more propitious for dialogue than for many years. There was broad agreement on the principles necessary to bring about sound development. But developing countries were faced with grave resource constraints in applying those principles. They believed it might be right for the Commonwealth, within which dialogue had not been interrupted, to take matters forward. The agenda provided by the Expert Group should be a good basis for doing so.

67. Heads of Government invited Commonwealth Finance Ministers to consider the agenda identified by the Expert Group as soon as possible. They should then make recommendations as to the appropriateness at that time of the proposal by the Prime Minister of Jamaica for a Commonwealth initiative to bring about a meeting of a representative group of Heads of Commonwealth and non-Commonwealth countries.

Annex 2

Impact of the Gulf Crisis on Developing Countries

Introduction

The Gulf crisis has had both direct and indirect effects on developing countries. It increased the cost of oil imports of developing countries. It also affected their export earnings through the loss of markets in the affected Middle East countries, as well as through reduced demand from its impact on world economic growth. And, for some countries in particular, it also resulted in loss of earnings due to its impact on workers' remittances, revenues from tourism and receipts from pipelines, canals, shipping, and insurance. Taking into account both direct and indirect effects, the World Bank has estimated that the size of the external shock on all affected countries for 1991 is about $20 billion.

The impact of the Gulf crisis is particularly severe on some countries. A study sponsored by the Overseas Development Institute (ODI)[1] is particularly illuminating. Its estimates of the effects on 35 low and lower middle-income countries, based on the implicit assumption that the final effects of the crisis will end by the middle of 1991, are given in Annex Table 2.1 on p.151. For all these countries the costs exceed 1 per cent of GNP—the UN definition of a natural disaster—and for 16 of them, they exceed 2 per cent. The total direct costs for low-income countries are at

[1] The following paras on the impact of the Gulf crisis rely heavily on 'The Impact of the Gulf Crisis on Developing Countries', ODI Briefing Paper, March 1991; and 'The Economic Impact of the Gulf Crisis on Third World Countries', a memorandum prepared by CAFOD, Christian Aid, CIIR, OXFAM, Save the Children Fund and World Development Movement: London, March 1991.

Annex Table 2.1 Impact of Gulf Crisis (where impact > 1% of GNP)

	Country	Oil Cost/ (Benefit) US$m	Non-oil Cost US$m	Total Cost US$m	% of GNP
Low income	**Middle East**				
	Yemen	(570)	1400	830	10.4
	South Asia				
	Bangladesh	130	115	245	1.4
	Pakistan	560	295	855	2.4
	Sri Lanka	140	125	265	4.0
	Sub-Saharan Africa				
	Benin	40	–	40	2.2
	Chad	25	–	25	2.5
	Ethiopia	115	–	115	2.0
	Ghana	50	–	50	1.0
	Kenya	125	–	125	1.5
	Lesotho	15	–	15	2.0
	Liberia	20	–	20	2.0
	Madagascar	50	–	50	2.1
	Mali	35	–	35	1.9
	Mauritania	10	–	10	1.2
	Mozambique	20	–	20	2.0
	Rwanda	35	–	35	1.6
	Sudan	75	305	380	3.8
	Tanzania	80	–	80	2.8
Lower middle income	**'Front line' states**				
	Jordan	200	1,570	1,770	31.5
	Turkey	1,210	2,150	3,360	4.9
	Egypt	(1,215)	2,200	985	2.9
	East Asia				
	Papua New Guinea	60	–	60	1.8
	Philippines	470	160	630	1.6
	Thailand	980	–	980	1.7
	Latin America & Caribbean				
	Costa Rica	75	–	75	1.7
	Dominican Rep.	150	–	150	3.4
	Honduras	60	–	60	1.4
	Jamaica	70	–	70	2.6
	Nicaragua	45	–	45	1.4
	Panama	60	–	60	1.4
	Paraguay	105	–	105	2.8
	North Africa				
	Morocco	260	150	410	2.0
	Sub-Saharan Africa				
	Botswana	35	–	35	2.8
	Cote d'Ivoire	110	–	110	1.1
	Mauritius	50	–	50	2.6
Total severely affected low income countries				**3,200**	
Total severely affected low and lower middle income countries				**12,100**	

Note: Estimated increases in oil import costs based on six-month period of higher prices. Other estimated costs arise from: decreases in migrant worker remittances up to mid-1991; resettlement costs of returning workers; estimated loss of 50% of one year's export earnings to Iraq and Kuwait; losses of tourism receipts; and identified decreases in aid flows.

Source: Overseas Development Institute, Briefing Paper, March 1991.

least $3.2 billion; when lower-middle-income countries are included the figure rises to $12 billion. The coverage does not include India, the third most affected country with an estimated loss of $1.6 billion (or 0.6 per cent of GNP). The overall impact of the Gulf crisis is estimated to have lowered real GNP in the net debtor oil importing developing countries by slightly more than 0.5 per cent in 1990. Real output in these countries in 1991 is expected to be slightly less than 0.5 per cent lower than it would have been otherwise.

The following paragraphs summarise the findings of the ODI paper in specific areas of impact.

Higher Oil Prices

Some 60 oil importing developing countries were seriously affected by the higher price of oil, which averaged about $30 per barrel during August 1990 to January 1991, compared to $18 in the first half of 1990. For these countries, each dollar increase in the oil price raised the import bill by some $2 billion. Of these 60 countries, 24 are in sub-Saharan Africa, and 19 in Latin America and the Caribbean. While the impact of the current crisis has been less severe than that of the oil price shocks of 1973-74 and 1979-80, the higher oil import bills came at a time when many countries faced a precarious financial situation.

Workers' Remittances

By 1990 some developing countries had become significantly dependent on workers' remittances from the Gulf region for their balance of payments. Eight countries—Egypt, Jordan, India, Pakistan, Sri Lanka, Bangladesh, Sudan and Turkey—were severely affected. In addition, the repatriation of workers is likely to have both long-term and widespread effects, affecting not only their families but also others dependent on them for finance and employment, as well as the stability of the already fragile social and political systems.

Impact on Trade in Goods and Services

Trade with Iraq and Kuwait was severely disrupted. The countries especially dependent on exports to these markets included Turkey, Jordan, Syria, Yugoslavia, Sri Lanka and Romania. In addition, the ban on the import of crude oil and petroleum products from Iraq and Kuwait disrupted supplies to many countries, including Sudan, Turkey, Brazil, Yugoslavia, India, Philippines and Hungary. Many developing countries were also hit from the loss of income from tourism. Middle East tourist traffic was severely reduced, with the economies of Morocco and Tunisia, as well as of Cyprus, being severely affected. Airlines faced increasing costs and a loss of business from the higher price of jet fuel,

increased insurance premia, the diversion of traffic from the war zone and a reduction in overall traffic. Shipping was adversely affected as well. In addition, some developing countries suffered a loss of service contracts.

Impact on Banking and Insurance

Overall net banking exposure to the Gulf was small; the most exposed centre was Bahrain. Several of the foreign banks reduced or closed their branches in the region.

Insurance premia on cargo rates for both shipping and aircraft rose sharply particularly in relation to Jordan, Saudi Arabia, Turkey and Iran.

Indebted Countries

The crisis was a severe shock for the heavily-indebted oil importing countries. Most of them faced a worsening in their terms of trade, leading to lower income and output. In addition, the economic slowdown in the industrial countries and higher interest rates adversely affected their exports and debt-service obligations. The countries most affected were Benin, Madagascar, Mali, Sudan and Tanzania. The impact on moderately indebted low-income countries was even greater. Included in this group are Bangladesh, Ethiopia, Pakistan and Sri Lanka. Among the highly indebted middle-income countries, substantial losses were incurred by Philippines and Brazil.

Oil Exporting Countries

Except for Kuwait and Iraq, the oil exporting developing countries experienced windfall gains from higher oil prices. The non-Gulf countries benefiting included—Venezuela, Mexico, Ecuador, Trinidad and Tobago, Algeria, Nigeria, Cameroon, Congo, Gabon, Indonesia and Malaysia. For the debtor countries that export oil, the improvement in the terms of trade offset the damaging influence of higher world interest rates and lower demand abroad. Overall the current account of the balance of payments of these countries improved and real output should, on balance, increase.

Aid Flows

Aid flows to some developing countries outside the Middle East region could be affected by the diversion of potential aid funds to some of the most severely affected countries in the region. In addition, Arab aid flows to developing countries, which amounted to $1.5 billion in 1989, are likely to be reduced. The large contributions to the war, the

maintenance of refugees and reconstruction of Kuwait and Iraq are new obligations which will take precedence.

Emergency Food Relief

The crisis also hampered efforts to provide emergency food relief to some countries in Africa. The immediate impact was an unavailability or increased cost of transportation, by air and sea.

International Assistance to Affected Countries

The international community has mobilised considerable resources to assist affected countries. Some $14 billion has been pledged in aid for the most severely affected countries, by members of the Gulf Crisis Financial Co-ordination Group (consisting of the 24 OECD countries and Saudi Arabia, United Arab Emirates, Qatar and Kuwait). Most of the funds—$10 billion - have been pledged by the Gulf States, with Japan and the EC promising a further $2 billion each.

The Group's assistance has, however, been extremely narrowly focused, with $10.5 billion earmarked for Egypt, Turkey and Jordan. The remainder is intended for those other states affected by the crisis and which joined the US-led coalition. Five countries have been specifically mentioned: Bangladesh, Pakistan, Syria, Lebanon and Morocco. The details of the criteria used or the process involved in allocating these resources have not been publicised.

The response of the World Bank and IMF has been more limited in extent but broader in geographical terms. The two institutions have essentially concentrated on adapting existing mechanisms. The World Bank launched a programme of assistance to the affected countries involving increases in both IBRD and IDA commitments for Financial Year 1991 (ending 30 June 1991). Disbursements from both IBRD and IDA were accelerated through the temporary raising of cost-sharing limits for affected countries on new as well as on existing loans and credits. Additional disbursements from these changes are estimated to be $500 million in FY 1991, when the total increase in lending from IBRD is expected to be about US$ 1.1 billion. This will include additional lending for structural and sectoral adjustment programmes in affected countries and special emergency operations. The increase in IDA assistance to the affected countries is expected to total SDR 630 million in FY 1991. This expanded IDA programme for these countries is to be financed partly through a special allocation of SDR 200 million of IBRD net income to IDA and a supplementary contribution of SDR 27 million from the Government of Kuwait. This assistance includes

emergency operations aimed at setting up infrastructure, social services and employment-creation programmes for repatriated workers.

The core of the Fund's response has been through its existing mechanisms, through rephasing and augmentation of Stand-by Arrangements, Extended Arrangements,Enhanced Structural Adjustment Facility (ESAF) Arrangements and the Compensatory and Contingency Financing Facility (CCFF). Where margins remained under existing access limits, additional resources were made available. For the ESAF eligible low-income countries, access under it can be increased at the time of the mid-term review to meet the impact of the shock, and where justified, ESAF support could also be extended to a fourth year.

The CCFF has been revised to extend the coverage of its compensatory component to include receipts from pipelines, canals, shipping, transportation, construction and insurance. An oil import element has also been introduced on a temporary basis to cover the excess cost of imports.

The Fund has also decided to allow an external contingency mechanism to be attached to an arrangement at the time of a review.

By the end of April 1991, the amount the Fund had expected to disburse since the crisis began was about SDR 6 billion, of which SDR 2 billion would have been provided to nine countries under the oil element of the CCFF, with additional requests expected. There had also been a considerable increase in the use of external contingency mechanisms, both attached to arrangements through the CCFF and within arrangements as contingent adjustments to programme targets.

Impact on the Environment

The war did grave ecological damage in the Gulf region, the full extent of which has yet to be assessed. The 11 million barrel oil spill - the largest ever recorded—has had severe consequences for marine and bird life, and appears to have caused significant coastal damage in Saudi Arabia, Kuwait and Iraq. Because the Gulf region's eco-systems are very fragile, it may take many years for marine life to recover. Clouds of soot rising from fires in several hundred of Kuwait's oil wells are already affecting the region's climate. According to experts, it will take at least nine months, possibly three years or more, to put out these fires. The reduction in sunlight and consequent drop in surface temperatures, together with acid rain (which is falling from Turkey to Iran) are likely to harm agricultural production. These climatic effects are expected to be confined to the Gulf region as long as the smoke is not carried high into the atmosphere.

Post-Crisis Impact

The cessation of hostilities should contribute to a resurgence of global economic growth because of the revival of business and consumer confidence and the substantial reconstruction spending in the Gulf. A recovery is also expected in the tourism and airline sectors.

The impact on world oil prices, however, is more uncertain. The overhang in supplies will tend to push prices downwards. But prices will also depend on the capacity of producers, notably OPEC, to manage supplies, particularly when Iraq and Kuwait resume production.

The erstwhile capital surplus oil producing countries, such as Saudi Arabia and Kuwait, could begin to make demands on world capital markets. Instead of being net savers, these and other Gulf states could, in the short term, become large net drawers of funds, and contribute further to the world shortage of savings.

Annex 3

The Impact of Drug Trafficking

Background

Illicit drug trafficking which involves the cultivation, manufacture and export of a wide variety of drugs is sophisticated and complex in nature. Marijuana, produced from the cannabis plant, is the most widely-used drug. But some of the most potent and therefore most profitable drugs are heroin, obtained from the opium poppy plant, and cocaine, produced from coca leaves. It is estimated that world production of opium and cocaine reached approximately 4,400 tonnes and 206,100 tonnes, respectively, in 1990, 98 per cent and 21 per cent, respectively more than their 1986 levels. Apart from increasing, the trade is also evolving, the newest aspect being an expansion in the illegal demand for synthetic drugs such as amphetamines, barbiturates and tranquilizers.

Countless states are involved in the illicit drugs trade, either as producers, processors, transit points or as final markets. The major producing/processing countries for heroin are in Southern Asia—Afghanistan, Iran, Pakistan, Thailand, Myanmar and Laos—while those for cocaine are in Latin America—Bolivia, Colombia, Peru and Ecuador. Important transit countries are located in the Balkan-corridor (Turkey, Bulgaria, Yugoslavia, Italy, Austria); West Africa (Benin, Nigeria, Togo); Latin America (Venezuela, Mexico) and the Caribbean (The Bahamas, Jamaica). The final markets are located in North America and Europe.

Impact

In examining the impact of the illicit drugs trade, several points should be noted. First of all, the 'underground' nature of the drugs trade and

its intricate links with the formal economy and legitimate enterprises render any assessment of its impact difficult. Secondly, since the drugs trade generates a host of human problems such as crime and drug-addiction, social as well as economic effects have to be considered. Thirdly, illicit drug trafficking has had varying impacts on countries, depending mainly upon the importance of such trade to the economies concerned. Notwithstanding all these problems however, an attempt is made below to outline the major effects, with reference to countries which have been among the most heavily involved on the supply side, and therefore most severely affected.

The illegal drugs trade has provided certain countries with badly-needed foreign exchange, created some employment and generated some economic activity. The United Nations estimated that in 1987 cocaine exports from Bolivia, Peru and Colombia were equivalent to 75 per cent, 14 per cent and 13 per cent, respectively, of these countries legal exports. The cocaine industry in Latin America is estimated to provide direct employment for some 1.5 million people who work in cultivating, processing, refining, transporting and smuggling the drug. A large number of legally employed persons in the services sector (for example lawyers, accountants, bankers) also benefit from the multiplier effect of the cocaine industry.

The illicit drugs trade has also helped to revive ailing sectors in certain countries. For example, during the 1980s, the proceeds of cocaine exports stimulated a mini-boom in Colombian textiles, construction and other industries. Economically depressed areas, such as in eastern Bolivia, have also benefited from the low-cost housing, sporting and other public facilities provided by the drug barons.

The negative effects of illicit drug trafficking, however, far outweigh these positive factors. The emergence of the drugs trade has led to a gross misallocation of resources and to the decline of the legal exports sector; it has also represented a costly drain on government revenues and facilitated large capital outflows. Furthermore, the exaggerated profitability of the drugs activities and the resultant money laundering activities of the traffickers have severely distorted the financial sector. Overall, the drugs trade has been far from a catalyst for the economic takeoff of countries. Instead, it has produced highly undesirable economic as well as social consequences.

The channelling of resources into drug cultivation has led to labour shortages in other parts of the agricultural sector. For example, in Colombia large-scale plantations growing bananas, coffee and sugar have had difficulty in finding pickers and growers. As a result, traditional

exports have declined, and food production has dropped, raising the amount of foreign exchange needed for food imports.

Almost all the profits from the drugs trade usually pass through official banking channels, and the massive financial inflows have had severe inflationary effects, as most countries have not had adequate financial policies or instruments to deal with the consequences. The drug traffickers' money-laundering techniques, which include manipulation of stock exchanges, formation of shell companies, and the creation of fictitious banking accounts and commercial operations, have caused severe distortions in the financial sector. Furthermore, the erratic spending patterns of the drugs dealers have led to the collapse of a number of banking and credit institutions in certain countries including Colombia. Distortions have also been created in the real estate market as large numbers of properties have been bought with cash. Land prices have been driven upwards, making low-cost housing difficult to provide.

The unofficial exchange market has grown substantially in many drug-trafficking countries, acting in effect as a vast money-laundering operation. In some instances the blackmarket exchange rate has actually fallen below the official rate. Attempts to institute stricter exchange controls in countries such as Colombia have created further problems. More drugs money has been retained outside the country, leading to undercapitalisation, where once there was overcapitalisation, and to a flourishing contraband trade with other Latin American countries to such an extent that its volume has been estimated to far exceed the official trade.

Profits from the drugs trade have not been used to promote economic development in the drug-exporting countries. Some have been invested in legal enterprises, but mainly in real estate and securities, rather than in directly productive ventures. Repatriated drug profits are frequently spent on 'protection' (ranging from bribes to the acquisition of private security systems) or on imported luxury items.

The drugs trade has also encouraged the growth of large populations of addicts and high crime rates; it has in addition been the cause of falling productivity. Governments have had to try to combat these effects by utilising revenues which should have been employed in other important social programmes. When account is taken of the lost productivity, the expanded law-enforcement agencies, the overloaded judicial and penal systems, and the expense of providing treatment and rehabilitation facilities for addicts, the final cost of drug trafficking becomes phenomenal.

Policies

National governments and international agencies such as the United Nations Fund for Drug Abuse Control have devised strategies to halt the production, trafficking and use of drugs. Most of these strategies have relied on supply-side approaches involving the enactment of anti-drug legislation and increased law-enforcement. Thus, drug plantations and drug laboratories in South America have been destroyed, trafficking networks disrupted, assets seized and extradition facilitated.

While these measures have resulted in record seizures and soaring arrests, drug supplies in general appear to be largely uninterrupted, and the risk of detection insufficient to deter either dealers or consumers. Crop substitution programmes have been tried but not with great success, given the huge disparity in returns between cultivating drugs and other crops such as wheat and barley. In Pakistan, for example, gross returns from growing opium were 3,500 rupees per acre in 1981, compared to 500 rupees per acre for maize.

Other policies aimed at drug eradication are placing greater emphasis on demand-side strategies. They include information and public-awareness programmes and treatment and rehabilitation programmes for drug dependent persons. Recent approaches include those set out in two major reports which, it is understood, will be considered by the 1991 G7 summit. The first contains proposals for controlling the supply of chemicals used in the processing or production of drugs, and the second urges continued coordinated action against the laundering of 'drug money'. Action to tackle money laundering was first raised at the 1989 Paris summit. A task force was created which last year drafted 40 proposals recommending better international cooperation and new national legislation. The task force now has the support of the G7 members, the EC, the Gulf States, Hong Kong and other financial centres. Experts have warned that controls need to be extended beyond banks to entities such as casinos and money exchange bureaux, and to property dealers. It is proposed that the task force continues its work, with its costs funded from assets seized by individual governments.

Annex 4

Decision-making in the Bretton Woods Institutions, IFAD and UNCTAD's Common Fund

The World Bank

The World Bank comprises the International Bank for Reconstruction and Development (IBRD) and its two affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC). The IBRD and IDA, though legally and financially distinct entities, constitute a closely integrated unit and are administered by the same staff.

IBRD

Under its Articles of Agreement, all the IBRD's powers are vested in a Board of Governors consisting of one governor for each member country. Barring certain powers specifically reserved to them by the Articles of Agreement (for example decisions on membership, allocation of net income and changes in the capital stock), Governors have delegated their powers to a Board of Executive Directors. This functions on a full-time basis at the Bank's headquarters, and is the organisation's key decision-making body. There are 22 Executive Directors; five are appointed by the five members having the largest number of shares of capital stock (ie. the United States, Japan, Germany, the United Kingdom and France). China and Saudi Arabia are single member constituencies and the rest are elected to represent a constituency comprising a group of countries.

A country's voting power is linked to the size of its subscription to the

IBRD's capital which is based on its economic and financial strength and linked to its quota in the IMF. Each country has 250 basic votes plus one additional vote for each share of stock held. Voting is therefore weighted and in the Executive Board, each Director's vote is the sum of the voting power of the country or countries he or she represents. All votes cast by an elected Director must be cast as a unit. By virtue of the larger size of their subscription, industrial countries collectively exercise control over a majority of the votes.

Because of the manner in which voting power is determined, a general increase in the IBRD's capital (such as that which came into effect in April 1988) involving equiproportional increases in members' capital subscriptions, reduces the weight of the basic votes of each member, consequently diluting the relative power of smaller members. This has led to a reduction of the total voting power of developing countries. This problem has been receiving the attention of the Executive Board of the Bank. An Ad Hoc Committee, established in February 1988 and comprising eight Executive Directors, examined the issue. In its report, all but one of the members of the Committee recommended the use of membership votes, increased automatically at the time of each capital increase, to protect the voting power of smaller members. The issue has now been included in the terms of reference of another Ad Hoc Committee, set up in August 1989 and comprising 17 Executive Directors, which is examining the criteria for the allocation of Bank shares.

IDA

Decision-making in the IDA is similar to that in the IBRD, with the IBRD's Board of Governors and Executive Directors exercising the same responsibilities in respect of IDA. However, the system for allocating voting rights is different. For their initial subscriptions, original IDA members received 500 membership votes plus one additional subscription vote for each $5,000 (1960 dollars) they subscribed. This formula meant that the distribution of voting rights in IDA was approximately the same as in the IBRD. But the voting power of smaller members, which had been diluted in the IBRD because of successive capital subscription increases, was strengthened in the IDA by giving members relatively more membership votes, in comparison to total votes available, than was the case in the IBRD at that time. Under IDA's Articles of Agreement, developing country members had to be given an opportunity to increase their subscriptions so as to maintain their relative voting power. During negotiations for the IDA 3 replenishment (1972-74), when it was agreed that voting rights of industrial countries should be adjusted to reflect the relative size of their cumulative contributions, a new voting rights system was established to preserve the relative voting

power of developing countries. This system, involving allocation of extra membership votes in addition to additional subscription votes (developing countries were also allowed to make their extra subscriptions entirely in their own currencies) has basically been followed ever since.

IFC

The composition of the Board of Governors and of Executive Directors is the same in the IFC as in the IBRD/IDA. Voting is weighted, each member's voting power being linked to its subscription to the IFC's total capital.

The International Monetary Fund

The Fund is run by a Board of Governors, on which all member countries are represented, a much smaller Executive Board and an international staff. The Board of Governors is the highest decision-making body in the Fund. Each member country chooses a Governor who is usually its Minister of Finance or the Governor of its Central Bank. The Board of Governors, which in practice meets only once a year in a joint Annual Meeting of the Fund and the World Bank, has several reserve subjects under its purview, covering such matters as the admission of new members, determination of quotas, allocation of SDRs and amendment of the Articles of Agreement. All other powers have been delegated by the Board of Governors to the Executive Board.

The Executive Board consists of six appointed directors representing France, Germany, Japan, United Kingdom, United States, and Saudi Arabia (since 1978) and sixteen elected directors each representing a constituency comprising a group of countries (except China which has been allowed to elect an Executive Director with only that country in its constituency). The Managing Director, who is appointed by the Executive Directors, is Chairman of the Executive Board and Chief of the Fund's staff.

The Fund uses a system of weighted voting which gives the industrial countries a controlling share. The voting strength wielded by each Governor or Executive Director is based primarily on the quotas of the country or countries which he/she represents. The quotas of the member countries correspond roughly to their relative economic size. Each member has a basic allotment of 250 votes; in addition it has one vote for each SDR 100,000 of its quota. The basic allotment is intended to strengthen the voting position of the economically smaller members. It is contended that the variable allotment is designed to recognise differences

in subscriptions and to protect the interest and ensure the co-operation of those members that account for the greater part of international trade and financial transactions. Elected Executive Directors cast all the votes of their countries as a unit; however, this does not prevent them from indicating the positions of individual members of their groups during Board meetings.

Most decisions taken by the Board of Governors or Executive Directors are adopted by a simple majority of the votes cast. However, a 70 per cent majority of the total voting power is needed to solve such operational issues as rates of charges on the use of the Fund's resources and the rate of interest on holdings of SDRs. An 85 per cent majority ('high majority') is required for amendment of the Articles of Agreement, changes in quotas, SDR allocations and the disposition of the Fund's gold. The system of weighted voting results in practice in the major industrial countries exercising considerable influence over decision-making in the Fund. The United States, alone, or the members of the EC can veto proposals subject to a 'high majority'. In most instances, however, decisions in the Board are arrived at by consensus.

GATT

Unlike the World Bank and the IMF, the GATT is not in a strict sense an organisation and has no corporate structure. It is a multilateral contract among participating countries with only the very limited degree of authority that precedent and practice have provided, particularly in respect of its more powerful members. In the GATT, each contracting party has one vote and except in a few specific cases, decisions require in theory only a simple majority of the votes cast. A two-thirds majority of those voting is required for waivers (Article XXVI) while a two-thirds majority of the Contracting Parties is required for decisions relating to waiving of members' obligations necessitated by membership of customs unions or free trade areas. But in practice voting has been very rare and GATT decisions are usually reached by consensus.

However, at the GATT bargaining power has been substituted for voting power, and developing countries and even some developed countries play only a limited role, particularly in the multilateral trade negotiations (MTNs). Although there is far wider participation in the Uruguay Round of negotiations currently in progress, than in the seven earlier rounds, bargaining still takes place mainly among major trading countries, often on a bilateral basis or among small groups, and the agreed results given general application.

Consultation, decision-making by consensus and expert examination by independent panels have been built into the GATT's trade dispute settlement process. However, its procedures and arrangements are inadequate to enforce rules, particularly against major trading parties. It has often proved difficult even to adopt panel reports with which one of the disputants disagrees. Furthermore, there are no effective mechanisms to follow-up panel decisions.

In the Uruguay Round, negotiations are taking place on a number of measures to improve the functioning of the GATT system, including the dispute settlement process. A wide range of measures to expedite the formation and working of panels have been agreed upon and implemented on an interim basis. It has also been agreed that the Contracting Parties should meet at Ministerial level at least once every two years, among others to provide direction to GATT's work and to reinforce the commitment of governments to the GATT system.

The International Fund for Agricultural Development (IFAD)

IFAD has 145 member countries. The membership is divided into three categories, each having equal voting rights in the Fund's governing bodies: Category I, consisting of 21 developed (OECD) countries; Category II, 12 oil-exporting developing countries; and Category III, the 112 other developing countries. The Executive Board consists of 18 members, six from each category. Representation on the Executive Board from category III countries comprises two members each from Asia, Africa and Latin America.

The initial financial resources of IFAD pledged by member countries and effective on 30 November 1977 was US$1 billion, of which the developed countries contributed 56 per cent, the oil exporting developing countries 43 per cent and the other developing countries 1 per cent. The Fund has had three replenishments. The latest, effective on 24 December 1990, amounted to $556.3 million, of which the developed countries contributed 67 per cent, the oil-exporting developing countries 22 per cent and the other developing countries 11 per cent.

At present the non-oil exporting developing countries contribute 11 per cent of the capital and possess one-third of the voting rights. If the oil exporters are included, the developing countries have two-thirds of the voting rights, while contributing only one-third of the resources.

The Common Fund (UNCTAD)

One of the distinctive features of the Common Fund is its voting

structure. Unlike the Bretton Woods institutions, which tie voting closely to financial contributions, the Common Fund has given practical expression to the principle of greater equality in decision-making between rich and poor countries.

The 24 member countries of the OECD contribute 51.4 per cent of the Fund's directly contributed capital. The voting share of these countries is 40.2 per cent. While the developing countries (G77) contribute 32.1 per cent of the capital, their share of voting amounts to 45 per cent, reflecting their larger membership. The voting share (14.8 per cent) of the countries which used to be categorised as Group D (USSR, Bulgaria, Czechoslovakia, east Germany, Hungary, Poland and Romania) is somewhat less than their financial contribution (16.5 per cent). While this distribution of votes gives developing countries an unprecedentedly large voice in the decision-making of an international financial institution, the requirement for a two-thirds majority, or three-quarters in certain circumstances, gives the industrial countries, as a group, an effective power of veto over the Fund's most important decisions.

Annex 5

Demographic and Human Resource Development Indicators

Annex Tables

Annex Table 5.1
Demographic Indicators

	1950-55	1955-60	1960-65	1965-70	1970-75	1975-80	1980-85	1985-90
Population growth rates				(percentage)				
World	1.80	1.86	1.99	2.06	1.97	1.74	1.74	1.73
Developed countries	1.28	1.25	1.19	0.91	0.86	0.73	0.65	0.53
Developing countries	2.05	2.14	2.35	2.53	2.39	2.10	2.10	2.10
Africa	2.18	2.35	2.48	2.63	2.69	2.95	2.95	3.00
Asia	1.90	1.95	2.19	2.44	2.27	1.86	1.86	1.86
Latin America	2.74	2.76	2.80	2.60	2.48	2.28	2.19	2.09
Birth rates				(per 1,000 population)				
World	37.4	35.6	35.2	33.9	31.5	28.4	27.7	27.1
Developed countries	22.6	21.6	20.1	17.9	16.7	15.6	15.2	14.6
Developing countries	44.6	42.1	41.9	40.4	37.1	32.9	31.8	30.9
Africa	48.9	48.6	48.5	47.7	46.7	46.4	45.5	44.7
Asia	42.9	39.6	39.5	38.4	34.8	29.7	28.4	27.6
Latin America	42.5	41.7	41.2	37.9	35.3	32.4	30.9	29.1
Death rates				(per 1,000 population)				
World	19.7	17.2	15.5	13.3	12.2	11.1	10.4	9.9
Developed countries	10.1	9.3	9.0	9.2	9.3	9.4	9.6	9.8
Developing countries	24.3	20.9	18.3	15.1	13.3	11.7	10.7	9.9
Africa	27.0	24.8	19.4	21.1	23.0	17.6	16.4	14.9
Asia	24.1	20.4	17.7	14.1	12.4	10.7	9.8	9.1
Latin America	15.3	13.6	12.2	10.9	9.7	8.7	8.0	7.5
Fertility rates				(per woman)				
World	5.00	4.88	4.97	4.88	4.45	3.84	3.61	3.44
Developed countries	2.84	2.82	2.69	2.44	2.20	2.03	1.93	1.90
Developing countries	6.18	5.95	6.08	5.99	5.41	4.54	4.19	3.92
Africa	6.61	6.69	6.74	6.71	6.60	6.52	6.37	6.23
Asia	5.92	5.57	5.71	5.67	5.05	4.06	3.72	3.45
Latin America	5.86	5.90	5.95	5.50	5.00	4.38	3.98	3.61

Source: World Population Prospects 1988, United Nations 1989

Annex Table 5.2
Life Expectancy at Birth

	1950-55	1955-60	1960-65	1965-70	1970-75	1975-80	1980-85	1985-90
				(in years)				
World	45.9	49.0	51.5	54.9	56.7	58.1	59.6	61.5
Developed countries	65.7	68.2	69.6	70.3	70.9	71.7	72.3	73.4
Developing countries	41.0	44.4	47.6	52.1	54.2	55.8	57.6	59.7
Africa	38.0	40.1	42.1	44.1	46.1	48.1	49.9	51.9
Asia	41.1	44.5	48.0	53.3	55.8	57.5	59.3	61.7
Latin America	51.2	54.1	56.7	58.7	60.9	62.8	64.5	66.0

Source: World Population Prospects, United Nations 1988

Annex Table 5.3
Infant Mortality Rate

	1950-55	1955-60	1960-65	1965-70	1970-75	1975-80	1980-85	1985-90
	(per 1,000 births)							
World	155	139	118	103	94	86	79	71
Developed countries	56	41	32	26	22	19	16	15
Developing countries	180	163	136	117	106	97	89	79
Africa	187	175	164	154	140	126	116	106
Asia	181	164	133	110	99	91	83	73
Latin America	126	112	100	91	80	70	63	56

Source: World Population Prospects, United Nations 1988

Annex Table 5.4
Nutritional Levels

	1961-63	1969-71	1978-80	1979-81	1980-82	1981-83	1983-85	1984-86	1986-88
	(daily calorie supply per capita)								
World	2,296	2,434	2,617	2,587	2,652	2,665	2,666	2,694	2,671
Developed countries	3,063	3,229	3,407	3,333	3,395	3,398	3,374	3,377	3,398
Developing countries	1,939	2,106	2,328	2,319	2,388	2,409	2,424	2,464	2,434
Africa	2,042	2,121	2,311	2,268	2,391	2,316	2,278	2,299	2,261
Asia	1,904	2,087	2,326	2,307	2,379	2,422	2,437	2,485	2,450
Latin America	2,374	2,514	2,591	2,675	2,643	2,633	2,700	2,705	2,732

Source: FAO, Production Yearbook 1989

Annex Table 5.5
Enrolment Rates by Level of Education

		1960	1970	1980	1985	1986	1987	1990
		(number enrolled as percentage of age group)						
		Primary						
World	Total	84.1	88.5	96.1	98.8	99.6	99.6	100.1
	M	94.8	95.8	103.5	105.7	106.3	106.1	106.3
	F	72.9	80.8	88.3	91.6	92.6	92.8	93.7
Developed countries	Total	105.6	103.9	101.4	101.5	101.8	101.8	101.6
	M	106.5	104.2	101.6	101.7	102.3	102.2	102.0
	F	104.7	103.5	101.1	101.3	101.3	101.3	101.0
Developing countries	Total	75.9	83.5	94.9	98.2	99.1	99.1	99.8
	M	90.4	93.1	103.9	106.6	107.1	106.9	107.2
	F	60.8	73.5	85.3	89.4	90.7	90.9	92.1
Africa	Total	42.3	54.6	79.5	75.2	75.2	76.0	79.7
	M	53.8	65.4	89.7	83.5	82.8	83.7	86.8
	F	30.8	43.8	69.2	66.8	67.5	68.2	72.5
Asia	Total	84.9	89.2	96.7	103.0	104.5	104.3	104.3
	M	101.0	99.5	106.4	112.1	113.2	112.9	112.4
	F	67.8	78.3	86.4	93.3	95.1	95.3	95.6
Latin America	Total	72.7	90.7	104.8	106.4	107.2	107.8	109.3
	M	74.7	91.9	106.4	108.7	109.5	110.1	111.4
	F	70.7	89.4	103.3	104.1	104.8	105.5	107.2
		Secondary						
World	Total	27.6	36.2	44.6	46.1	47.3	48.6	52.8
	M	31.3	40.7	49.6	51.4	52.6	54.1	58.4
	F	23.7	31.5	39.4	40.5	41.7	42.9	46.9
Developed countries	Total	61.1	76.8	84.4	88.6	89.7	91.3	93.6
	M	62.3	77.3	83.2	88.4	89.5	91.0	93.5
	F	59.9	76.2	85.8	88.8	89.9	91.6	93.8
Developing countries	Total	15.8	23.9	35.3	37.4	38.7	40.1	44.9
	M	20.4	29.6	41.7	43.8	45.1	46.7	51.6
	F	10.9	17.8	28.6	30.6	31.9	33.2	37.8
Africa	Total	5.1	10.8	23.0	28.4	29.9	31.4	32.4
	M	7.2	14.7	29.1	35.6	37.5	39.4	40.0
	F	2.9	6.9	16.9	21.1	22.1	23.2	24.8
Asia	Total	20.8	27.9	37.9	39.3	40.6	42.0	47.7
	M	25.9	34.2	44.8	46.1	47.4	48.9	55.0
	F	15.3	21.3	30.5	31.9	33.3	34.6	40.0
Latin America	Total	14.6	25.5	44.9	50.7	51.7	53.7	57.6
	M	15.2	26.3	44.4	49.0	49.9	51.7	55.7
	F	14.0	24.6	45.4	52.4	53.5	55.6	59.6

		1960	1970	1980	1985	1986	1987	1990
		(number enrolled as percentage of age group)						
		Tertiary						
World	Total	5.3	8.5	11.5	12.1	12.3	12.6	13.5
	M	7.1	10.4	12.9	13.4	13.6	14.0	15.0
	F	3.5	6.5	9.9	10.7	10.9	11.1	12.0
Developed countries	Total	13.5	23.4	30.3	32.9	33.4	34.1	36.8
	M	17.3	27.3	31.2	32.9	33.1	34.2	37.0
	F	9.6	19.3	29.4	32.9	33.7	33.9	36.5
Developing countries	Total	2.1	3.0	5.7	6.8	7.1	7.4	8.3
	M	3.1	4.2	7.4	8.5	8.8	9.2	10.1
	F	1.1	1.8	4.0	5.0	5.3	5.6	6.5
Africa	Total	0.7	1.5	3.5	4.2	4.3	4.3	4.9
	M	1.2	2.3	5.2	6.2	6.2	6.2	6.8
	F	0.3	0.7	1.9	2.2	2.4	2.5	3.0
Asia	Total	2.6	3.5	5.6	6.5	6.9	7.3	8.2
	M	3.9	5.0	7.6	8.4	8.8	9.3	10.4
	F	1.2	2.0	3.6	4.6	4.9	5.2	6.0
Latin America	Total	3.0	6.3	13.5	15.9	16.2	16.9	18.7
	M	4.2	8.0	15.3	17.3	17.2	18.0	19.3
	F	1.8	4.5	11.7	14.4	15.1	15.7	18.2

Source: UNESCO Statistical Yearbook, various issues

Annex 6

Recent and Projected Savings Behaviour in Industrial Countries

Gross national saving in industrial countries declined from 26 per cent of GNP in 1973 to 19½ per cent in 1983 before recovering slightly to 20 per cent in 1987 where it has stabilised since. Net national saving, i.e. gross saving adjusted for depreciation of plant and equipment, fell much more markedly from 17 per cent of GNP in 1973 to 8 per cent in 1983 and has since remained below 10 per cent.

Aggregate data, however, mask the wide discrepancy in savings behaviour across countries. In terms of gross saving rates, Luxembourg, Japan, Norway and Switzerland have been high savers (averaging above 25 per cent of GNP during 1980-87) whereas Denmark, Belgium, Sweden, as well as the United States have been low savers (averaging between 15 and 17½% of GNP during 1980-87). Among the Group of Seven major industrial countries, of the six[1] for which data are available, all except Japan exhibited some decline in savings between 1965 and 1987, with the largest decreases occurring in the United States and France.

The decline in government saving was primarily responsible for the sharp fall in national saving—4¾ of the 5½ percentage points fall in terms of gross national savings between 1973 and 1983—for five major industrial countries for which data are available. The declines in Japan, Germany and the United Kingdom were concentrated in the 1970s, in the United States in the 1980s, and in Canada during both the 1970s and 1980s. Since 1981, the government sectors in the United States, Canada and France

[1] The United States, Japan, Germany, France, Britain and Canada. Disaggregated data on the seventh, Italy, are not available on the UN system of national accounts.

have become dissavers and this was reflected in the aggregate position of the government sector in six major countries as dissavers during the 1980s.

Household savings also fell in the six major countries, with substantial declines in all of them (except Germany). However, in Japan, Germany and Canada, household saving had risen earlier, so that in 1987 it was as high as or even higher than in the late 1960s and early 1970s. Also, part of the decline in household saving since the early 1980s reflects economic changes that are intrinsically beneficial, including the fall in inflation (and consequently in interest rates) and financial reform. Furthermore, in most countries the drop in household savings has been offset by the increase in savings by the business sector, leaving total private sector savings as a proportion of GNP more or less unchanged throughout the 1980s.

Until recently, domestic investment moved in tandem with national saving in most industrial countries, with high saving countries also being high investment countries. However, since the early 1980s national saving and domestic investment have moved in opposite directions in some countries, the gap being reflected in their external current account balances. Capital mobility, financial market deregulation and globalisation of international capital markets have meant that governments and the private sectors in different countries have been able to tap foreign sources of finance, while private investors in different countries have become free to allocate their savings across countries to seek the highest available risk-adjusted returns.

There is no systematic tendency for private sector savings to offset movements in public sector savings, so that a change in the public sector deficit should be reflected in the change in the external deficit (or depending on the degree of capital mobility, in crowding out of domestic investment). In fact, during 1981-86, in relation to GNP, the US fiscal deficit worsened by 2½ percentage points and the current account deficit by 3½ percentage points. Simultaneously, Japan's fiscal and current account positions improved respectively by 5 and 4 percentage points and those of Germany by 2½ and 5 percentage points. Thus the trends in the early 1980s reflected a strong association between fiscal and current account deficits. However, the fact that changes in the external account positions were larger than in the fiscal position suggests that changes in the difference between private savings and domestic investment also played an important complementary role. For instance, Japanese and German private savings were increasingly used to finance the gap between US private investment and savings. In the late 1980s, whereas the fiscal positions of Japan and Germany continued to improve, the current account surpluses (in relation to GNP) fell or remained unchanged as

the gap between private savings and investment narrowed. Gross private domestic investment in Japan and, to a lesser extent, Germany increased markedly. In the case of the United Kingdom, the current account drifted from sizable surplus to a deficit of more than 4 per cent in 1989, in spite of a steady and substantial improvement in the fiscal positions, as private investment increased sharply and consequently the gap between private investment and savings widened.

The private savings rate of the G7 countries is expected to record only marginal improvement over the medium-term to 1995. At the same time, serious concerns persist regarding the overall fiscal position of these countries. The recent budget agreement in the United States represents a major step toward coping with the longstanding fiscal problem in that country, provided it is implemented in full. It is encouraging that the package includes both revenue measures and provisions to curb spending as well as a tightened enforcement mechanism designed to ensure the achievement of the planned deficit reduction. However, additional fiscal action is likely to be required to address fully the problem of inadequate national savings in the United States.

The net effect on other countries of increased German public and private sector demand for the country's savings has been a reduction in the availability of savings and a rise in real long-term interest rates. The increase in the German fiscal deficit that is currently in prospect exceeds previous expectations and is a matter of serious concern. Despite the budgetary package introduced in January 1991, the tax increases announced at the end of the following month, and the indication, in April 1991, of the intention to reduce subsidies further, starting in 1992, the budgetary outlook remains uncertain. Additional deficit reduction measures may be needed, particularly if it appears that the deficit will not fall rapidly after 1991. Strong fiscal action is necessary to permit domestic interest rates to fall without undermining price stability. This, in turn, would reduce upward pressure on interest rates in other European countries, while avoiding tensions within the Exchange Rate Mechanism of the European Monetary System.

Germany and the United States are not the only G7 countries where fiscal action is necessary to strengthen savings performance. The persistence of large deficits in Italy calls for a more aggressive fiscal plan. Fiscal imbalance is also high in Canada. However, the measures announced in Canada's latest budget strengthen the prospects of improved fiscal performance in the medium term.

Over a much longer term, up to the year 2025, national savings rates are expected to decline substantially in most industrial countries because of the rise in the average age of the population, with the largest declines

occurring in Japan and Germany, currently having the highest savings rates. In Germany after unification, however, with a much younger population in the eastern states, the effect on savings is expected to be less severe than projected for west Germany alone. In Japan (and west Germany) the dependency ratios by 2025 are expected to increase by 15 per cent (and 13 per cent). This would imply very substantial declines in the private savings rate, in the case of Japan from its current 25 per cent to about 10 per cent in 2025 (and for west Germany from 22 per cent to 9 per cent). Smaller declines are expected for other countries. These demographic changes would also imply large increases in government expenditures, especially on pensions. For Japan, the combined expenditures on pensions, health and education are projected to increase by 10 per cent of GNP by 2025 (and in west Germany by 8 per cent).

In the absence of any tax increases, the combined effects of lower private savings rates and higher government deficits would be reflected in the current account positions, and consequently in the net foreign asset and liability positions of these countries. Yet compared with the situation that would have obtained had no demographic changes taken place, the net foreign asset positions in relation to GNP of Japan (and west Germany) are expected to be lower by 100 per cent (and 60 per cent) respectively while those of the United States and Canada, where ageing of the general population is occurring much later than in other industrial countries, are expected to be about 70 per cent higher. The effects of projected demographic changes would, therefore, reverse the recent trends among the three largest industrial countries.

Annex 7

World Military Expenditures in the 1980s and 1990s

Data on defence spending are generally scarce, unreliable and vary from one source to another. Even so, what estimates there are indicate some very disturbing trends: the growing size of permanent military establishments, the intensifying financing burden on central governments, and the diversion of vast resources from productive investment and consumption.

According to the Stockholm International Peace Research Institute (SIPRI), world military expenditures in constant 1986 prices (excluding the USSR), rose from $461 billion in 1980 to $566 billion in 1986 before slipping to $545 billion and $519 billion in 1987 and 1988 respectively (see Chart on p.178 and Annex Table 7.1 on p.179). The World Bank put global military spending, including that by the USSR, at around $1 trillion in 1987; it estimated that NATO and Warsaw Pact countries devoted 16 per cent and 37 per cent respectively of current government expenditure, or 5 per cent and 11 per cent of GNP, to military purposes. The corresponding expenditure in the developing countries totalled $173 billion, representing 19 per cent of central government budgets or 5 per cent of GNP. World military expenditure in 1989 was estimated at $950 billion (see Box 6.1 on pp.74-75).

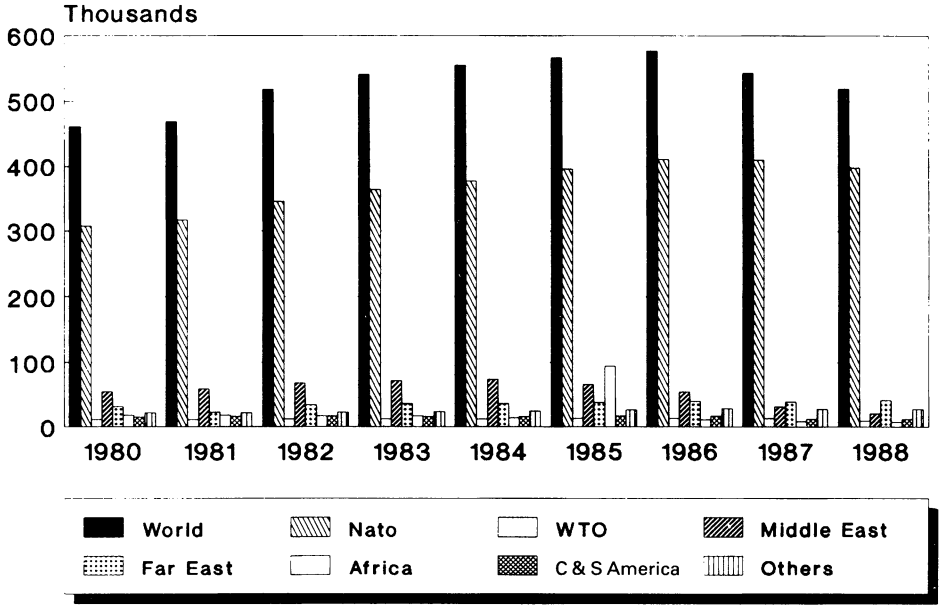
The increase in central government outlays on defence during 1980-87 in the industrial countries was largely accounted for by the United States, where defence expenditure rose from 5.4 per cent to 6.7 per cent of GDP. In the United Kingdom, it remained fairly constant at around 5 per cent of GDP. Sizeable defence expenditures in the 1980s were also maintained

by Middle East countries, whereas SIPRI estimates that those in Africa declined during the period (see Annex Table 7.1 on p.179).

The outlook suggests that the reduction in military expenditures that began towards the end of the 1980s may be continued in the 1990s. Although difficult to predict, some project a decline in defence spending of the order of 50 per cent over current levels by the end of the decade. Much of this hinges on the extent to which the strategic arms negotiations between the Warsaw Pact and NATO member countries bear fruit, as well as the degree to which the unilateral decisions by the United States and the USSR to limit defence expenditures are sustained. The pace of political democratisation in Eastern Europe and developing countries, and the paring of 'replacement expenditure' after the Gulf War, are also important factors.

The prolonged nature of disruption caused by armed conflicts and militarisation makes it difficult to assess the human, social and economic costs of military expenditures. The opportunity costs of the pursuit of military power, in terms of the neglect of social and economic needs, are high. Developing countries spend almost as much on defence as on health and education combined. Reductions in military expenditure in these countries would release much needed resources for the social sector and improve the budgetary and external positions. While the developing countries have a responsibility to their peoples to re-orient their priorities, it is also unacceptable that the industrial countries spend much more on defence than on official development assistance: during 1986-88 their defence expenditure averaged one to six per cent of GDP but that on aid was less than 0.5 per cent of GDP.

World Military Expenditures 1980-1988 *
(US$m at constant 1986 Prices)



Source: Stockholm International Peace Research Indt. (SIPRI) Yr 1989
Nato – North Atlantic Treaty Organisation
WTO – Non Soviet Warsaw Treaty Organisation

* Exclude Soviet military expenditure

Annex Table 7.1
World Military Expenditures 1980-1988*
US$m at constant 1986 Prices

COUNTRY	1980	1981	1982	1983	1984	1985	1986	1987	1988
World	461,226	468,986	517,508	540,785	554,891	565,919	576,012	541,991	518,552
Nato	307,685	317,151	344,915	364,027	376,981	396,016	411,371	409,965	398,607
WTO	11,648	11,820	12,069	12,109	12,812	13,510	13,431	13,397	9,654
Other Europe	11,107	10,861	10,830	10,588	10,698	11,381	11,572	10,510	10,353
Middle East	54,844	60,003	67,820	72,017	73,463	65,931	55,088	31,247	21,355
South Asia	6,699	7,013	7,850	8,321	8,809	9,806	11,327	12,397	11,989
Far East	31,395	22,971	34,582	35,622	36,476	37,802	39,344	39,102	41,935
Oceania	3,980	4,201	4,391	4,525	4,868	5,088	5,187	5,076	4,933
Africa	18,158	18,273	17,483	17,620	14,154	9,450	11,924	8,266	7,498
Central America	4,226	4,392	4,483	4,978	5,599	6,876	5,858	2,515	2,326
South America	11,484	12,212	13,085	10,978	11,031	10,029	10,910	9,516	9,872

Note: Nato – North Atlantic Treaty Organisation
WTO – Non Soviet Warsaw Treaty Organisation
* Excludes Soviet Military Expenditure

Source: Stockholm International Peace Institute (SIPRI) Yearbook 1989

Annex 8

Recent Debt Initiatives and their impact

Aid Debt Forgiveness

As early as 1978, following an UNCTAD resolution, creditor countries had started writing off official development assistance (ODA) or aid loans to the least developed and other low-income countries. Some $3.7 billion was cancelled between 1978 and 1986. In recognition of the particularly adverse situation facing the severely-indebted low-income countries (SILICs), over 1987-89 a further $2.1 billion was cancelled (including $1.7 billion for SILICs). This is likely to reduce annual scheduled debt-service by an estimated $350 million, or about 5 per cent of the 1990 scheduled long-term debt service of the beneficiary countries. It is estimated that a further $4.9 billion of aid debt (including $4 billion for SILICs) was cancelled in 1990. But despite recent actions, $18-20 billion of aid debt is still owed by SILICs to the donor countries.

Toronto Terms and Related Proposals on Bilateral Official Debt of Low-Income Countries

Following a decision by the leaders of G7 industrial countries at their 1988 Toronto summit, the Paris Club agreed to new options (the so-called Toronto terms) for rescheduling concessional and non-concessional official debt of severely-indebted low-income African countries. In 1990, these terms were extended to low-income countries outside Africa. Under the terms, all rescheduled concessional debt is to be repaid with a 25-year maturity, including a 14-year grace period. A substantial amount of the concessional debt is being cancelled, particularly that owed by low-income African countries (see above). For non-concessional debt,

creditor countries can choose from a menu of three options. Option A: cancellation of one-third of eligible debt and the rescheduling of the balance at market interest rates, with a 14-year maturity and an eight-year grace period. Option B: rescheduling all eligible debt at market rates, with a 25-year maturity and a 14-year grace period. Option C: charging of below market interest rates, and requiring payment with a 14-year maturity and an eight-year grace period. To date, consolidation periods for debt-service, eligible for these reschedulings, have been only in the range of 12 to 36 months, so that the extra relief offered has been limited. Between October 1988 and March 1990, 20 countries (including Guyana, Tanzania, Uganda and Zambia in the Commonwealth) rescheduled about US $6 billion of their debt on Toronto terms. This amounted to about 20 per cent of the bilateral official debt of the rescheduling countries. The average consolidation period has been approximately 16 months, and seven countries have been able to reschedule twice on these terms. The estimated cash-flow savings, compared to standard reschedulings, was about US $100 million, or 1.5 per cent of scheduled debt service.

Because of the limited benefit offered by the Toronto terms to eligible countries, John Major, the then UK Chancellor of the Exchequer, proposed at the Commonwealth Finance Ministers meeting in September 1990, an additional initiative. The Trinidad and Tobago terms, so named because of the venue of the Commonwealth meeting, would modify the Toronto terms in four ways: the Paris Club would tackle the total stock of debt in a single long-term operation and not reschedule maturities over one to three years at a time; it would cancel two-thirds of the entire stock of eligible debt instead of one-third; it would reschedule the remaining one-third over 25 years instead of 14 years; and it would capitalise interest payments of the first five years to be repaid with other consolidated debt. The terms also envisage making adjustments to the future course of repayments to reflect a country's ability to pay. If approved by other members of the Paris Club, the proposals could mean cancellation of $18 billion of the $27.5 billion official debt of 19 eligible countries. These countries would be those with an average per capita income of less than $600, which spend more than 25 per cent of their export earnings on debt service and have an IMF programme.

In a separate initiative, Jan Pronk, the Netherlands Development Cooperation Minister, proposed at the second UN conference on the Least Developed Countries in Paris in September 1990, that all official debt—both export credits and ODA—owed by the 41 poorest developing countries be forgiven.

IDA Debt-Reduction Facility to Reduce Commercial Bank Indebtedness of Low-Income Countries

In 1989, the World Bank established a three-year $100 million IDA Debt-Reduction Facility, funded by the Bank's net income, to support

reduction of the commercial debt of low-income countries by providing grants of up to $10 million per country for either a buy-back or an exchange of debt at a market-related discount. To-date, 15 countries have requested the use of this facility involving debts of about $2 billion. Negotiations have been slow, partly because of the difficulty in obtaining commercial bank consent to waive provisions of the original loan agreements which block debt-reduction operations. Some banks are unwilling to set precedents when only small amounts of debt are involved. In February 1991, Niger became the first country to use this facility by buying back its $111 million of commercial debt at 18 per cent of face value. France and Switzerland supported this IDA operation by providing additional bilateral resources. The resources available to this IDA facility suggest that only about 10 per cent of the total commercial bank debt of severely-indebted low-income countries can be retired. Bilateral donors could, however, enhance the value of the programme by joining it, as they did in respect of Niger.

The Brady Initiative on Commercial Bank Debt-Reduction of Middle-Income Countries

The Baker plan (1985) proposed fresh funds for countries indebted to commercial banks, provided such countries were willing to pursue economic reforms. The relief provided to the adjustment-undertaking debtor countries proved, however, to be relatively small, as the banks were unwilling to provide the additional resources that were needed to bring about the necessary improvement in growth. The need for augmenting the debt relief available under the Baker plan soon became apparent.

In March 1989, following several proposals for debt relief, Nicholas Brady, the US Treasury Secretary, proposed that countries with sound adjustment programmes should be supported in their voluntary debt and debt-service reduction with commercial banks by international financial institutions and official creditors. The IMF, World Bank and Japan agreed to provide $30 billion over three years. In October 1990, the Board of the Inter-American Development Bank also approved lending in support of debt and debt-service reduction. Creditor countries have adjusted their tax, regulatory and accounting rules in support of debt-reduction.

To date, five agreements have been completed—for Mexico, Philippines, Costa Rica, Venezuela and Uruguay—and a sixth, for Morocco, is contingent on obtaining an IMF Extended Fund Facility by December 1991. Debt and debt-service reduction encompass a variety of options such as debt buy-backs, swaps of commercial loans for face-value bonds with fixed below-market interest rates, and bonds with discounted value bearing market-related rates. The options also include provision of new money. The five agreements completed so far affect commercial bank

claims of $78 billion through the various options available under the present strategy for the highly indebted middle-income countries. The first four agreements with Mexico, Philippines, Costa Rica and Venezuela affected $76.4 billion of the external debt of these countries and resulted in a reduction in the face value of such claims by $11.5 billion, once allowance is made for the new debt issued. The reduction in net present value terms is significantly higher at $22 billion. However, this reduction has to be set against the $8 billion of less flexible new debt now due to official creditors, although some of this money is being used to purchase zero coupon bonds to collateralise the principal of the new bond issues. The Brady-style agreements, while easing debt problems considerably, are not likely to be sufficient to free the countries from the debt overhang problem. Moreover, the amount of official finance currently available is not likely to be adequate to cover all countries which would potentially qualify for debt reduction.

Restructuring Bilateral Official Debt of Lower Middle-Income Countries

Following the decision by the 1990 Houston G7 summit, Paris Club creditors agreed in September 1990 to provide longer maturity and grace periods on a case-by-case basis to severely-indebted middle-income countries. For ODA debt, these periods will be 20 and 10 years respectively, and for export credit debt, 15 and eight years, instead of the more conventional 10 year maturity and five year grace periods. A major innovation in the new arrangement is the provision of various types of debt concessions such as 'debt-for-nature', 'debt for equity', and 'debt for aid'. While there are no limits on the amount of ODA or inter-governmental loans that can be converted, there is a ceiling of 10 per cent on export credit conversions. By January 1991, five lower middle-income countries, Congo, El Salvador, Honduras, Morocco and Nigeria, had benefited. But at 12-21 months, consolidation periods remained short.

US Enterprise for Americas Initiative

In June 1990, US President George Bush announced the 'Enterprise for the Americas' Initiative. This proposes legislation to allow, inter alia, substantial reduction and restructuring of existing US concessional loans to Latin American and Caribbean countries (which mainly fall into the middle-income category) with serious debt-servicing problems and for interest payments to be accepted in local currency to support environmental projects. It also envisages the sale of some outstanding bilateral non-concessional credits from the US Exim Bank and Commodity Credit Corporation to encourage foreign investment and fund environmental projects.

Special Debt-Relief Measures for Poland and Egypt

Paris Club creditors have reached agreement on Poland's bilateral official debt amounting to $33 billion. Debt and debt-service reduction is, however, subject to Poland reaching an agreement on an Extended Fund Facility (EFF) arrangement with the IMF. Poland's debt to Paris Club creditors is to be reduced by 50 per cent, on a net present value basis, in two stages, 30 per cent at the outset and 20 per cent in the fourth year upon successful completion of the EFF arrangement with the Fund. Creditors would choose from three options, or a combination of them: writing-off part of the debt; accepting lower interest payments but leaving the debt face-value unchanged; and interest capitalisation. The United States has agreed to reduce the Polish debt owed to it by 70 per cent. It is envisaged that Egypt will be offered a similar arrangement. These provisions for Poland (an upper middle-income country) and Egypt (a lower middle-income country) are thus much more generous than those offered to severely-indebted low-income countries under the Toronto terms.

Annex 9

Some Proposals for Relief of the Commercial Debt of Highly Indebted Countries

Many proposals have been made for alleviating the commercial debt of highly indebted countries. Some of them are summarised briefly below (see also Box 6.2 on pp.82-83 for some proposals on debt refinancing):

(i) Ex-President Raul Alfonsin of Argentina (1986) proposed recycling a part of the debt service on existing loans and part of the surplus of the industrial countries for the purpose of accelerating growth in the highly-indebted countries.

(ii) D. Avramovic (1988) suggested that the debt situation of the developing countries could be improved by stabilising and increasing primary product prices. In that regard he expressed the wish that the UNCTAD Integrated Programme for Commodities, involving the establishment of buffer stock arrangements under the aegis of the Common Fund, had been implemented with resources closer to the original proposals than was in fact the case.

(iii) David Obey (1986), US Congressman, and Paul Sarbenes, US Senator, proposed the establishment of a special facility at the IMF or the World Bank to buy and then restructure outstanding bank debt. The facility would purchase loans at a discount from their face value, and then pass the discount to the developing country governments. The financing for the facility would have to come largely from the countries with balance of payments surpluses.

(iv) Felix Rohatyn (1985), of Lazard Freres, New York, who was

among the first to call for the use of official resources for special arrangements to alleviate developing country debt, and Roger Altman, former Assistant Secretary of the US Treasury, proposed a special plan to refinance Mexico's debts at below-market rates and organise and finance a substantial expansion of investment in Mexico's manufacturing industry. A temporary US-Mexico development finance authority would be created for this purpose, with a US Government guarantee providing a basis for market borrowing by the authority.

(v) Bill Bradley (1986), US Senator, suggested that commercial banks cut the interest rate on loans to developing countries by 3 percentage points annually and write off 3 per cent of the principal on current loans over the same period. In addition, he proposed additional lending by the MFIs of $9 billion over the same period. The debtor countries benefiting from the relief would be expected to agree to liberalise their trade regimes and promote domestic economic growth, thereby helping to strengthen the international financial system.

(vi) Jeffrey Sachs (1988), Harvard, suggested debt relief for countries which had suffered marked declines in per capita income, in the form of forgiveness of interest payments for three to five years.

(vii) Victor Urquidi (1986), Collegio de Mexico, proposed that interest payments be split in two parts. Interest corresponding to the LIBOR rate, less current inflation, would continue to be paid in foreign exchange. The difference from the market interest rate would be payable in local currency to be utilised by the foreign creditor banks for domestic lending and investment, for purposes agreed by the domestic government. The profits and dividends would be transferable in a given proportion into the foreign currency of the original loan.

(viii) Franz Lutoff (1986), General Manager of the Swiss Bank Corporation, Basle, suggested a temporary grace period on interest payments and a postponement of amortisation, until export commodity prices of the affected debtor countries had recovered.

(ix) Charles E. Shumer (1986), US Congressman, suggested that banks write off 30 cents on each dollar of their developing country loans. (This was in line with the average discount at which banks were reselling their Third World debt at the time.) The US Government was to facilitate this process by allowing the write-offs to occur over a 10-year period. The remainder of the debt would be restructured, with extended maturities and lower interest, to enable countries to use no more than 25 per cent of export earnings for debt repayment.

(x) Henry Kaufman (1986), Salomon Brothers, New York, suggested that countries undertaking internationally acceptable adjustment efforts should be able to write down a portion of their debts by turning loans into marketable securities, with the resulting bank losses spread over a number of years. This would provide debt relief to developing countries equal to the difference between the original value of the loans and the face-value of the new securities.

(xi) The World Institute for Development Economic Research (WIDER) estimated in June 1989 that an additional $50 billion would be required for an effective debt reduction scheme, i.e one which provided debt reduction of at least $125 billion out of the total outstanding commercial debt of the highly indebted countries of about $370 billion. It argued that IMF Trust Fund arrangements offered the most flexible and quickest means of attracting additional resources for debt reduction; in particular for buybacks and collateralisation. The resources for the Trust Fund could be mobilised from surplus countries such as Japan and Germany. Other countries might also wish to make loans or deposits with the Trust Fund or to make their markets available for borrowings connected with debt reduction schemes.

Sources: 'Developing Country Debt Revisited: Facts, Theory and Policy', Dragoslav Avramovic, in World Economic Problems, Ed. K. A. Elliot and John Williamson, IIE (1988).

'Debt Reduction', World Institute for Development Economic Research (1989).

'Resolving the Global Debt Crisis,' Morris Miller, UNDP Policy Discussion Paper (1989).

Annex 10

Commonwealth Group of Experts on the Impact of Global Economic and Political Change on the Development Process

Members of the Group

Hon. G. Arthur Brown OJ (Chairman)	Governor, Bank of Jamaica.
H.E. Dr J. L. S Abbey	Ambassador for Ghana, Washington.
Mr. Muchkund Dubey[1]	Foreign Secretary, Ministry of External Affairs, Government of India.
Prof. Stuart Harris	Professor, Australian National University, Canberra.
Mr. Philip Khoo	Managing Director, Safetytech Sdn Bhd, Malaysia.
Dr. Ibbo Mandaza	Executive Director, Southern Africa Political Economy Series (SAPES) Trust, Harare.
Dr. Sylvia Ostry	Chairman, Centre for International Studies, University of Toronto.
Prof. Adedotun O. Phillips	Director-General, Nigerian Institute of Social and Economic Research, Ibadan.

[1] Due to unforeseen events in relation to his substantive duties as Foreign Secretary, Government of India, Mr. Dubey was only able to attend the first meeting of the Group.

Prof. Clive Thomas	Professor of Economics, University of Guyana.
Sir Douglas Wass GCB	Co-Chairman, Nomura International Ltd., London.
Dr. Arshad Zaman	Chief Economist, Ministry of Planning and Development, Islamabad, Pakistan.

Other Participants at the Meetings[1]

Mr. Rattan Bhatia	IMF Special Representative to the UN, New York.
Mr. Jean Baneth	Director, World Bank Office, Geneva.
Mr. Roger Lawrence	Director, Co-ordinator, Resources for Development Programme, UNCTAD, Geneva.
Mr. Iqbal Haji	Office of the Director-General for Development and International Economic Cooperation, United Nations, New York.

Commonwealth Secretariat

Mr. P. W. Unwin	Deputy Secretary-General (Economic)
Dr. B. Persaud	Director and Head Economic Affairs Division (Secretary of the Expert Group)
Mr. I. R. Thomas	Assistant Director Economic Affairs Division
Dr. S. K. Rao	Assistant Director Economic Affairs Division
Dr. I. Coomaraswamy	Chief Officer (Economics) Economic Affairs Division

[1] Mr. Stanley Fischer, Vice-President, World Bank, also participated.