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Michael Bruno - Internal Chronological - January to February 1995

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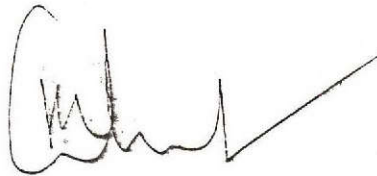
February 22, 1995

Mr. Steve Parker
Chief Economist
The Asia Foundation
465 California Street
San Francisco, CA 94104

Dear Mr. Parker:

On behalf of Mr. Michael Bruno, I would like to thank you for sending us copies of your recent reports on trade and investment. These topics are indeed of interest to our work and I have circulated the reports to some colleagues for information. I am sure they will get back to you directly if there are specific comments.

Sincerely,

A handwritten signature in dark ink, appearing to be 'Masood Ahmed', with a long, sweeping horizontal stroke extending to the right.

Masood Ahmed

bcc: Mr. Alan Winters

ROUTING SLIP		Date 2/20/95
NAME		ROOM NO.
Mr. Masood Ahmed		
URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial
RE:		
ATTACHED		
REMARKS		
Masood, Could you handle this one? Thanks Lyn		
From L Squire		Room No. S9 035
		Ext. 33774

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February 16, 1995

Mr. Michael Bruno
Vice President
The World Bank
1818 H Street, NW
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Dear Mr. Bruno:

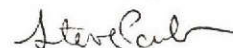
As part of The Asia Foundation's Center for Asian Pacific Affairs (CAPA) Project on Pacific Economic Regionalism, we are pleased to release two reports that examine key issues affecting the Asia-Pacific Economic Cooperation (APEC) process. The report "Nonbinding Investment Principles in APEC" by Bijit Bora and Edward Graham points out the limited enforcement inherent in the nonbinding investment agreement reported out of the APEC Ministerial Meetings last November in Jakarta, Indonesia. It also notes that these Investment Principles may represent a vital step in an on-going process of investment liberalization throughout the Pacific Region.

Lyuba Zarsky and Jane Drake-Brockman's report on "Trade, Environment and APEC: Imperatives and Benefits of Regional Cooperation" examines how APEC can contribute to encouraging economies in the Pacific Region to simultaneously commit to "trade openness and environmental responsibility." Political pressure throughout the world is pushing environmental considerations onto the trade policy table. This paper offers insight as to how the APEC process can effectively integrate environmental interests into a process of trade liberalization.

These reports build upon Richard Wilson's "APEC: The Next Step Toward a New Pacific Community" and my report on "APEC and Pacific Economic Dynamism," CAPA Reports released just before each of the last two APEC summits. Other recent CAPA activities in this Project include cooperation with senior Indonesian APEC officials and Vietnamese officials who are positioning their economy to become better integrated into world markets, and a series of conferences where Americans and Asians are examining the ramifications of changing business strategies by Japanese, other Asian and American firms in response to the high yen and increased competition throughout the region. CAPA has also maintained its long-standing support of the Pacific Economic Cooperation Council (PECC), including publication of the PECC's Pacific Economic Outlook (PEO), a two-year forecast of Pacific Rim economies.

We hope that you find these reports interesting and useful, and we look forward to hearing your comments.

Sincerely yours,



Steve Parker
Chief Economist



THE ASIA FOUNDATION'S CENTER FOR ASIAN PACIFIC AFFAIRS

JANUARY 1995

CAPA Report No. 19

Nonbinding Investment Principles in APEC

Bijit K. Bora and Edward M. Graham

The Asia Foundation is a private grantmaking organization based in San Francisco, California, with 44 field offices and programs in 37 countries in the Asia-Pacific region. The Asia Foundation utilizes public and private funds to support Asian initiatives to strengthen Asian institutions concerned with broadening participation in public life and policy.

Asia Foundation's Center for Asian Pacific Affairs (CAPA) was created in 1985 to expand and improve the policy dialogue between Asians and Americans on current and emerging political, economic, and security issues affecting the region.

Through its Report Series, CAPA presents short, policy-relevant analyses of the major political, economic, and security challenges facing the Asia-Pacific. The views expressed in this report are those of the author.

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Foreign direct investment (FDI) is playing an increasingly significant role in the economic development of many member nations of the Asia Pacific Economic Cooperation (APEC) group. As recently as a decade ago a number of these countries pursued policies that were highly restrictive towards inward FDI, on the grounds that too much of this investment would put important activities in the local economies under the control of multinational firms. However, in recent years, this suspicion has increasingly given way to solicitude, largely because of the experience of other APEC nations, such as Singapore, that have benefited greatly from the technologies and managerial skills brought by multinationals into the domestic economy.

Multinational firms have helped to raise the performance of business organisations, domestically owned as well as foreign owned, throughout host economies. Consequently, most APEC nations that in the recent past pursued restrictive policies towards FDI and multinational enterprises have reoriented these policies—or are in the process of doing so—towards greater openness and less regulation. Mexico, Indonesia, and China are examples of APEC member countries that have made recent changes to their foreign investment legislation. As a consequence of the new policy regimes in these and other nations, inward direct investment flows into the developing areas of APEC have grown very rapidly during the 1990s and have helped to accelerate the rapid economic growth that is being registered throughout much of the region.

Both industrialised and developing APEC nations have benefited from FDI. During the second half of the 1980s, FDI flows among the OECD nations surged dramatically, with these nations receiving the overwhelming majority of FDI during this period. In particular, the United States, long the world's largest foreign investor, became the largest host nation following a tripling of inward FDI flows between 1985 and 1990. This caused concern in the United States about possible ill consequences of foreign control of the domestic economy, leading to proposed legislation to great-

ly increase restrictions and regulations on inward FDI. In the end, only one such measure, the Exxon Florio amendment to the Trade Act of 1988, actually became law. This amendment gives the president special authority to block takeovers of U.S. firms if they threaten to impair national security. After 1990, the rate of FDI into the United States—and intra-OECD FDI flows in general—tapered significantly and public concern about foreign control waned.

Direct investment has increased economic integration among many APEC members, especially the ASEAN nations. The importance of Taiwan and Hong Kong as sources of capital has increased at the expense, to some degree, of developed countries such as Japan and the United States. Production networks of multinational firms operating in the region have also become more interlinked in certain technologically advanced industries, such as electronics, but less so in other sectors such as automobiles. This type of economic integration creates very efficient (and hence competitive) industries. Thus, Taiwan, Hong Kong, and several of the ASEAN countries are now among the world's leading electronics exporters as a result of production networks of multinational electronics firms. Originally, these firms were mostly of American or Japanese origin, but in recent years electronics firms in other countries have also become multinational, world-class competitors.

Bringing FDI Into the APEC Agenda

The importance of FDI to economic development in the Pacific Region led to a number of calls for the establishment, in the context of APEC, of common investment principles among members. In response, the Pacific Economic Cooperation Council (PECC), through its Trade Policy Forum, developed a model voluntary code for direct investment that was presented for consideration by governments at one of the 1993 APEC senior officials meetings. The first report of the APEC Eminent Persons Group (EPG) also recommended that APEC develop and implement some sort of voluntary investment code and cited the PECC

Most APEC nations that in the recent past pursued restrictive policies towards FDI and multinational enterprises have reoriented these policies—or are in the process of doing so—towards greater openness and less regulation.

code as a specific example. The APEC ministers in Seattle did not act on this recommendation, but at the leaders meeting on Blake Island that followed, the newly formed Committee on Trade and Investment (CTI) was charged with developing a set of nonbinding investment principles.

In order to draft a set of principles aimed at facilitating FDI and technology transfer, the CTI created an experts group that met three times during 1994. The principles would be strictly nonbinding and thus, *inter alia*, would not prejudice existing applicable international instruments, including bilateral investment treaties. It was recognised by the CTI that there was considerable diversity in the level and pace of economic development, and in policy objectives and regimes, among different APEC member economies. Some of the differences among the member economies resulted in long and protracted discussions that at times threatened to result in deadlock. By the November Jakarta ministerial meetings, however, agreement was reached on a text that satisfied the concerns of all APEC members.

APEC Nonbinding Investment Principles

APEC's nonbinding investment principles consist of four sections (detailed on page 4): principles that govern international relations; codes of conduct for governments; codes of conduct for investors; and a dispute settlement provision.

Principles that Govern International Relations

The three provisions reflecting general principles of international commerce are transparency, national treatment, and nondiscrimination. Transparency ensures that all policies, laws, regulations, and procedures relating to foreign investment are accessible, understandable, and visible. National treatment provides equal treatment for foreign and domestic investors. Nondiscrimination precludes differential treatment of foreign investors on the basis of origin. Thus, governments should not discriminate between foreign and domestic entities and all foreign entities should be treated the same.

The nondiscrimination principle in the Asia Pacific Investment Principles (APIP) should be singled out as an important example of APEC's ability to contribute to the international trade and investment agenda. It does not discriminate between APEC and non-APEC members and is consistent with the general principle of "open regionalism" upon which APEC was founded. There is a proviso that allows APEC members to meet existing obligations such as Chapter 11 of the North American Free Trade Agreement for Canada, Mexico, and the United States.

Codes of Conduct for Governments

There are seven provisions that apply to governments and their use of specific policies related to investment—incentives, performance requirements, expropriation and compensation, repatriation and convertibility, entry and sojourn of personnel, avoidance of double taxation, and barriers to capital exports. The basic objective of these provisions is to discourage the use of investment-distorting policies. APEC's diversity, however, prevented a uniform approach to these policies. With the less contentious provisions, such as the avoidance of double taxation, economies are asked to "avoid" the use of such policies. On the other hand, contentious issues, such as incentives and performance requirements, are dealt with in weak language or in some cases completely omitted. For example, economies are asked to "minimise" their use of performance requirements. In these cases, the provisions may sanction, rather than limit their use. In the case of incentives, the language is strong, but completely overlooks fiscal incentives. APEC was unable to come to any agreement at all about the use of subsidies and other fiscal incentives to attract investment. As a result they focused instead on the use of incentives related to health, safety, and environment¹ regulations.

Codes of Conduct for Investors

The establishment of codes of conduct for investor behavior was a contentious issue during the discussions. Some members claimed that such a provision assumes foreign investors will behave in an anticompetitive and antisocial fashion even when they abide by host country laws and regulations. Others argued that such a provision encourages responsible investor actions. This was one issue that divided members according to their stage of development. Some developed countries were strongly in favour of excluding this provision, while some developing members were strongly in favour of its inclusion. In the end the APEC experts agreed that the inclusion of the provisions balances the set of principles. It also acknowledges that a cooperative environment between investors and governments is required for the facilitation of capital flows.

Dispute Settlement

Dispute resolution is the fourth part of APIP and is anomalous because of the nonbinding nature of the text. We doubt that any dispute about compliance to the principles would be formally raised² for reasons noted below. Nevertheless, there is recognition that investment disputes can arise. This provision simply asks member economies to settle these disputes promptly and efficiently. The

dispute need not be specific to the principles outlined in the rest of the text. For example, fiscal incentives, which are not part of APIP, might be subject to disputes.

Why Nonbinding Principles Matter

The question might be legitimately asked, if these principles are not binding, of what value are they? Do they protect investors in any meaningful way from arbitrary or capricious actions by host or home governments? Given that governments are not bound by the principles and therefore they would have no standing in domestic law, violations would not be subject to challenges in domestic courts. Likewise, it is hard to conceive of a government being willing to enter into arbitration of a dispute involving the alleged breach of one of the APEC principles under the international rules established by the International Centre for the Settlement of Investment Disputes (an agency of the World Bank) or the United Nations Commission on International Trade Law. In a legal sense, therefore, the principles provide no protection.

The principles are of value, however, if governments in the APEC region act to bring national law and policy into conformity with them or even decide that the *de facto* exercise of law and policy should observe the spirit of the principles. Western lawyers might feel uneasy with the rather imprecise language of the principles. It should be noted, however, that the legal traditions in many of the East Asian nations are for the letter of the law to be somewhat loosely or even ambiguously stated but for the law to be interpreted according to rule of reason. Also, the East Asian approach to dispute settlement typically emphasises informal resolution of conflict where neither party necessarily "wins" or "loses," but where both parties agree that the settlement is fair. Such an approach requires a common understanding with respect to what is fair. The investment principles can contribute to the establishment of such an understanding in the area of national policy towards direct investment.

These investment principles are an important element of APEC's trade and investment facilitation program. As stated, they are meant to be aspirational and to establish norms that APEC can work towards achieving as a region. A guide to the investment regimes of APEC members has

already been released in order to promote the transparency of investment policies in the region. APEC's work on investment cannot and should not stop here. The current exercise has been one of raising the credibility of APEC members' policies towards foreign investment and as such should be viewed as a pragmatic step towards further investment liberalisation.

The nonbinding approach adopted by APEC has proved to be a valuable experience for many of its less developed members. They have now been introduced to foreign investment issues at a regional level and in the process have been exposed to the views of other members on foreign investment policy issues in what has amounted to a negotiating forum.

Investment liberalisation can be effected in three different ways: unilaterally, bilaterally and multilaterally. But ultimately, investment must be included in the World Trade Organisation agenda where developing countries can have input into the process. The APEC investment principles should not be judged against the standard of a regional investment agreement, but as a means of advancing investment liberalisation at all three levels.

The next step in the investment facilitation program must include the involvement of the private sector. As we have stated above, a nonbinding approach does not deliver the same positive signal to investors as would binding commitments. A consultation process with the private sector must be launched in order to determine whether the level of discipline and standards proposed by APEC governments is adequate to bolster investor confidence in the region. If the private sector concludes that the principles fall short of their expectations, APEC will have to continue to work towards raising the standards and norms of foreign investment policies in the region. After all, it is private-sector firms that have driven the growth in the region and who seek a more stable and open regional investment environment. It is vital to continued high economic performance that these goals be met.

Bijit K. Bora is a lecturer in Economics at the Flinders University of South Australia. Edward M. Graham is a senior fellow at the Institute for International Economics in Washington, D.C. The views expressed in this paper are those of the authors and not necessarily those of The Asia Foundation.

The current exercise has been one of raising the credibility of APEC members' policies towards foreign investment and as such should be viewed as a pragmatic step towards investment liberalisation.

APEC NONBINDING INVESTMENT PRINCIPLES*

In the spirit of APEC's underlying approach of open regionalism; recognising the importance of investment to economic development, the stimulation of growth, the creation of jobs, and the flow of technology in the Asia-Pacific region; emphasising the importance of promoting domestic environments that are conducive to attracting foreign investment, such as stable growth with low inflation, adequate infrastructure, adequately developed human resources, and protection of intellectual property rights; reflecting that most APEC economies are both sources and recipients of foreign investment; aiming to increase investment, including investment in small and medium enterprises, and to develop supporting industries; acknowledging the diversity in the level and pace of development of member economies as may be reflected in their investment regimes, and committed to ongoing efforts towards the improvement and further liberalisation of their investment regimes; without prejudice to applicable bilateral and multilateral treaties and other international instruments; and recognising the importance of fully implementing the Uruguay Round TRIMs Agreement, APEC members aspire to the following nonbinding principles:

TRANSPARENCY	Member economies will make all laws, regulations, administrative guidelines and policies pertaining to investment in their economies publicly available in a prompt, transparent, and readily accessible manner.
NONDISCRIMINATION BETWEEN SOURCE ECONOMIES	Member economies will extend to investors from any economy treatment—in relation to the establishment, expansion and operation of their investments—that is no less favourable than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.
NATIONAL TREATMENT	With exceptions as provided for in domestic laws, regulations, and policies, member economies will accord to foreign investors—in relation to the establishment, expansion, operation, and protection of their investments—treatment no less favourable than that accorded in like situations to domestic investors.
INVESTMENT INCENTIVES	Member economies will not relax health, safety, and environmental regulations as an incentive to encourage foreign investment.
PERFORMANCE REQUIREMENTS	Member economies will minimize the use of performance requirements that distort or limit expansion of trade and investment.
EXPROPRIATION AND COMPENSATION	Member economies will not expropriate foreign investments or take measures that have a similar effect, except for a public purpose and on a nondiscriminatory basis, in accordance with the laws of each economy and principles of international law, and against the prompt payment of adequate and effective compensation.
REPATRIATION AND CONVERTIBILITY	Member economies will further liberalise towards the goal of the free and prompt transfer of funds related to foreign investment, such as profits, dividends, royalties, loan payments and liquidations, in freely convertible currency.
ENTRY AND SOJOURN OF PERSONNEL	Member economies will permit the temporary entry and sojourn of key foreign technical and managerial personnel for the purpose of engaging in activities connected with foreign investment, subject to relevant laws and regulations.
REMOVAL OF BARRIERS TO CAPITAL EXPORTS	Member economies accept that regulatory and institutional barriers to the outflow of investment will be minimised.
AVOIDANCE OF DOUBLE TAXATION	Member economies will endeavour to avoid double taxation related to foreign investment.
INVESTOR BEHAVIOR	Acceptance of foreign investment is facilitated when foreign investors abide by the host economy's laws, regulations, administrative guidelines and policies, just as domestic investors should.
SETTLEMENT OF DISPUTES	Member economies accept that disputes arising in connection with a foreign investment will be settled promptly through consultations and negotiations between the parties to the dispute or, failing this, through procedures for arbitration in accordance with members' international commitments or through other arbitration procedures acceptable to both parties.

*As agreed by APEC Ministers, Jakarta, November 1994



DECEMBER 1994

CAPA Report No. 18

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THE ASIA FOUNDATION'S CENTER FOR ASIAN PACIFIC AFFAIRS

TRADE, ENVIRONMENT, AND APEC: Imperatives and Benefits of Regional Cooperation

Lyuba Larsky and Jane Drake-Brockman

In recent years, intense public interest in environmental issues has led to a greening of world politics. The Asia-Pacific, like other regions, will be deeply affected by this, not least through impacts on trade and investment. Asian response to environmental issues will generate new imperatives and opportunities for regional cooperation within the institutional framework of the Asia Pacific Economic Cooperation (APEC) forum.

One crucial area for cooperation is the set of issues that lie at the interface between trade and environment policies. At a recent workshop entitled "Trade and Environment in the Asia-Pacific: Prospects for Regional Cooperation," regional researchers explored for the first time the contours of that interface.¹ At the most fundamental level, the trade-environment agenda is about charting and navigating a path to sustainable development in the context of economic integration. For APEC countries in particular, rapid economic growth is heavily dependent on trade and foreign investment. Environment policies which impede economic openness could dampen economic growth and block efficient resource use. Moreover, in some parts of the Asia-Pacific, poverty itself creates environmental degradation.

On the other hand, the ecological, financial, and social costs of environmentally unregulated economic growth will be staggering, not only for the region but for the world. While environmental regulation is under the purview of national governments, Asian-Pacific economies and ecosystems are heavily interdependent. Coupled with global diplomatic pressures, this regional interdependence suggests that there are both imperatives and benefits in developing regional approaches to trade and environment.

APEC offers a fruitful arena in which to develop cooperative, yet diverse approaches to trade-environment issues. APEC membership includes a wide range but relatively small number of countries. Moreover, economic, political, and ecological interests tend to be more pronounced and concentrated regionally than globally. In particular, APEC cooperation on trade and environment could both reduce the likelihood of fractious regional environ-

ment-related trade disputes and contribute to the multilateral work already underway.

RESPONDING TO GLOBAL TRADE-ENVIRONMENT DIPLOMACY

One set of imperatives for regional trade-environment cooperation stems from the fact that environmental issues have become central concerns of global trade diplomacy. Trade-environment work programs are being pursued by the Commission on Sustainable Development, UNEP, and UNCTAD, as well as the GATT, the OECD and the North American Commission for Environmental Cooperation.

Environmental provisions are also increasingly likely to be part of bilateral trade diplomacy, especially with the United States and the European Union. Setting a significant international precedent, environmental provisions and side agreements were incorporated in the North American Free Trade Agreement (NAFTA). In June 1993 OECD countries agreed to procedural guidelines aimed at making national trade and environmental policies mutually supportive. One guideline subjects trade policies and trade agreements to environmental assessment.

Environmental issues have also moved into the mainstream in the GATT. In April 1994 ministers from more than 100 countries met in Marrakesh to conclude the Uruguay Round of multilateral trade talks. They also agreed to establish the Committee on Trade and Environment within the new World Trade Organization, which, given requisite ratification, would supersede the GATT in 1995. The preamble to the agreement establishing the WTO describes its overarching goal as "expanding the production and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development . . . in a manner consistent with respective needs and concerns at different levels of economic development."

GATT initiatives suggest the beginning of a new chapter in multilateral trade negotiations. Incorporating environmental objectives will require changes in and additions to global trade

rules, especially those governing production process standards.

A global framework will be slow in evolving. In the meantime, there will be continuing domestic pressure on national governments, especially in Europe and North America, to enact trade restrictions in support of environmental objectives. Examples of unilateral "trade-related environment measures" (TREMs) include import restrictions on tropical timber, dolphin-unfriendly tuna, and illegal wildlife.

Conflicts run deep between countries of the North and South, as well as between environmentalists and the trade policy community, over whether and when the use of TREMs might be justified. Trade advocates fear that TREMs will be used to increase protection. Environmentalists fear that without the prodding of TREMs, environmental protection will be compromised.

Some APEC members, such as the United States, have enacted TREMs while others, such as Mexico and Chinese Taipei, have been targets. Rising environment-related trade tensions could jeopardize the larger APEC economic cooperation agenda. Moreover, some environmental groups oppose unregulated trade liberalization per se on the grounds that it promotes unsustainable levels of production and consumption, and that it undermines domestic regulatory authority.

APEC countries will need to define their own interests and needs in both creating and responding to an emerging multilateral framework.

COSTS OF NONCOOPERATION

A second imperative for regional trade-environment cooperation stems from the high costs of noncooperation. Intense intraregional competition for export markets and direct foreign investment could act as a drag on the political will required to raise and enforce environmental standards at a national level. Without environmental constraints, rapid economic growth will generate a large and in some cases irreversible drawdown of ecological assets.

At a recent conference organized by the Asian Development Bank, experts concluded that Asia is fighting a losing battle against rapid loss of terrestrial and marine biodiversity. Despite recent efforts, more than 70 percent of the region's natural vegetation cover has been lost. Marine preservation lags far behind efforts to conserve forests. Other environmental costs of economic growth include widespread terrestrial, marine, riverine, and air pollution, especially from toxic wastes and agro-chemicals. The financial costs of clean-up will be higher, perhaps far higher, than the costs of pollution prevention.

Regional cooperation would aim to promote increased and more effective environmental commitments by developing common environment management frameworks. By working together, APEC countries could reduce or eliminate competitive pressures to degrade the environment for the sake of rapid economic growth. And they could help channel economic growth toward environmentally sustainable technologies, practices, and industries. Cooperation could also target particular trade-related environment problems, such as the region's extensive illegal wildlife trade and the widespread coastal destruction generated by shrimp aquaculture.

Besides the costs of environmental degradation, noncooperation raises costs associated with acquiring information and adapting production processes in response to differing national requirements. Convergence in national approaches to environmental policy would reduce the transaction costs of trade, promoting further regional economic integration. If convergence tended toward stronger rather than weaker environment commitments, it could also promote more ecologically sustainable development.

MANAGING DIVERSITY WITHIN COMMONALITY

Economic integration generates pressures for convergence or even harmonization of environmental standards. Harmonization, however, is not necessarily optimal. Countries and regions within countries are enormously diverse ecologically, not to mention culturally, economically, and politically.

Ecological diversity suggests that appropriate environmental micromanagement requires localized decisionmaking. Social diversity means that people in different places face different environmental risks, have different environmental priorities, and possess different capabilities to restore or conserve environmental assets. Globally, regionally, or even nationally harmonized standards may promote commerce but do little to address crucial environmental issues.

Further, international or regional harmonization tends to follow the standards set by the largest markets. The greater the social and ecological gaps between countries, the more likely that harmonized standards will reflect the concerns and preferences of the richer and more powerful.

The central problem from an environmental perspective is the simultaneous and conflicting need for cooperative but diverse ecological management regimes. Resolving this dilemma will require the creation of intergovernmental management frameworks flexible enough to respect and promote ecological and social diversity. Such frameworks would aim to move toward conver-

APEC cooperation on trade and environment could both reduce the likelihood of fractious regional environment-related trade disputes and contribute to the multilateral work already underway.

gence of management principles, guidelines, and methodologies.

For example, rather than uniform standards, countries could work toward adopting common and transparent standard-setting methodologies, such as social and environmental risk assessment. With common methodologies in place, trading partners could trust that environmental regulations were neither covert trade barriers nor a subsidy to irresponsible domestic producers. With greater trust, nations could adopt a policy of mutual recognition of diverse environmental standards.

SECTORAL ENVIRONMENTAL APPROACHES

One possible approach to the "diversity within commonality" problem might be to establish common environmental guidelines in particular sectors. The aim would be to specify environmental goals and set parameters for environmental management, including guidelines for environmental and social impact assessment and the use of economic instruments such as user charges, green taxes, subsidies, and tradeable emissions permits. Sectoral guidelines could also promote enforcement strategies based on market instruments such as licensing and labeling. A sectoral approach would facilitate the design of complementary policies to mitigate any environmental degradation that might be expected to arise from trade reform.

The sectoral approach might be especially effective for resource-intensive sectors. Tourism, for example, is the fastest growing industry in the region. Without a common floor for environmental management, regional competition could undermine the long-term value of tourism assets. A set of common guidelines could create a broad framework for environmental responsibilities, including environmental impact assessment, biodiversity and waste management plans, and environment loading. Micromanagement would be left to national and/or local governments.

Agriculture might be another sector in which broad environmental guidelines would help to promote sound management in the context of trade openness. A cooperative sectoral approach, for example, could assist in developing effective approaches to minimizing resource inputs and conserving crop and soil biodiversity, especially in combination with resource input subsidy reforms.

A key advantage of a sectoral approach is that policies can be designed around specific environmental goals. Discussion of environmental issues in relation to agriculture, for example, could have addressed one of the most important but ignored environmental impacts of the NAFTA agreement—the rapid displacement of Mexican corn farmers, which threatens Mexican crop biodiversity.²

In practice, trade negotiations are often structured at a sectoral level. Where relevant, jointly agreed upon environmental guidelines could facilitate the integration of environmental concerns within regional trade discussions regarding liberalization in particular sectors.

TOWARDS AN APEC TRADE-ENVIRONMENT AGENDA

An APEC agenda on trade and environment should have two broad and integrated components. On the one hand, it should develop mechanisms to mitigate and mediate potential conflicts between APEC nations arising from differences in environmental commitments. On the other hand, it should promote cooperation in developing innovative approaches to regional environmental management. The overarching aim of regional cooperation should be to seek the best, most constructive ways to protect and enhance the environment in the Asia-Pacific in the context of trade openness and sustained economic growth.

APEC environmental cooperation is at a very early stage. At their first meeting in March 1994, APEC environment ministers called for the integration of environmental objectives into economic decisionmaking, both by individual member countries and within APEC's two committees and ten working groups. They also developed a broad framework of principles for integrating economy and environment in APEC.

In August 1994 APEC environment experts meeting in Chinese Taipei prepared the "Summary Action Plan for Integrating Environmental Considerations into APEC." The primary recommendation is that APEC's two committees and ten working groups consider expanding and harmonizing the use of economic instruments.

The second report of APEC's Eminent Persons Group, also presented in August, identified trade and environment issues as a "key facilitation issue" for APEC. The report recommended that APEC advance acceptance of the principle of internalizing environmental costs. It also recommended the gradual convergence of environmental standards in the region, taking into account differences in levels of development. (We would emphasize that harmonization should also be constrained by ecological diversity.) Finally, the report stressed that measures to protect the environment should not be used as covert trade barriers.

GUIDING PRINCIPLES ON TRADE AND ENVIRONMENT

One very positive step toward an APEC trade-environment agenda would be for APEC to develop a set of guiding principles on trade and environment. Suggested principles might be:

- Trade-Environment Integration: Trade and investment policies should respect and main-

The overarching aim of regional cooperation should be to seek the best, most constructive ways to protect and enhance the environment in the Asia-Pacific in the context of trade openness and sustained economic growth.

A simultaneous commitment to trade openness and environmental responsibility presents APEC with new challenges and opportunities. The sooner APEC governments move to meet the challenge, the more room they will have to undertake creative and regionally appropriate initiatives.

tain the environmental integrity of regional ecosystems. This suggests that the design and implementation of trade and investment policies and agreements take environmental impacts into account.

- **Efficiency of Resource Use:** Trade, development, and environmental policies should increase the efficiency of resource use. This suggests that APEC governments give priority to liberalizing trade and reducing resource subsidies in those sectors where there are also net environmental benefits.
- **Internalization of Environmental Costs:** Governments should enact and enforce appropriate domestic environmental policies which aim to internalize environmental costs.
- **Intergovernmental Cooperation:** Regional intergovernmental dialogue and cooperation on environmental issues should be enhanced, consistent with the principle of subsidiarity.³ Governments should refrain from the unnecessary use of trade-restrictive environmental measures. Where used, trade measures should pass the tests of necessity and proportionality, taking into account the "polluter pays" and precautionary principles and the concept of life-cycle management. Measures undertaken should be the least trade-restrictive of feasible environmental measures. Trade-restrictive measures should also be transparent, nondiscriminatory, and consistent with the principle of national treatment.
- **Capacity-Building:** Trade and investment policies should aim to increase national capacities for environmental management through technology transfer, human resource development, and technical assistance.
- **Scientist and Stakeholder Input:** Greater opportunities should be established for consultation with scientific experts, especially ecological scientists, and with regional stakeholders in the design and implementation of regional trade, development, and environment policies. Stakeholders include community, consumer, and environment groups, as well as businesses, labor unions, farmers, and others.

INSTITUTIONAL EVOLUTION

APEC's institutional capacity will need to be enhanced to allow for greater cooperation on environmental issues. Environment officials should have more regular input into APEC proceedings. Environmental issues should be diffused throughout all APEC committees and working groups. Also, some environmental oversight capacity will be needed. To build scientific capacity, an APEC Environmental Policy and Science Group could be established to facilitate the exchange of ideas and

information. Over the longer term, it might be useful for APEC to consider the formation of an APEC Commission for Environmental Cooperation.

APEC will also need to consider how to create opportunities for increased stakeholder input and public access, especially at the national but also at the regional level. One approach at the regional level would be to establish an advisory body similar to the Pacific Business Forum. Another approach is to expand the "official observer" status to nongovernmental organizations.⁴ Still another approach, proposed by the Canadian government, is to create an Asia-Pacific Roundtable on Environment and Economy. The Roundtable would develop multisectoral dialogues on a broad range of environmental issues. Another proposal might be for each committee and working group to hold public hearings as part of its ongoing work program.

Finally, APEC should establish an intergovernmental dispute mediation mechanism. The scope of such a mechanism would extend beyond trade-related environmental disputes to cover a broad range of potential trade conflicts. On the trade-environment front, however, the mechanism should be guided by trade and environment principles like those articulated above.

Linkages between trade and environment are multifaceted, complex and, in diplomatic terms here to stay. A simultaneous commitment to trade openness and environmental responsibility presents APEC with new challenges and opportunities. The sooner APEC governments move to meet the challenge, the more room they will have to undertake creative and regionally appropriate initiatives.

¹ The workshop was held at the East-West Center in September 1994. An edited volume of workshop papers is available from Nautilus Institute, 746 Ensenada Ave, Berkeley CA 94707 USA.

² James Boyce, "NAFTA: Wiping Out 7000 Years of Biodiversity," Nautilus Bulletin, Berkeley, December 1993.

³ Subsidiarity means that supranational environmental agreements should be sought only when necessary as an addition to policy action at the individual country level.

⁴ Observer status has been granted to only two government bodies, the ASEAN Secretariat and the South Pacific Forum, and to the tripartite (government, academic, business) Pacific Economic Cooperation Council.

Lyuba Zarsky is the co-director of the Nautilus Institute for Security and Sustainable Development in Berkeley, California. She currently serves on the Trade and Environment Policy Advisory Committee of the U.S. Trade Representative. Jane Drake-Brockman is a visiting fellow at the Centre for International Economic Studies, University of Adelaide, on leave from the Australian Department of Foreign Affairs and Trade. The views expressed in this report are those of the authors and not necessarily those of The Asia Foundation.

file copy - MB

February 22, 1995

Mr Alan Gelb

WDR - 1996 : Comments on your outline of Feb 6

Alan,

Michael has asked that I send you a set of "collected" comments on the outline, which are really extensions of his own initial reactions on reading the outline.

The main issue is that, though it clearly shows the depth of your knowledge on the transition, the outline lacks a "backbone," i.e. a structure from which the main messages will flow. A WDR is after all a report centered on a few key themes with a limited set of "punchy" messages and/or conclusions (lessons).

A WDR on transition should bring-out the discontinuity in jumping from plan to market. Transition economies are not merely an extreme case of the global trend towards liberalization. They are in a category by themselves. A WDR on transition should set out clearly the issues which are unique to the transition (though recognizing other issues which may have a bearing to other economies thus widening the policy content of the report to other developing countries). The report should deal only briefly with the origins of the "crisis in socialism." But it should answer at the outset the question of what is it about a planned economy that makes it imperative to make the jump which is the transition (China included). The story-line should emerge from the main changes to be accomplished. Consider the following five themes:

1. *Ownership*: Social ownership of the means of production went a lot further than magnifying the "principal agent problem," though this in itself is a major stumbling block in any model of "scientific socialism." It destroyed the legal and institutional means of an efficient transactions-technology. The social cost of this loss is enormous.
2. *Allocation*: Replacing the price system with the plan did not produce an efficient "dual" based on cost-minimization but a horribly inefficient system with grossly distorted relative prices; indeed with idiosyncratic pricing targeted to the "power" or privilege of the consumer. Prices reflected political priorities not scarcity value (Gaidar once said something to the effect that: "Russians have years of experience in political bargaining -- for ballistic missiles and for a pair of shoes").
3. *Financial capital*: Ex-post redistribution of "surpluses and losses" destroyed the circulation system of the economy (means of payments) and condemned the system to an adversarial game between central planners (without information but with resources) and enterprise managers (with information and seeking resources). The end was predictable: institutionalized corruption and the complete loss of outside arbiters with

any capacity to gauge creditworthiness/rates of return on investment (viz.: the huge accumulation of stocks). As ideology replaced analysis, the "Alice in Wonderland" world of planners who pretended to believe in efficiency through economies of scale and managers-and-local-bosses who milked the system for personal-local profit led to a stultifying loss of productivity. Diminishing returns on investment was the kiss-of-death to the system (viz. Fischer/Easterly) -- as finance atrophied into a banking system used to (a) legitimize ex-post the use of resources; (b) transfer resources from the population to the government. With accumulating losses, the build up in the monetary overhang was inevitable.

4. *Labor and human capital.* As labor no longer was a "commodity" the distinction between work and non-work truly became irrelevant, except as a device to get allocations from the educational, social and housing system, and to gain access to political power. The economic incentive regime collapsed helped by an almost complete separation between labor performance and the means of access to educational and social services. Social inequalities (deep though "measured" as small) were reproduced through grossly discriminatory access to educational opportunities (many of which bore no relation to the development of better skills, e.g.: the proliferation of "master's degrees" in such things as the marketing of tropical flowers) and access to entry level jobs in the closely guarded internal labor markets in the bureaucracy and enterprises. The demand for labor was elastic at the given wage with permanent excess demand given a downward sloping supply schedule.
5. *Civic and political capital.* The single party system combined with political repression destroyed the rich web of inter-personal community relations which are the foundations of civic life and political activism linked to adequate supervision over the use of public moneys. (Contrast rural China.) What survived was the party and clandestine movements: both with an in-built tendency to secrecy, corruption and violence.

This list of issues may need revision and the description surely needs to be sharpened. But something like it is a useful tie to the themes of the report -- which must be defined as quickly as possible. For example:

1. Establishing property rights and financial discipline. Privatization both in the narrow sense of change in ownership and in the broader sense of autonomy over assets, resource allocation, trade and prices. Waste, unfinanceable social systems with inadequate financial infrastructure (soft budgets) lead to inflation, arrears and further disintegration of corporate governance.
2. Sequencing and synchronization of reforms. Contrast East Germany's "big bang" (stabilization + liberalization + privatization + immediate incorporation of new legal-institutional framework + huge "inflows" of foreign "aid") with the Czech Republic (stabilization $\Rightarrow$ liberalization $\Rightarrow$ privatization) with Russia (privatization $\Rightarrow$ liberalization $\Rightarrow$ stabilization (?)) and China (stabilization $\Rightarrow$ privatization (?) $\Rightarrow$ liberalization).

3. The lost generation. Myth of building a "better future" destroyed a generation of people whose savings have been lost (and cannot be recovered), whose work had little value (and possibly negative value added) and whose sustenance is now a major social and financial issue. Is the current size of the of the social system compatible with growth? If not, how can it be reformed?

Some other comments (by paragraph):

1.1: Very good; could flow into flaws of the system, crisis and motivation for report.

1.2: Should be replaced by main themes & messages.

2.1 - 2.3: Should be much shorter; focus on what went wrong and why: policies, programs and the legacy of misguided directions and failures.

The following sequence of chapters may have to be re-thought to bring out clearly the story-line of the report. Would be important to consider even at this early stage the use of (a) country examples; (b) lessons applicable to (i) other transition economies; (ii) developing economies more broadly.

I hope this is useful. Please send us your reactions. Michael will be in the office for the period March 6-29. Given your own travel schedule it would be good if you could arrange to have a meeting.

Thank you,

A handwritten signature in dark ink, appearing to read 'Paulo', with a long diagonal stroke above it.

Paulo

cc: Messrs Bruno (o/r), Squire, Baird.

THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 21, 1995	
NAME		ROOM. NO.	
Mr. Masood Ahmed		S-8-055	
Mr. Mark Baird		S-9-055	
Mr. Gregory Ingram		N-9-033	
Mr. Vinod Thomas		M-7-021	
Mr. Michael Walton		T-7-101	
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: EDI Major Products, CY95			
REMARKS:			
FROM Lyn Squire, Acting VP, DEC		ROOM NO. N-11-051	EXTENSION 36099

0908 *for*
cc - Director
THE WORLD BANK/IFC/ M.I.G.A.

OFFICE MEMORANDUM

95 FEB 21 PM 4:32

RECEIVED
DEVELOPMENT ECONOMICS
TOP SECRET ECONOMIST

Date: February 17, 1995

To: Mr. Michael Bruno, DECV

From: Jean-François Rischard, FPDVP *WR*

Extension: 80920

Subject: EDI Major Products, CY95

We are happy to have been of use to EDI, and we want to continue collaborating. As Ellyn Chaparro may have conveyed to the Advisory Group and with Vinod, my FPD colleagues and I are convinced that EDI is more than important for the Bank. In fact, many of the mainstream products of the Bank of the future are now in EDI; and we would like to collaborate more closely with EDI in the years to come.

I suggest we set up a "virtual EDI/FPD team" to help implement your agenda and come up with new products that respond to the quickly changing development agenda. If you agree, I will ask Ellyn to coordinate with FPD directors and to follow-up with Vinod and his management team.

Congratulations on a great agenda.

cc: Ellyn Chaparro, FPDVP
Vinod Thomas, EAPVP

The World Bank
Development Economics Department
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Room S-9035

Facsimile Transmittal Form

FAX No.: 202-477-0549

No. of Pages: 3
(including this page)

PHONE No.: 202-473-1107

DATE:

TO:

2/17
Mr. Lyn Squire

FAX No.:

FROM: Kate Oram

SUBJECT: multilateral Debt

Lyn, we just received this
Masood has copy. Let me know
if you want the paper.

Best

Kate

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: February 17, 1995

TO: Mr. Sven Sandström, Managing Director, EXC
Mr. Gautam S. Kaji, Managing Director, EXC

FROM: Mieko Nishimizu, Acting Vice President, FPR

EXTENSION: 80600

SUBJECT: Draft Cover Note on Multilateral Debt

1. Attached is a revised draft of the Cover Note to the joint Bank/Fund paper on multilateral debt based on your suggested approach. Mr. Linn has reviewed this draft and we have also incorporated suggestions from Mr. Masood Ahmed. Since the joint paper has been distributed to the Fund Board, we are attempting to distribute the Cover Note and the joint paper to the Bank's Board around the middle of next week.

2. We are also circulating this final draft of the Cover Note to concerned Vice Presidents, for their information.

cc: Messrs./Mmes. Stern, Frank, Bruno, Burki, Cheetham, Choksi, Einhorn, Jaycox
Muis, Shihata, McHugh, Malloch Brown

Messrs./Mmes. Linn (o/r), Donovan, Ahmed, Kamel, Bhattacharya, Rueda-Sabater, Jay

95 FEB 17 PM 6:24
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DEVELOPMENT ECONOMICS
ECONOMIST

From: The Acting President

February , 1995

The Joint Bank/Fund Paper On Multilateral Debt of the Heavily Indebted Poor Countries

Introduction

1. The debt difficulties of heavily indebted poor countries have long been a source of concern to the World Bank. For instance, the World Debt Tables of the past few years have cited the need for concerted action to reduce the debt burden of severely indebted low income countries (SILICs). More recently, the World Bank prepared a background paper for the seminar on "*External Finance for Low-Income Developing Countries: The Debt Dimension*," organized by the governments of Switzerland and Sweden in May, 1994. This was followed by a special Board seminar on July 1, 1994 and a pre-publication version of the paper "*Reducing the Debt Burden of Poor Countries, A Framework of Action*"¹ was made available at the time of the Annual Meetings, and the 1995 World Debt Tables contained a special chapter on the debt problems of SILICs.
2. Much of the attention on the debt problem of poor countries has been focused on official bilateral debt, given its dominant share in the overall debt of these countries. Following the initiative at the G-7 meeting in Naples to "improve the debt treatment of the poorest and most indebted countries," the Paris Club has announced new terms—the so-called Naples Terms—under which a 67 percent present value reduction in eligible debt or debt service will be accorded to countries with a per capita income of \$500 or less or a debt (in present value terms) to export ratio of 350 percent or more. The remaining rescheduling countries eligible for concessional treatment will be accorded a 50 percent reduction. Such treatment would be accorded on a case by case basis and only after a sufficient track record has been established under IMF monitored programs. The World Bank is prepared to support this initiative through its policy and analytical advice and above norm concessional finance as discussed below.
3. In parallel to these efforts to reduce the bilateral debt burden, increasing attention has been focused on multilateral debt. A number of proposals, from both official and non-governmental organizations, have been put forward regarding the multilateral debt of the poorest

¹ An updated version of this paper will be published shortly.



Record Removal Notice

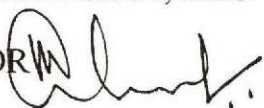
File Title Michael Bruno - Internal Chronological - January to February 1995		Barcode No. 30486492		
Document Date 02/17/1995	Document Type Memorandum			
Correspondents / Participants To: Suwan Pasugswad, Executive Director From: Michael Bruno				
Subject / Title FAEA 20th Annual Conference				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			

OFFICE MEMORANDUM

DATE: February 17, 1995

TO: Mr. Gautam Kaji, EXC

THROUGH: Lyn Squire, Acting Vice President, DEC 

FROM: Masood Ahmed, IECDR 

EXTENSION: 33800

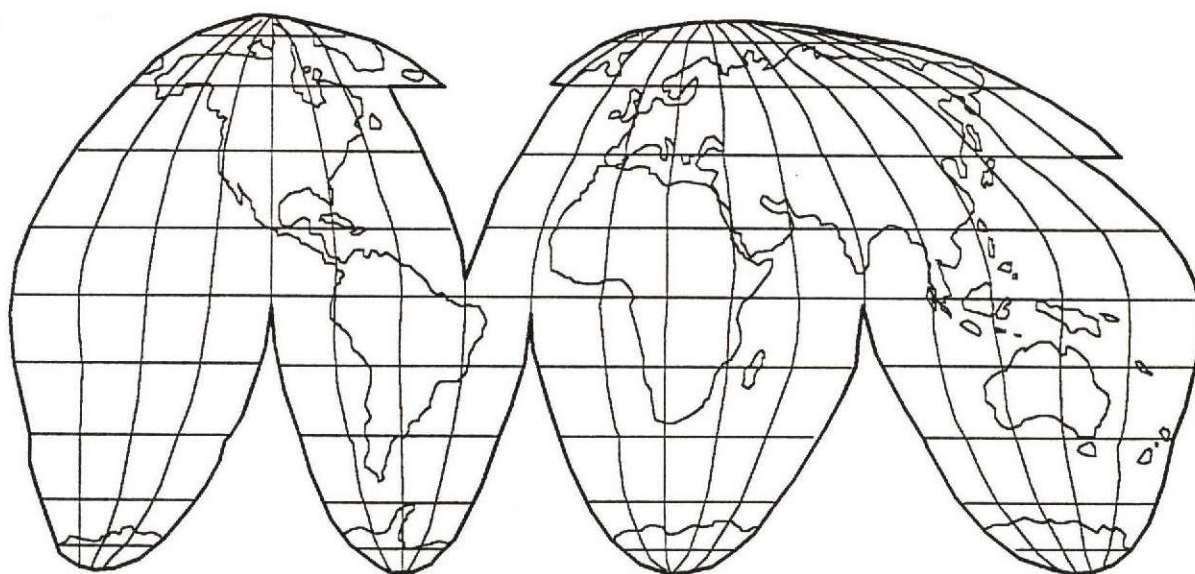
SUBJECT: **Global Economic Prospects and the Developing Countries, 1995**

1. I am pleased to attach for your review and approval a copy of the above report. The focus of this year's GEP is the integration of developing countries in the global economy ("globalization").
2. Earlier drafts of this report have been reviewed extensively within the Bank as well as by external reviewers. We have attempted to incorporate all major comments. A round of regional reviews of country-specific references and economic growth projections will be made once the full set of Unified Survey results is finalized. The projections in the report may alter as a result of this process--as well as through the final updating of 1994-95 numbers for the G-7 economies--but this is not likely to modify the main thrust of the report's analysis and conclusions.
3. A copy of the report is being sent in parallel to the Fund staff for their comments, especially in regard to the analysis and outlook for the industrial countries.
4. Following your approval, and the incorporation of any final updating changes, the report will be circulated to the Board on February 24, 1995. A Board seminar to discuss the report is scheduled for Monday, March 20.

Attachment

cc: Messrs./Mmes. Frank, Sandstrom, Kalantzopoulos (EXC); Shihata (LEGVP);
Thahane (SECVF)

Global Economic Prospects and the Developing Countries



February 1995

**International Economics Department
Development Economics
The World Bank**

Int - Choon

005

1.7.5

2 file.

THE WORLD BANK GROUP

Headquarters: Washington, D.C. 20433 U.S.A.

Tel. No. (202) 477-1234 • Fax (202) 477-6391 • Telex No. RCA 248423

95 FEB 14 AM 10:12

FACSIMILE COVER SHEET AND MESSAGE

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DEVELOPMENT ECONOMICS
1.7.5

DATE: February 13, 1995

NO. OF PAGES: two
(including cover sheet)

MESSAGE NO.: {}

TO: Mr. Nicholas Stern

DESTINATION FAX NO.: 713-386-110

Title: Chief Economist

Organization: European Bank for Reconstruction &
Development

City/Country: London, United Kingdom

FROM: Harry G. Broadman B63

DIVISIONAL FAX NO.: (202) 522-1784

Title: Senior Economist

Dept./Div. No.: 255/30

Dept/Div: Industry and Energy Division

Room No.: D7-099

Telephone: (202) 473-1312

SUBJECT: June Workshop on China SOE Reform

MESSAGE: Dear Mr. Stern:

Please find attached a letter from Nicholas Hope; the original is being mailed. I will be in touch by telephone.

Attachment

Nick already "cleared"
this with Michael

Transmission authorized by: Richard S. Newfarmer, Chief, EA2IE

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax no. listed above.

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

February 9, 1995

Mr. Nicholas Stern
Chief Economist
European Bank for Reconstruction & Development
1, Exchange Square
London EC2A 2EH,
United Kingdom

Dear Mr. Stern:

Chinese Enterprise Reform Workshop

The World Bank and China's State Economic and Trade Commission (SETC) are jointly conducting a workshop on "Assessing Policy Options on Chinese State Owned Enterprise Reform." The centerpiece of the workshop is a presentation of five papers on various aspects of enterprise reform. Each paper will be presented by a senior level Chinese policy official. I am writing to invite you to serve as a formal discussant of one of the Chinese-authored papers, probably the paper on "Reducing the Social Burdens of Enterprise and Establishing a Social Security System."

The Workshop will take place on June 8-9, 1995 in Beijing. I have asked Harry Broadman of my staff, who is managing this workshop, to contact you to discuss the details of this project.

I would be delighted if you can accept this invitation. We believe you can make a significant contribution.

Yours sincerely,



Nicholas C. Hope
Director
China and Mongolia Department
East Asia and Pacific Region

bcc: M. Bruno (DECVP); R. Stern (IENDR); H. Broadman (EA2IE); E. Barandiaran
(EA2CH); A. Hussain (Cons.)



Record Removal Notice

File Title Michael Bruno - Internal Chronological - January to February 1995		Barcode No. 30486492		
Document Date 02/10/1995	Document Type Memorandum			
Correspondents / Participants To: Faisal Al-Khaled, Executive Director From: Michael Bruno				
Subject / Title World Debt Tables 1994-95				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
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Dev Up Chm

039

February 9, 1995

95 FEB -9 PM 3:42

Note to Mr. Bruno.

RECEIVED
DEVELOPMENT ECONOMICS
DEPT OF AGRICULTURE

Michael,

As the attached note indicates, Frances Stewart has asked if I could be nominated by the Bank to the QEH "Advisory Board". It's not that I agree very often with Frances and her colleagues on development issues, but we disagree together enjoyably. If it's OK to have an operations rather than DEC person doing this, I would be quite interested.



Paul Isenman

cc: Joe Wood

Paul,

I have no problem with your being on the
Advisory Board of QEH if the two of you
desire it

Michael
2/10/95

~~Kate~~ - could Mr. Bruno sign this? Please send it back and

I will mail it off. Thanks and best regards,

Olivia D10-065

✓ 2/14
m

→ Lyn - could you initial form in B.
(P.I.'s office rec. orig. letters
from Preston's office "to handle".

I think Michael
already spoke to
you about this?

2/14
K

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

February 13, 1995

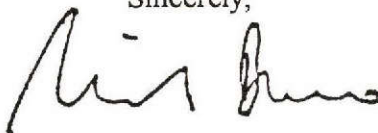
Mrs. Frances Stewart
Director
University of Oxford, Queen Elizabeth House
21 St. Giles
Oxford, OX1 3LA,
United Kingdom

Dear Mrs. Stewart,

Queen Elizabeth House Advisory Council

With reference to your letter dated January 30, to Mr. Preston, I am responding on his behalf to nominate Mr. Paul Isenman, Director, Country Department 1, South Asia Region, to serve on your Advisory Council. He will, of course, be doing this in a personal, rather than institutional capacity.

Sincerely,



Michael Bruno
Vice President & Chief Economist
Development Economics

University of Oxford
Queen Elizabeth House
International Development Centre

Paul.

Do you think you
could get yr President
to nominate you?

*With Compliments
from the Director*

or at the very
least to see that
it's on the right
track?

Best wishes,

Frances.

21 St Giles
Oxford OX1 3LA

Telephone 0865-2-73600
Fax 0865-2-73607

University of Oxford
QUEEN ELIZABETH HOUSE
International Development Centre

Telephone 01865-2-73600
Direct line 01865-2-
Fax 01865-2-73607
E-Mail qeh@vax.ox.ac.uk

RECEIVED
JAN 28 - 8 AM 9:23
SA3DR

21 St Giles
Oxford
OX1 3LA

30 January 1995

Mr Lewis T Preston
President
The World Bank
1818 H Street NW
WASHINGTON
DC 20433
USA

Dear Mr Preston

Queen Elizabeth House Advisory Council

Queen Elizabeth House is the department for Development Studies at the University of Oxford. The major functions of the department are research, teaching and providing a centre for visitors, especially from the Third World. I am enclosing our most recent Annual Report which summarises what we are and do.

We are setting up an Advisory Council, as part of some important changes in our constitution. The functions of the Advisory Council are laid out in the attached sheet.

I am writing to you now to invite you to nominate someone to be a member of our Advisory Council. Your nomination may, but need not, consist of a person working inside your own institution. We do not expect membership to be a heavy duty. It will involve occasional meetings and consultations about our programmes; and help in networking with activities and people outside Oxford.

We would very much value such an association with the The World Bank and the linkages it would foster.

With best wishes

Yours sincerely



Frances Stewart
Director

encs

University of Oxford

Advisory Council for Queen Elizabeth House

Extract from University Statutes

There shall be a department called Queen Elizabeth House, the purposes of which shall be:

(a) to carry out teaching and research in Development Studies, including administrative, agricultural, economic, historical, legal, political, social, and other matters affecting the peoples of the Commonwealth and other overseas countries;

(b) to encourage and foster academic co-operation in the field of Development Studies between the University on the one hand and officials, academics, and others in the Commonwealth and elsewhere on the other, and to that end to provide such persons with a centre for study and research in Oxford;

(c) to assist such persons to obtain access to the academic resources of other institutions in the University and elsewhere, and generally to offer its services for the purpose of maintaining contact between such persons and institutions and other organisations as are concerned with the purposes of the House.'

2. Advisory Council for Queen Elizabeth House

1. There shall be an Advisory Council for Queen Elizabeth House, the duties of which shall be:

(a) to assist the Inter-faculty Committee for Queen Elizabeth House and the Director of Queen Elizabeth House in achieving the purposes of Queen Elizabeth House, as defined in 1 of this section, with particular reference to purposes (b) and (c) therein;

(b) to provide guidance on general directions for research in light of the needs of developing countries and the relations between developed and developing countries;

(c) to assist in fund-raising activities.

2. The Advisory Council shall consist of ten appointed members who shall be persons having special knowledge of

developing countries. No member of the Advisory Council, unless appointed by the Hebdomadal Council or co-opted as provided below, shall be the holder of a post in the University or in a college or other society. The members shall be:

- (1) one person appointed by Her Majesty's Government;
- (2) one person appointed by an academic institution, other than the University, specialising in the study of developing countries and of issues relating to them, in the United Kingdom or another developed country;
- (3), (4) two persons appointed by international organisations specialising in work relating to developing countries;
- (5) one person appointed by a non-governmental organisation specialising in work relating to developing countries;
- (6), (7) two persons appointed by the Hebdomadal Council;
- (8)--(10) three persons elected by the Director and the academic post-holders in the department, the senior members of the University formally affiliated to the department, and senior members of the research or teaching groups formally associated with the department, of which three persons at least one shall be selected from the business community, and at least one from among the staff of an academic institution in a developing country.

The Advisory Council shall have power to co-opt up to four additional members, of whom at least half shall not be holders of posts in the University or in a college or other society. The specific appointing bodies under (1)--(5) above shall be determined by the Inter-faculty Committee for Queen Elizabeth House from time to time, in consultation with the Director of Queen Elizabeth House. Members shall hold office for a period of three years and shall be re-eligible for one further period of office after their initial period. The Advisory Council shall choose from among its members the person who is to chair it. It shall normally meet once a year. Some of its functions may be carried out by means of correspondence and visits by individual members to Queen Elizabeth House. The agenda for the meetings shall be set by the person chairing

the Advisory Council, in consultation with the Director.

The Director of Queen Elizabeth House and those members of the Inter- faculty Committee for Queen Elizabeth House who shall have been elected under the provisions of 3, cl. 1 (8)--(10) below shall be invited to attend the meetings of the Advisory Council.'

051

February 9, 1995

Note to Mr. Bruno.

Michael,

95 FEB 10 PM 2:04

RECEIVED
DEVELOPMENT ECONOMICS
ECONOMIST

As the attached note indicates, Frances Stewart has asked if I could be nominated by the Bank to the QEH "Advisory Board". It's not that I agree very often with Frances and her colleagues on development issues, but we disagree together enjoyably. If it's OK to have an operations rather than DEC person doing this, I would be quite interested.



Paul Isenman

cc: Joe Wood

Michael,

I support this idea, if it is OK
with you.

Joe
2/9

University of Oxford
Queen Elizabeth House
International Development Centre

Paul.

Do you think you
could get your President
to nominate you?

*With Compliments
from the Director*

Or at the very
least to see that
it's on the right
track?

Best wishes,

Frances.

21 St Giles
Oxford OX1 3LA

Telephone 0865-2-73600
Fax 0865-2-73607

University of Oxford
QUEEN ELIZABETH HOUSE
International Development Centre

Telephone 01865-2-73600
Direct line 01865-2-
Fax 01865-2-73607
E-Mail qeh@vax.ox.ac.uk

RECEIVED
FEB -8 AM 9:23
SA3DR

21 St Giles
Oxford
OX1 3LA

30 January 1995

Mr Lewis T Preston
President
The World Bank
1818 H Street NW
WASHINGTON
DC 20433
USA

Dear Mr Preston

Queen Elizabeth House Advisory Council

Queen Elizabeth House is the department for Development Studies at the University of Oxford. The major functions of the department are research, teaching and providing a centre for visitors, especially from the Third World. I am enclosing our most recent Annual Report which summarises what we are and do.

We are setting up an Advisory Council, as part of some important changes in our constitution. The functions of the Advisory Council are laid out in the attached sheet.

I am writing to you now to invite you to nominate someone to be a member of our Advisory Council. Your nomination may, but need not, consist of a person working inside your own institution. We do not expect membership to be a heavy duty. It will involve occasional meetings and consultations about our programmes; and help in networking with activities and people outside Oxford.

We would very much value such an association with the The World Bank and the linkages it would foster.

With best wishes

Yours sincerely



Frances Stewart
Director

encs

University of Oxford

Advisory Council for Queen Elizabeth House

Extract from University Statutes

There shall be a department called Queen Elizabeth House, the purposes of which shall be:

(a) to carry out teaching and research in Development Studies, including administrative, agricultural, economic, historical, legal, political, social, and other matters affecting the peoples of the Commonwealth and other overseas countries;

(b) to encourage and foster academic co-operation in the field of Development Studies between the University on the one hand and officials, academics, and others in the Commonwealth and elsewhere on the other, and to that end to provide such persons with a centre for study and research in Oxford;

(c) to assist such persons to obtain access to the academic resources of other institutions in the University and elsewhere, and generally to offer its services for the purpose of maintaining contact between such persons and institutions and other organisations as are concerned with the purposes of the House.'

2. Advisory Council for Queen Elizabeth House

1. There shall be an Advisory Council for Queen Elizabeth House, the duties of which shall be:

(a) to assist the Inter-faculty Committee for Queen Elizabeth House and the Director of Queen Elizabeth House in achieving the purposes of Queen Elizabeth House, as defined in 1 of this section, with particular reference to purposes (b) and (c) therein;

(b) to provide guidance on general directions for research in light of the needs of developing countries and the relations between developed and developing countries;

(c) to assist in fund-raising activities.

2. The Advisory Council shall consist of ten appointed members who shall be persons having special knowledge of

developing countries. No member of the Advisory Council, unless appointed by the Hebdomadal Council or co-opted as provided below, shall be the holder of a post in the University or in a college or other society. The members shall be:

- (1) one person appointed by Her Majesty's Government;
- (2) one person appointed by an academic institution, other than the University, specialising in the study of developing countries and of issues relating to them, in the United Kingdom or another developed country;
- (3), (4) two persons appointed by international organisations specialising in work relating to developing countries;
- (5) one person appointed by a non-governmental organisation specialising in work relating to developing countries;
- (6), (7) two persons appointed by the Hebdomadal Council;
- (8)--(10) three persons elected by the Director and the academic post-holders in the department, the senior members of the University formally affiliated to the department, and senior members of the research or teaching groups formally associated with the department, of which three persons at least one shall be selected from the business community, and at least one from among the staff of an academic institution in a developing country.

The Advisory Council shall have power to co-opt up to four additional members, of whom at least half shall not be holders of posts in the University or in a college or other society. The specific appointing bodies under (1)--(5) above shall be determined by the Inter-faculty Committee for Queen Elizabeth House from time to time, in consultation with the Director of Queen Elizabeth House. Members shall hold office for a period of three years and shall be re-eligible for one further period of office after their initial period. The Advisory Council shall choose from among its members the person who is to chair it. It shall normally meet once a year. Some of its functions may be carried out by means of correspondence and visits by individual members to Queen Elizabeth House. The agenda for the meetings shall be set by the person chairing

the Advisory Council, in consultation with the Director.

The Director of Queen Elizabeth House and those members of the Inter- faculty Committee for Queen Elizabeth House who shall have been elected under the provisions of 3, cl. 1 (8)--(10) below shall be invited to attend the meetings of the Advisory Council.'

OFFICE MEMORANDUM

DATE: February 9, 1995

TO: Distribution List

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Request for Nominations of Developing Country Participants for the
Seventh Annual Bank Conference on Development Economics, May 1-2, 1995

The Seventh **Annual Bank Conference on Development Economics (ABCDE)** will be held in Washington, D.C. on May 1-2, 1995. This conference series brings together international researchers, Bank staff, policy-makers and development practitioners to focus on topical issues in development policy.

The four themes of the 1995 conference are:

- **Revisiting Redistribution with Growth.** Albert Fishlow and Pranab Bardhan
- **Demographic Change and Development.** Peter Diamond and Nancy Folbre
- **Aid and Development.** Dani Rodrik, Elinor Ostrom, and Richard Cooper
- **Fiscal Decentralization.** Vito Tanzi and Rudolf Hommes

The conference will also feature a roundtable discussion on *Second Generation Issues of Transition*.

I am writing to seek your assistance and that of your staff in identifying a small number of researchers from developing countries to participate in the Conference and to contribute to the floor discussion in the sessions relating to their areas of expertise. We are particularly interested in younger researchers who may not have had previous direct, professional contact with the Bank.

Because we will be able to invite only a small number of participants, please do not discuss the conference with or make any commitments to the people you nominate. If we invite any of your nominees to participate, we will notify you about our decision.

A nomination form is attached. Please provide as complete details as possible to allow us to contact your nominees. In order to invite participants well in advance of the conference we would need to receive your nominations by March 10, 1995.

If you have any questions or comments, please call Gregory Ingram (31052) or Boris Pleskovic (31062).

Thank you for your assistance.

cc: Directors, Chief Economists, and Resident Representatives

Attachment

(Duplicate as necessary)

SEVENTH ANNUAL BANK CONFERENCE ON DEVELOPMENT ECONOMICS

May 1-2, 1995

World Bank, Washington, DC

Nomination form

The four themes of the Annual Bank Conference on Development Economics 1995 are:

- Revisiting redistribution with growth
- Demographic change and development
- Aid and development
- Fiscal decentralization

The conference will also feature a roundtable discussion on "Second Generation Issues of Transition."

Name _____

(Please print or type in full)

Specific areas of expertise _____

Position/occupation _____

Organization _____

Mailing address _____

E-mail address _____

Facsimile number _____

Office telephone _____

Home telephone _____

Telex number _____

Name of nominator _____

Department, division _____

Telephone extension _____

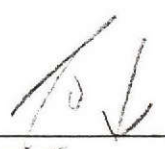
Please return your completed form to:

The Conference Coordinators, room N9-021

World Bank, 1818 H Street, NW, Washington, DC 20433

or facsimile number (202) 477-0955

THE WORLD BANK/IFC/M.I.G.A.

ROUTING SLIP		DATE: February 10, 1995	
NAME		ROOM NO.	
Mr. Michael Bruno		S 9033	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	SEE MY EMAIL
X	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
X	FOR SIGNATURE	☐	LET'S DISCUSS
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
Re: Annual Bank Conference on Development Economics, 95 Nominations for general participants			
REMARKS: Attached please find a copy of memo to be circulated to the directors, chief economists and res. reps. for your signature. 			
FROM: Boris Pleskovic		ROOM NO.: N 9037	EXTENSION: 31062

The World Bank
Washington, D.C. 20433
U.S.A.

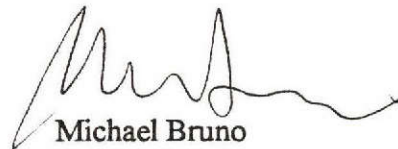
MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

February 10, 1995

Mr. S. Shahid Husain

Shahid:

As you know, an Advisory Committee has been assessing EDI's strategic direction. Please see attached a preliminary draft of recommendations based on the Committee's as well as previous work. I am sending this to you at this early stage as a background on personnel and redundancy implications.



Michael Bruno

Attachments

OFFICE MEMORANDUM

DATE: February 10, 1995

TO: Mr. Michael Bruno, Vice President, DEC

FROM: Vinod Thomas, Director, EDI

EXTENSION: 36300

SUBJECT: Relaunching the EDI

The World Bank's greatest contribution in the coming years will be in helping countries use effectively the lessons of policy reforms from around the world. The Economic Development Institute (EDI) is uniquely positioned to be the key link in the Bank for the synthesis and dissemination of best practices. The Institute has close ties to the countries, links to training institutes worldwide, the support of the Board and cofinanciers, and access to the Bank's knowledge base. But to realize its potential as global dissemination center, EDI must change and relaunch its agenda.

Three *changes in direction* will be fundamental. The first is a substantial change in EDI's focus from basic skills for selected audiences to policy lessons for a broader audience across the regions. The second is to forge closer links with the Bank that allows for a two-way flow of knowledge with countries. The third innovation involves flexible management practices that create more headroom to accommodate new product lines and quicker responsiveness.

These changes, while far reaching, are in keeping with the official statement at EDI's inception in 1955, which characterized the Institute as a place "where the participants will join an intensive seminar on the formulation of development policies and the organization and administration of development programs." The new directions also follow from the recent Board document "Investing in People and Ideas: EDI's Strategy for the Future" (July 1994). The Advisory Committee, set up when I was appointed Director, sharpened and redefined these directions (attachment). Recent discussions inside and outside EDI have enriched the Committee's suggestions.

Policy Lessons for a Wider Audience

Policy and Skills: Country requests for EDI assistance are numerous both in basic skills (courses in market economics, business techniques) and in policy lessons (in fiscal decentralization, regulatory reform and so on). Skills and policy fall on a continuum such that EDI training is often a blend between the two. The distinction is particularly blurred in the new market economies, for which policy lessons are combined with skills development. Even with these distinctions in mind, it would be useful to substantially raise the *policy content* of our program over the next years.

In addition to the Bank's depth of experience on policy issues, two other factors favor a greater emphasis on policy, at least at the margin: the Bank is a store of lessons in policy on which EDI can draw, and basic skills needs can be addressed in many other ways. As a consequence we will expand our efforts in facilitating policy design and implementation at both the local and national levels, as we are doing for instance, in the series of workshops we have launched for parliamentarians in Tanzania and Ukraine.

Audience: The *primary audience* for policy lessons as well as for skills training remains government policymakers and practitioners. But with democratization and decentralization spreading across countries, effective policymaking requires reaching a wide audience -- at central, state, and municipal levels. Consensus building among parliamentarians and the public has also become an increasingly important feature of policy dialogue.

A new and promising direction is facilitating public dialogue in countries through seminars, videos and radio. Seminars for journalists in Cameroon and Senegal, which included teleconferences and television broadcasting, are examples. These new lines of activity are highly visible and carry risks, but the potential gains are large. Rapid, though still cautious, expansion offers great promise.

Themes: Considering country priorities, the Bank's areas of comparative advantage and alternative suppliers have been identified for special concentration on four broad thematic areas: economic policy and management, human resource development, environment and natural resources, and regulatory frameworks for public and private sectors. To be an effective transmitter of best practices in these substantive areas, EDI should maintain and deepen its in-house analytical capabilities and intellectual leadership and fortify its links with Bank research.

While the thematic focus allows for a sharper delineation of areas of concern, the broader audience calls for a wider range of products and a greater use of new technologies. Publications and policy seminars will remain important sources of dissemination. New product lines and media such as videos, broadcast television and teleconferences are already being used, and they will increase in importance.

Regional and Country Redirection

Currently, EDI resources are concentrated in Sub-Saharan Africa and the countries of the former Soviet Union, with each accounting for about a third of the total. The remainder is distributed among the other developing regions.

The high intensity of training in the countries of the former Soviet Union was well justified under the conditions of transition. But as a shift is made from skills to policy, this special focus on these transition economies would naturally decline. To be an effective transmitter of best practices, EDI needs a more balanced regional distribution that would allow it to give low-income countries everywhere special

priority and to have a meaningful presence in the successful countries and regions too. The logic of the redirection is clear, but the exact implications should be allowed to emerge from reviews with the countries and discussions of work programs with Bank Operations.

Closer Alignment with the Bank

There are many ways to make better use of the two-way information flow between the Bank and the countries. At the Bank end what is needed are instruments for tapping more fully into its expertise. EDI's unique strength lies much less in hiring consultants to deliver courses and more in getting the Bank's experience out into the developing world. EDI's neutrality on lending activities strengthens its credibility with countries. The Bank's Regions could better use EDI in at least three ways: as a forum to discuss country concerns and build on policy dialogue; as a place where Operational staff can follow through on their policy work; and as a source of training and dissemination to be included in country strategies.

At the country end, EDI could accelerate *the flow of information to the Bank* by facilitating discussions of country strategies in the countries -- providing a natural link to the broader dissemination role the Institute can assume in selected countries -- helping to validate the country priorities for the research and policy questions pursued by DEC and the other Central Vice Presidencies. EDI could also arrange *joint seminars or training* for Bank staff and country participants to discuss new ideas and compare international experience.

Budget, Organization, and Staffing Changes

The Bank budget for EDI has been cut by 4% for next year. Cofinancing, which has comprised about half the total budget, is likely to be little changed in FY96. Even with a smaller budget, EDI should be able to expand its output through efficiency gains. Cofinancing might even be expanded once EDI's redirection is well established. Any resulting increase in the ratio of cofinancing to Bank resources should be acceptable, providing that the additional resources finance an established strategy.

Develop Budget Flexibility: For greater responsiveness to changing demands, it would be useful to leave substantial *financial headroom* even within this tighter budget. Greater financial flexibility would allow EDI to acquire needed expertise from inside or outside the Bank. In turn, increased charges for skills training should be possible. Even after a switch in emphasis from skills to policy and to greater attention to work of a public goods nature (environment), scope exists for shifting costs onto beneficiaries.

Simplifying the Organization: Any restructuring should allow EDI to focus efforts more clearly on core activities and to separate lower priority ones. It should also improve efficiency through savings in administrative overhead. Staffing changes

should permit EDI to provide high impact services and to leverage its activities with those of others more effectively.

To deliver the work on the core themes and new products, the following *simpler divisional structure* is proposed: Economic Policy and Management (EPM), Human Resource Development (HRD), Environment and Natural Resources (ENR), Regulatory Frameworks for Public and Private Sectors (RFP), Product Development and Dissemination (PDD). This structure calls for a realignment of the current work programs from seven divisions to five.

Within this structure, areas that divisions will emphasize in the coming three years include decentralization and fiscal policy (under EPM), girls education and reproductive health (under HRD), environmental management (under ENR), regulatory reforms (under RFP), and new product lines and stepped up dissemination (under PDD). In turn, areas of receding emphasis (for now) include energy, some of the work in transport and agriculture that the private sector could provide, and basic skills training activities generally. Staff changes will reflect these realignments. Also, EDI stands ready to make further adjustments as world conditions and country needs change.

Upgrade and Adjust the Staff Mix: EDI has started to attract highly valued staff from Operations. It will do well to do much more in this direction and to recruit a few internationally recognized professionals in the new areas of emphasis to upgrade its firepower. As EDI phases into new areas of work and out of others, the skill mix of its staff will need some adjustment as well. For instance, as our policy work expands, analytic capabilities will need to be strengthened in each division, including macroeconomists in EPM, specialists in human resources, the environment and regulation in HRD, ENR and RFP, and dissemination in PDD. Further, in view of Africa's weight and complexity in the program, a lead economist in the front office will head some of the Africa activities.

EDI staff rotation into Operations would also be important. EDI staff would have the same guidelines as the rest of the Bank for promotion and rotation. This movement of staff between EDI and Operations would strengthen EDI's integration with the Bank and allow for staff changes within the budget constraints.

Establish Networks: More partnerships and networking will be needed to deliver on all the high-priority needs under tighter budgets. EDI, as a multiproduct institute, will have to position itself more in the role of facilitator than expert. EDI will remain alert to opportunities to establish or strengthen relations with regional banks and country institutions to permit greater efficiency and value from its activities.

Because of the exceptional conditions in the transition economies of the former Soviet Union, EDI set up resident missions in Moscow and Kiev. For the longer haul

however, EDI will pursue the more effective approach of partnerships with local institutions, including in Moscow and Kiev.

* * * * *

Overall, I am excited about the directions being suggested to us by the Advisory Committee. Work on issues of policy, new and broader audiences, emphasis on substantive Bank themes, closer interaction with Operations, and use of electronic technologies open new challenges for us. We should all be able to share the enthusiasm for the opportunities these new directions open up for us. I am convinced that EDI is a growing priority within the Bank and that with a strategic repositioning we can become an even more exciting and vibrant institution.

Attachment

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Gautam Kaji

February 10, 1995

Gautam:

Please see attached a preliminary draft of recommendations on the EDI, based on the Advisory Committee's and previous work. I am sending this to you at this early stage for your information and any preliminary reaction.



Michael Bruno

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* * * * *

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Attachment

OFFICE MEMORANDUM

Chron.

DATE: February 8, 1995

TO: Mr. Sven Sandstrom

THROUGH: Mr. Michael Bruno 

FROM: Gregory Ingram, RAD 

EXTENSION: 31052

SUBJECT: Draft of Development Committee Paper, "The Financing of Infrastructure in Developing Countries"

Attached is a draft of the Development Committee Paper, "The Financing of Infrastructure in Developing Countries," for your review and comment. A copy of the Executive Summary of the WDR 1994 will be attached to the final paper when it is distributed to the Development Committee. Accompanying this paper is draft text for a cover note that sets out issues that ministers may wish to discuss.

The paper is based on the outline that was discussed by the Committee of the Whole on January 19, 1995. Comments on earlier versions of this paper have been received from CFS, DEC, FPD, IFC, OPR, TWU, MIGA, FIAS, regional staff, and the IMF; and they have been taken into account in this draft.

The schedule calls for this paper to be distributed to the Board on February 27 after final EXC approval by February 22, 1995. Board discussion of the paper is scheduled for March 21, 1995.

Attachment

cc: Gautam Kaji, Richard Frank, Orsalia Kalantzopoulos, Ignacio Mas, EXC;
Alexander Shakow, OPRDR

OFFICE MEMORANDUM

1013

DATE: February 8, 1995

TO: Mr. Sven Sandstrom

THROUGH: Mr. Michael Bruno 

FROM: Gregory Ingram, RAD 

EXTENSION: 31052

SUBJECT: Draft of Development Committee Paper, "The Financing of Infrastructure in Developing Countries"

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RECEIVED
DEVELOPMENT ECONOMICS
V.P. CHIEF ECONOMIST

Attached is a draft of the Development Committee Paper, "The Financing of Infrastructure in Developing Countries," for your review and comment. A copy of the Executive Summary of the WDR 1994 will be attached to the final paper when it is distributed to the Development Committee. Accompanying this paper is draft text for a cover note that sets out issues that ministers may wish to discuss.

The paper is based on the outline that was discussed by the Committee of the Whole on January 19, 1995. Comments on earlier versions of this paper have been received from CFS, DEC, FPD, IFC, OPR, TWU, MIGA, FIAS, regional staff, and the IMF; and they have been taken into account in this draft.

The schedule calls for this paper to be distributed to the Board on February 27 after final EXC approval by February 22, 1995. Board discussion of the paper is scheduled for March 21, 1995.

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Alexander Shakow, OPRDR

Cover Note Text

Why is infrastructure a subject worth discussion by finance ministers? As is evident in the accompanying paper, infrastructure is essential for development, but it is costly, its provision needs reform in many countries, and finance is central to improving efficiency and meeting demand for infrastructure services.

In reviewing the papers that deal with the financing of infrastructure in developing countries, ministers may wish to focus on the following issues.

1. Private financing of infrastructure is growing briskly, but is still a small share of the resources needed. What steps have ministers found useful in attracting private finance for infrastructure and in which sectors, and how much room is there for growth of such financing in their countries?
2. Price reform is critical to mobilize resources for infrastructure finance and to reduce the heavy burden of public subsidies in many countries. It will also help to achieve efficiency and environmental objectives. How can price reform be achieved in ways that are socially and politically feasible in ministers' own countries, and what can be done to facilitate it?
3. Public finance for infrastructure, including taxation and debt, should have a more limited role as private finance and price reform increase in importance, but will remain necessary for some infrastructure activities. Subsidies will also continue to be needed for essential services that are commercially unattractive. What experience have the ministers' countries had in allocating tax revenues for infrastructure development (including at subnational levels of government) and in designing effective subsidies for the poor?
4. Appropriate risk allocation and risk sharing between public and private partners through guarantees is needed, but guarantees for commercial risk should be avoided. Many ministers have experience in managing and allocating risk between public and private partners. What lessons do they draw from this experience about the role for guarantees in infrastructure finance?
5. Activities that foster adequate maintenance and efficient operation of existing infrastructure facilities often have higher returns than investment in new facilities. What experiences have ministers had in implementing sustainable programs to fund infrastructure maintenance? What can the international institutions and donor countries do to foster better maintenance?
6. The Bank Group is focusing its support to infrastructure on improving sector policies, facilitating financing, and increasing efficiency and private sector involvement in service provision. In addition, Bank Group members are collaborating more to increase their catalytic role in the infrastructure sectors. Based on ministerial experience, what specific suggestions are there for ways to enhance Bank Group effectiveness in improving infrastructure performance?

Financing Infrastructure in Developing Countries

Prepared for:

April, 1995 Development Committee Meetings

Draft of
February 8, 1995

1. The growing demands for higher quality infrastructure services in all developing countries are adding urgency to the search for new sources of finance and new modes of provision. Governments face a challenging agenda to transform incentives and institutional arrangements so that the public and the private sectors can become more effective partners in developing infrastructure that serves the objectives of economic growth, poverty reduction, and environmental sustainability. The Bank Group and the Fund can provide an integrated array of instruments to assist countries in mobilizing infrastructure finance and promoting its efficient use. By focusing on the financing of infrastructure, this paper builds on the *1994 World Development Report, Infrastructure for Development*.

THE NEED TO DO THINGS DIFFERENTLY

2. Reliable power, transport, and telecommunications are essential for countries to modernize production, attract foreign investment, and compete in global markets. Basic infrastructure services—such as clean water, sanitation, safe waste disposal, and transport—improve the health and raise the productivity of the poor. And appropriately designed and efficiently run transportation, water, sanitation, and power can contribute to more environmentally sustainable human settlements, particularly in urban areas.

3. To achieve these benefits, developing countries have been investing an average of 4 percent of their GDP in infrastructure, about \$200 billion a year. The large investments in infrastructure have allowed service capacity to increase faster than population growth (particularly in water supply, telecommunications, and power). But the unmet demand for basic services remains huge: one billion people lack access to safe water, and close to two billion lack adequate sanitation or electric power.

4. Both the supply and the quality of infrastructure services are inadequate to meet current demands in most developing countries and in the transition economies—and effective demand for infrastructure services will continue to grow. Projections indicate that the demand for infrastructure investment in the East Asia and Latin American regions could easily reach 6 percent of GDP for several years, and that economically justified infrastructure investment in many developing countries is well above recent levels. Private financing sources will need to be tapped to meet these growing investment demands in many countries. Moreover, the projected increase in demand for infrastructure is unlikely to be met by traditional approaches of provision, which have been characterized by three pervasive failures.

5. ***First, inefficient operation.*** The most costly and widespread cause of poor system operation—as seen in high loss rates of power and water, and frequent breakdowns of vehicles and equipment—is inadequate maintenance. This ultimately results in reduced service quality, increased costs for users, and unnecessary expenditure on new investment to replace existing capacity. Low and middle income countries could save more than \$55 billion a year (a quarter of their annual infrastructure investment) by providing adequate maintenance and efficient operation of roads, power, water, and railways.

6. ***Second, unresponsiveness to users.*** Inefficient operation means unreliable service, and reliability is a critical aspect of user satisfaction too often ignored. In addition, providing service to new users who are willing and able to pay is often excessively delayed. For example, of 95 developing countries in 1992, 37 had a waiting period of six years or more for telephone service.

7. ***Third, financial inefficiency and fiscal drain.*** The average revenues are less than production costs for all developing country infrastructure services except long distance telecommunications, and

the structure of tariffs often creates undesirable incentives. Underpricing leaves too few resources for expanding coverage and improving service quality. It also leads to overuse of services, because low prices prompt high consumption. And it demands enormous subsidies to infrastructure providers. In many countries, the inability or unwillingness of governments to fund inefficient public service providers is a critical impetus to reform.

INSTITUTIONAL ARRANGEMENTS—THE KEY TO PERFORMANCE

8. The efficiency and quality of infrastructure services vary greatly within and across developing countries. The 1994 WDR found that the performance of infrastructure stems not from general economic conditions but from the institutional environment, which often varies across sectors within countries. The main determinants of good performance—and bad—are the institutional arrangements and incentives for providing infrastructure services.

9. Reforming infrastructure service provision requires three changes: more consistent application of commercial principles, broader use of competition, and greater involvement of users. These changes can be pursued through four main institutional options: i) reforming public sector provision by commercialization and corporatization, ii) shifting the operation of publicly owned facilities to the private sector through such contractual arrangements as leases and concessions, iii) privatizing both operation and ownership, or iv) facilitating provision of services by communities themselves.

10. Countries across the spectrum of development are experimenting with these options in different ways for different services. The challenge is to expand the range of activities in which competition and commercial incentives can be exploited to foster more efficient and reliable service provision and expanded service coverage. Competition can be introduced through quite different approaches, varying with the economic and technical characteristics of the activity. For those components of the infrastructure sectors that do not entail natural monopoly (as in the new, value-added telecommunications services), competition can be fostered freely in the market among multiple providers. Where a natural monopoly exists due to significant economies of scale or high sunk costs (as in municipal water supply), the right to exercise the monopoly can be granted through competitive bidding—"competition for the market." And in some activities, competitive pressures can be created by providers offering alternative services, such as competition between trucking and rail carriers in the same region. To develop fully the opportunities for competitive and commercial provision of infrastructure, the government must focus its efforts—whether through finance, ownership, or regulation—more effectively on protecting society against potential abuses of natural monopoly and on ensuring that the goals of social equity and environmental sustainability are served.

11. For power and telecommunications, many countries are "unbundling" the formerly monolithic public sector providers. In East Asia, for example, countries are inviting private entrants into generation and even distribution, leaving the natural monopoly of transmission under mainly public ownership or sometimes under a long-term contract with private operators. Many countries are also opening value-added telecommunications services to entrepreneurs. In Latin America, several countries have transferred entire power and telecommunications entities to private owners to break with the poor public management and financing of the past. Divestiture to private owners has in most cases dramatically increased investment and efficiency, but sustaining such improvements requires the discipline of competition, supported by effective regulation focused on issues that cannot be solved by the market—such as access to network facilities.

12. For ports, railways, airports, and urban transport—and for urban water supply and sanitation—countries have adopted a wide range of public-private partnerships. Most popular are contracts (leases, concessions, and service franchises) in which governments retain ownership of the facilities. Countries have also been making incremental reforms, such as corporatizing public entities. Evidence from these reform experiences shows that the pressure of competition in the financing and provision of infrastructure services improves performance through increased efficiency and responsiveness to users.

13. Most of the road system in any country, apart from the very limited share financeable from direct tolls, will remain under public ownership, financing, and management. The challenge is to ensure adequate maintenance and accountability to users through such mechanisms as road boards, financed by user charges. For other infrastructure involving small, highly dispersed investments—such as rural roads, water supply and informal sanitation—the government's role is equally important. Local communities can often participate in financing and operating many of their own services, usually with some support—technical assistance, training, and limited credit for up-front investments—from governments or nongovernmental organizations.

AN AGENDA FOR CHANGE

14. **Price reform.** Realistic pricing is basic for running infrastructure on commercial principles, promoting competition among suppliers, providing funds for investment, and attracting new investors and operators. On average, tariffs cover only 30 percent of the production costs for water, 60 percent for power, and 80 percent for gas. In some cases tariffs are distorted, exceeding costs for some uses while being far below costs for others.

15. Raising tariffs can have a profound impact on public budgets by reducing infrastructure's claim on public funds. The transfers have been very large. The annual costs not recovered from users in developing countries is estimated to be \$90 billion for power, \$18 billion for water supply, and \$15 billion for railways. The total—\$123 billion—represents nearly 10 percent of government revenue in developing countries and more than 2 percent of their gross domestic product.

16. Mobilizing revenues through tariffs and user charges that cover the costs of efficient production allows infrastructure providers to be financially independent from government agencies, reducing political interference. Providers become more responsive to their customers, who can signal their preferences for services through their willingness to pay. And restructuring tariffs to cover costs also stimulates firms and households to use fewer services and reduce waste. All this translates into lower consumption, lower growth of needed capacity expansion, and lower financing requirements for new facilities. And for such sectors as electric power, it can lessen the environmental impacts of meeting demand.

17. Closing the gap between prices and costs will also go a long way toward addressing social concerns. The poor will lack access as long as resources are insufficient to expand services. There remain limited areas of infrastructure—such as rural roads or flood control works—where user charges are not practical or could not accurately represent the full costs and benefits of services. And there are instances where governments need to assist users unable to pay for basic services. These exceptions, discussed below, pose special challenges for public policy.

18. **Private sector involvement.** Countries that have attracted private sector investment and management into infrastructure have realized substantial benefits almost immediately. Hungary's telephone system, after its privatization in late 1993, has been expanding faster than that in any other country in Eastern Europe. Côte d'Ivoire's urban water supply system, under a private operating contract for more than two decades (and as a concession since the late 1980s), has higher connection rates, internal efficiency, service reliability, and cost recovery than those in most neighboring countries, yet it has comparable tariffs. When Argentine railroads were privatized through concessions, the new railways carried the same traffic with only a third of the labor force. Service improved, freight rates fell, and the government subsidy dropped from \$800 million to \$150 million, going only to rail services still in the public sector. Brownouts in the Philippines, contributing to economic crisis in the late 1980s, have almost ceased since more than 3,000 megawatts of private generating capacity were added through independent power projects, beginning in 1988.

19. Inviting private management through concessions or divestiture introduces new entrepreneurial skills and new technology. In Côte d'Ivoire, expatriate managers have trained and been replaced by local personnel in a short period, and the domestic capital market has become the main source of investment finance. Prices of services have also declined where the private operators have achieved efficiency gains (such as reducing unaccounted for water), and efficiency has improved for both public and private providers when the operators are subject to competition (as in power generation). There is also ample evidence that private infrastructure projects are completed faster and with lower cost overruns than comparable public projects, yielding savings which often compensate for the higher costs of private finance. The reliability and diversity of services offered to customers typically improves as well with the entry of competing providers.

20. There are major differences among the various infrastructure sectors in the extent of private interest and in the instruments used. Some 40 countries have opened value-added or overseas telecommunications services to competitive private entry—niche markets that enjoy high growth potential, limited risk, short payoff, and aggressive marketing by suppliers. An increasing number of countries are transferring their main (local) telecommunications entities to private owners, sometimes with defined periods of exclusive service during which the companies are required to expand coverage. Several countries permit private independent power projects to sell through the main transmissions grid in competition with other generating companies, or to contract with a single purchaser under take or pay contracts. Toll road projects are becoming increasingly common, notably in China, Hungary, Indonesia, Malaysia, Mexico, and Thailand. Malaysia has privatized a container port, and leases or concessions for port operation are in place in China, Colombia, Gambia, Ghana, and Venezuela. Railway concessions are under way in Argentina and in advanced preparation in Côte d'Ivoire. Lease, concession, and build-operate-transfer (BOT) arrangements in water supply and sewage treatment are operating in Argentina, Guinea, Mexico, Malaysia, and Sierra Leone—and under preparation in Peru and Poland, among many other countries.

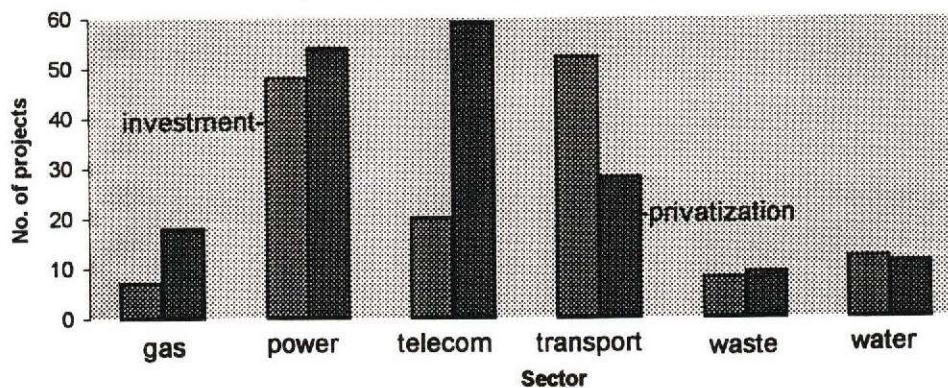
21. **Private financing.** Though negligible in the late 1980s, private financing in one form or another now accounts for about 7 percent of infrastructure project finance in developing countries, and may reach 15 percent by 2000. With bilateral and multilateral foreign aid accounting for another 12 percent of annual investment, governments thus put up 80 percent—or more. Although an increasing share of the domestic savings needed to finance infrastructure provision can come from private sources, governments will continue to be a major source of funds for infrastructure as well as a conduit for many donor resources.

22. Privatization (including both the sale of public assets to private entities and concession agreements) has become an important source of finance for infrastructure. Of the \$95 billion obtained by developing countries from privatizing public enterprises from 1988 through 1993, about \$32 billion came from infrastructure privatizations in 38 countries. Foreign investment has been much more significant in Latin America (accounting for 56 percent of proceeds from divestiture) than in East Asia (2 percent). Privatization can be important in developing local stock markets and broadening domestic capital markets. For example, corporate shares of infrastructure companies accounted for more than a third of the capitalization of the Argentine stock market in 1993. From 1989 through 1993, the equity value of capital markets in developing countries more than doubled, and the share of infrastructure stocks in this capitalization increased from 3 percent to 22 percent. As local markets deepen, privatized infrastructure entities can raise investment funds by issuing shares and debt. Widespread stock ownership can also enhance political support for privatization.

23. The mobilization of internal revenues—stemming from a sound pricing policy—is another source of finance for investment. Since telecommunications investments generate relatively rapid returns, they can often be financed in large part from internal corporate profits, with additional financing raised on capital markets without recourse to government guarantee. For other sectors, the sheer size, potential risk, and delayed revenue streams of major investments requires more structured finance from project sponsors or other sources, such as leasing companies.

24. Transport and power have been the main targets of private investments, while telecommunications and power have been the main focus of privatization (figure 1).

Figure 1. Most private investment and privatization projects are in power, telecoms, and transport...

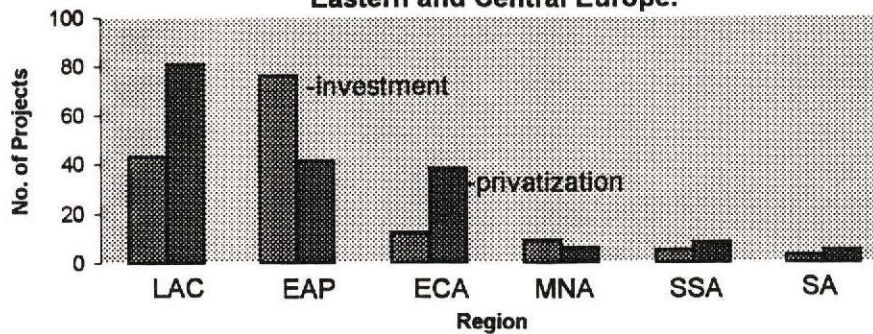


Note: Number of actual projects, 1984-94

Source: "The Emerging Infrastructure Industry," World Bank, 1995

Latin America, followed by East Asia and East and Central Europe, have had the bulk of the infrastructure privatizations, while East Asia is the dominant recipient of private investments (figure 2). However, the pipeline of planned investment projects is growing rapidly in South Asia.

Figure 2: ...and are located in Latin America, East Asia, and Eastern and Central Europe.



Note: Number of actual projects, 1984-94

Source: "The Emerging Infrastructure Industry," World Bank, 1995

25. As with all foreign direct investment (where half went to five countries in 1989 to 1993), private international flows for infrastructure have been concentrated in relatively few (mainly middle income) countries, but they are spreading rapidly to all groups of countries. Both project debt financing and foreign direct investment—which is often linked to a management interest in the project—are less volatile than portfolio equity investments (such as country funds, foreign depository receipts, and foreign purchase of shares). Expressions of interest by private promoters and by governments are proliferating faster than the number of completed deals, and private direct investment funding is more readily available than long-term debt. The past few years have witnessed the creation of numerous private funds devoted to infrastructure investment, either for specific sectors or specific regions. But there have been few disbursements, reflecting the shortage of bankable projects and prohibitively high cost of long-term debt finance.

26. To break the logjam of potential transactions and to capture the desired benefits of private financing for developing countries, several constraints and preconditions must be addressed. These imply complementary, not sequential actions:

- **Ensure macro stability.** A basic precondition for mobilizing any significant private funding, domestic or foreign, is macroeconomic stability—including low inflation and a relatively stable exchange rate. This in many cases requires reductions in public sector expenditure, particularly by eliminating the open-ended burden of subsidizing inefficient infrastructure services, such as power, railways, public transport, and water supply.
- **Fix the policy and regulatory framework.** The critical constraints in the policy and regulatory framework affecting the sector must be alleviated. At the most basic level, this involves creating a suitable legal framework for business practices, including to ensure contract enforcement, promote competition, and put public providers on a level playing field with private operators. For infrastructure specifically, the reform agenda includes creating a predictable, nonpolitical tariff regime, restructuring the sector to permit competition as

appropriate, and creating the necessary regulation—either through contractual arrangements or statute—to promote good performance of operators when competition is weak.

- ***Streamline processes and controls.*** Potential private investors often confront a maze of detailed administrative and regulatory controls on matters ranging from foreign exchange to the choice of technology and the use of labor. The necessary decisions of government counterparts may be subject to bureaucratic delays. Governments need to reduce these transactions costs by streamlining mechanisms for processing investment proposals, and by moving from the prolonged, project-by-project negotiation of individual contracts toward reliance on more transparent, standardized conditions that can be applied to all potential investors. The use of model contracts and standard bidding documents, and the development of cross-sectoral concession laws (as recently done in Hungary and Chile) are measures that can reduce the costs and time involved in transactions.
- ***Unbundle and reallocate risks.*** In traditional infrastructure finance, the public sector has assumed all the risks—actual and perceived. Since many of these are not reflected in the cost of sovereign financing, public borrowing often appears less expensive initially but may entail larger claims on public resources later. It is critical to identify the risks governments should bear—such as ensuring the policy regime and the performance of public partners—and to place on the private partner the commercial risks, including project performance and market demand. This "unbundling" of risks permits specific risks to be mitigated and any instruments of comfort, such as guarantees, to be narrowly targeted—reducing the price premium on private financing and lowering the government's contingent liabilities.
- ***Attract private financing.*** To mobilize private funding requires well-designed financing strategies. Foreign and domestic sources of finance will need to be tapped, but economies have limited capacity to obtain funds from abroad, especially debt finance. And balance of payments constraints mean that an ongoing infrastructure program will normally need to be sustained by domestic funds. Institutional investors, such as pension funds, may become the main source of long term credit. In some countries, restrictions on the investment funds may need modification to permit this.

27. ***The role of the public sector.*** The public sector is now—and for the indefinite future in most countries will continue to be—the main source of funding for most infrastructure projects. This is particularly so in roads, sanitation, water works, general-use railways, ports and airports, urban transit, power transmission, and large-scale generation. Some developing countries may also choose to retain a dominant public role as sponsor of infrastructure, as many industrial countries have done. Japan, Singapore, Korea, and western European countries have developed infrastructure within the framework of public financing by emphasizing commercial practices. They have relied on realistic tariffs or user charges (with well-defined subsidies, if any, limited to distributional objectives). And they have given financial autonomy to providers, permitting them to raise investment funds from capital markets. Some countries have established special infrastructure banks or funds, and Japan has mobilized long-term investment resources through postal savings. But there is wide scope for misallocation when such public sector funds are allotted on political rather than economic terms.

28. The government has two fundamental responsibilities in infrastructure. The first is to create a sound environment for the efficient mobilization and allocation of resources, whether from the private sector or the public. The second is to correct for market failures—by ensuring that resources are

directed to essential activities that may not be sufficiently attractive to private finance, preventing the abuse of monopoly power, protecting access of the poor to essential services, and correcting for such externalities as environmental impacts.

29. Governments' first concern should be to ensure the basic conditions for mobilizing infrastructure finance as outlined above—in particular, macroeconomic stability, appropriate tariff policy, and reduction of unnecessary risk factors. However, even with sound policies in these areas, many developing countries do not yet have domestic capital markets to raise investment funds, and some governments are not sufficiently creditworthy for external borrowing. Such countries can still attract private investments for their most urgent (and commercially profitable) projects. The Philippines' success in developing private power generation strengthened its domestic capital markets and enhanced its creditworthiness. Creating even a few small, well-structured private projects can have a strong demonstration effect for potential private investors and build credibility for reform.

30. Even with a favorable environment for private finance, governments need to design appropriate public resource mobilization strategies for the development of infrastructure not amenable to cost recovery. When direct user fees are difficult to collect (rural roads) or when the social benefits of providing services exceed the private benefits (sanitation), some public financing will be appropriate. To the extent possible, such activities should be financed from charges or taxes paid by the community that receives most of the benefits—as with property taxes to finance local improvements. To ensure adequate investment occurs in socially useful but financially unprofitable activities, subsidies are often justified but should be provided in ways that encourage cost efficiency and do not require the government to incur construction and operating risk. For example, a concession can be awarded to the bidder requiring the least subsidy to deliver a specified service.

31. For some activities, revenues are most efficiently mobilized through taxation. For example, in many countries, a share of fuel and vehicle tax revenues is designated as road user charges and finances road maintenance. Although formal earmarking limits fiscal flexibility, in some countries it may be a necessary measure to ensure that high-return maintenance activities are adequately funded. It is critical that earmarked funds are managed to ensure efficient use and accountability—as through road boards that involve broad-based participation of users and other stakeholders.

32. Many countries are devolving expenditure responsibilities for local or regional infrastructure services to local or regional governments. To ensure that this shift leads to more effective resource allocation, the fiscal authority to mobilize revenues for these services needs to be assigned as well. And it is important that mechanisms of public financing—such as intergovernmental transfers and official external finance—foster incentives to direct adequate funding to maintenance, not just to new investment.

33. Whether an infrastructure service is financed by tariffs and user charges or by public taxation, ensuring access for the poor is a distinct, and important, policy issue—especially for such basic services as clean drinking water, environmentally safe sanitation, public transport, and "lifeline" levels of domestic energy or public telephones. The prevailing mode of public enterprise delivery of many infrastructure services, including their low cost recovery, is often rationalized as a way of ensuring widespread availability and affordability. The performance of these entities has too often shown them to be serving and subsidizing the better-off users, while the poor typically have little access to public service and incur higher expenditures to meet their needs from alternative sources.

34. Lowering service charges for all users is therefore inefficient, inequitable, and fiscally unsustainable. Governments need instead to promote competition, operational efficiency, and user responsiveness by suppliers as the most effective means of extending services to the poor. Where particular user groups are unable to pay for essential services, subsidies are best targeted to them, or tariffs structured so that the basic levels of consumption are affordable—as through "increasing block" power and water tariffs. Chile has an exemplary scheme of targeted subsidies for water supply.

35. When communities finance and provide their own infrastructure—as when rural and urban settlements install and operate wells, low cost sanitation, local roads, and power generators—the requirements for sustained success are also demanding. Experience shows that there must be broad-based participation of the community from the earliest stage in choosing the technology and in sharing the financing or contributing in kind. The support of government or nongovernmental organizations, through technical assistance, training, or limited credit subsidies is often important.

36. Governments also have the responsibility to ensure that infrastructure promotes environmentally sustainable development and to minimize the adverse consequences of infrastructure expansion. Environmental concerns, including public safety, can be met by a variety of instruments: the participation of government agencies in the initial planning and public discussion of proposed investments; carefully defined subsidies for certain environmental improvements; and regulatory measures, particularly those that give service providers and users economic incentives favoring good environmental outcomes. The assembly of sites and rights-of-way for infrastructure frequently displaces people. Of the 146 World Bank projects involving resettlement between 1986 and 1993, more than three quarters were infrastructure projects. Resettlement is most successful when needs are addressed early and plans are modified to minimize displacement.

37. *Donor policies.* What does this reform agenda mean for international donors? Their policies and practices need to shift from a focus on financing new facilities to maintaining existing infrastructure and fostering institutional reform. Bilateral aid, in particular, is often subject to full or partial tying of aid, reducing its effectiveness. In recent years, between two-thirds and three-quarters of official development assistance for infrastructure has been fully or partially tied, compared with less than 20 percent for official development assistance going to areas other than infrastructure. Reforms and practices that build long-term sustainability of infrastructure and strengthen the governments' capacity to cooperate in new ways with the private sector may require changes in the form and duration of support from donors. The Sub-Saharan Africa Transport Policy Program is an example of collaboration among donors and recipient governments for road sector reform, railway restructuring, road safety, and urban transport—linked to coordinated financial support for long-term development programs.

ROLES FOR THE BANK AND THE FUND

38. The Fund and the Bank Group are important in promoting the stable economic policy environment and suitable policy framework needed to sustain the financing of infrastructure and deliver its benefits. Infrastructure projects are typically large, take a long time to construct, and produce returns over many years. Economic stability eases the financing requirements of such long-lived projects by reducing their risk and promoting the availability of domestic funds for longer term investments.

39. Sound macroeconomic and structural policies—such as those promoted by the Fund and Bank Group in the fiscal and monetary areas; an open exchange, trade, and investment regime; efficient banking and financial systems and factor and goods markets—are thus important in establishing the environment to support longer term investments and critical to fostering the growth of private involvement in infrastructure. Such policies increase the developmental impact of infrastructure—studies have found that poor economic policies can reduce the returns to infrastructure projects by half or more. Sound policies also promote adequate maintenance so that infrastructure facilities are not subject to rapid deterioration, even during periods of economic adjustment when investment in new facilities may be curtailed.

40. Bank Group members have common objectives in infrastructure—to improve sector policies, increase efficiency, facilitate financing, and increase private sector involvement. But each member of the group has different instruments to achieve these objectives. The rapidly changing situation in infrastructure—the growth of demand for investment, the growth in private financing, and the increasing role of the private sector in provision—is requiring the members of the Bank Group to join forces to increase their catalytic role. The Bank Group's share of overall infrastructure financing is less than \$10 billion a year, or less than 5 percent of total infrastructure investment in developing countries. To increase its impact, this lending must leverage additional investment and be accompanied by policy reforms that improve sector performance.

41. **IBRD/IDA.** Across all infrastructure sectors, IBRD/IDA lending and policy advice will foster the development of core policy, regulatory, and legal frameworks to facilitate commercial principles of operation and private sector involvement in infrastructure. IBRD/IDA is also supporting domestic capital market development, which has an important role in financing growing investment needs. In infrastructure sectors where commercial provision is most straightforward (as in telecommunications and power), IBRD/IDA lending and policy advice aims to facilitate the transition to greater private sector provision, increased competition, and a reduced government role in direct service provision and management. Policy advice focuses on the development of appropriate sector policy frameworks and on the formulation of regulatory frameworks for economic, environmental, and safety objectives. For other sectors (such as roads, water and sanitation) IBRD/IDA lending supports sector reform involving the application of commercial principles (including financial autonomy) to public service providers, broadened competition and private involvement where feasible and appropriate, and the involvement of users. Moreover, in low-income countries the Bank emphasizes capacity building programs to increase sector expertise and strengthen implementation of reforms.

42. In addition to helping countries reduce risk by formulating sound and transparent sectoral policies, the Bank expanded its Guarantee Program in late 1994 to mitigate the risk borne by debt finance. The program addresses policy risk (covering government nonperformance of sector policy commitments) and credit risk (covering longer term payments to extend the term of financing). These guarantees are partial, require government counter-guarantees (unlike MIGA and the IFC), do not cover equity (unlike MIGA), and are for new investment in countries that can borrow from the Bank. So far, partial risk guarantees have been used to help finance the Hub Power Project in Pakistan, and partial credit guarantees have been used to extend the financing term for the Yangzhou Thermal Power Project in China and the Leyte-Luzon Geothermal Project in the Philippines.

43. **IFC.** Finance for infrastructure is the fastest growing element in IFC's portfolio, accounting for nearly a quarter of new approvals. Much of this finance has taken the form of IFC participation in individual transactions (for power, telecommunications, transport, gas, and water and sanitation).

IFC also participates in several infrastructure investment funds that mobilize resources from major financial centers for on-lending and equity investment. Recent activities to mobilize new sources of capital have involved underwriting international equity placements (for a power utility in India and a telecom company in Chile), co-managing the placement of international bonds (for a toll road in Mexico), and developing a pilot securitization program to package and sell a portion of its loan portfolio on the private market.

44. The activities of IFC have helped develop local capital markets through issuing equity on local stock markets, placing equity directly with such private financial companies as pension funds, placing debt financing with local commercial banks, and obtaining debt finance through locally issued bonds. IFC also advises governments on restructuring and divesting infrastructure utilities (the power sector in Trinidad and Tobago, Peru, and Colombia) and on regulatory frameworks.

45. **FIAS.** The Foreign Investment Advisory Service provides technical assistance and policy advice to developing countries that are seeking ways to increase private sector involvement in infrastructure finance and service provision. It analyzes country experience with foreign direct investment in infrastructure and advises countries on the policy, regulatory, and institutional framework required to promote and implement such investments. Most recently, FIAS has advised China on the policy and regulatory reforms required to speed up the implementation of private sector infrastructure projects.

46. **MIGA.** The Multilateral Investment Guarantee Agency encourages foreign investment in developing countries by providing political risk insurance against the risks of currency transfer, expropriation, and war and civil disturbance. MIGA's guarantees cover equity and quasi-equity (e.g., both loans and loan guarantees by shareholders) investments and third party loans, and a counter-guarantee from the host government is not required. Since beginning its operations in 1989, MIGA has issued over 130 guarantees in support of approximately US\$7 billion of foreign investment. Although the majority of these projects have been outside of infrastructure, in the past two years MIGA has seen a growing demand for guarantees from private investors in infrastructure. MIGA's Board of Directors has approved participation in power projects having a total cost of US\$3.6 billion in less than two years. In the second half of 1994, MIGA issued 28 guarantees totaling US\$312 million of coverage, of which infrastructure projects (all in power) accounted for 11 guarantees and one-third of that coverage. MIGA also provides investment marketing services to both investors and countries to promote private investment opportunities.

47. In the past, the Bank and the IFC pursued parallel investments in countries. Today and increasingly in the future, the trend is toward a fuller collaboration up-front among the Bank Group institutions to achieve more integrated and complementary programs—typically involving a mix of financing and guarantee programs. Jamaica's Rockfort power project combined IBRD financing with MIGA guarantees, and Honduras's Elcosa power project combined IFC financing with MIGA guarantees. A power project under preparation in the Dominican Republic is likely to combine Bank financing with a Bank guarantee of aspects of the country's policy framework for the power sector. The Uch power project in Pakistan is likely to involve financing from IFC and an IBRD partial policy risk guarantee. These collaborative efforts are attracting the interest of private investors, increasing the amount and term length of private financing in infrastructure projects, and increasing the leverage of the Bank Group's financing and policy advice.

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: February 7, 1995

TO: Michael Walton, WDR

FROM: Michael Bruno, VPDEC 

EXTENSION: 33774

SUBJECT: **Terms of Reference: Mission to Paris and Geneva (February 20-21, 1995)**

On February 17, 1995, you will travel to Paris to host the Consultation Meeting which will be held on February 20 with the donor community, from governments and some NGOs to discuss the 1995 WDR Yellow Cover. You will then proceed to Geneva for in-depth discussions on February 21 with the ILO officials.



Record Removal Notice

File Title Michael Bruno - Internal Chronological - January to February 1995		Barcode No. 30486492		
Document Date 02/07/1995	Document Type Operational Travel Request			
Correspondents / Participants				
Subject / Title [Michael Bruno Operational Travel Request]				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			

THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 8, 1995	
NAME			ROOM. NO.
Kate Oram			
Mike Walton			
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☒	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
Re: Travel Request and Terms of Reference			
REMARKS: For Michael's signature. Thanks.			
FROM Michael Walton		ROOM NO. T7-101	EXTENSION 38418

OFFICE MEMORANDUM

DATE: February 8, 1995

TO: Mr. Sven Sandstrom, EXC, and
Mr. Gautam Kaji, EAPVP

FROM: ~~Mr.~~ Michael Bruno, DECVP *MB*

EXTENSION: 33774

SUBJECT: **Joint Bank/Fund Paper on Multilateral Debt**

Attached is the final version of the joint Bank/Fund paper on Multilateral Debt which should be distributed to the Fund's Board later today. Their Board discussion, previously scheduled for February 15, is now being delayed to a date yet to be determined.

As you know, our Board discussion of this joint paper and a cover note (being prepared by FPR) is set for March 8.

attachment

cc: Messrs./Mmes. Linn, Ahmed, Baird, Donovan, Nishimizu, Bhattacharya, Kamel.

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Record Removal Notice

File Title Michael Bruno - Internal Chronological - January to February 1995		Barcode No. 30486492		
Document Date 02/06/1995	Document Type Paper			
Correspondents / Participants				
Subject / Title IMF and WB: Multilateral Debt of the Heavily Indebted Poor Countries				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: February 6, 1995

TO: Mr. James W. Adams, OPRDR

FROM: Michael Bruno, DECVP *MB*

EXTENSION: 3-3774

SUBJECT: Subsidy Dependence Index

I have read Mr. Perlin's note regarding the Subsidy Dependence Index (SDI) and would like to offer the following comments.

First, in our attempts to improve the utilization of public resources, the Bank is increasingly measuring and assessing the merit of subsidies in all sectors. However, there has not been any presumption, nor should we attempt to imply that all subsidies must be removed. This point can be made clear to staff. Mr. Perlin notes in several places that "...the SDI can be one of many useful tools to understand the sustainability and public costs" associated with banks participating in FILs. Since the main point against requiring staff to calculate and use the SDI is that some unintended primacy of this indicator may be inferred, it would seem useful to remind staff that the other indicators — (1) sufficiency of capital (2) quantity and quality of earnings; (3) quality of assets; and (4) sufficiency of liquidity — also should be calculated and employed.

Second, the extent of subsidies involved often can be substantial. Although Mr. Perlin notes correctly that the SDI focuses on costs, the other indicators (1-4 above) largely ignore costs and completely ignore subsidies, strengthening the case for including the SDI in the tool kit of operations staff.

Finally, I agree that the simpleminded application of any tool can be dangerous, especially in the realm of finance. However, I understand that FSD is putting together a training curriculum for task managers and others working on financial sector projects and would therefore argue that training on the proper calculation and use of the SDI be incorporated into that program.

This is an important operational issue, and I would appreciate it if you would keep me informed of developments.

cc: Messrs/Mmes: Frank, Kaji, Kalantzopoulos, Sandstrom (EXC); Rischard (FPDVP); Serageldin, Landell-Mills (ESDVP); McCalla (AGRDR); Iskander, Nellis, Webster (PSD); Yaron, Feder (AGRAP); Wijnand (OPRPG); Donaldson, Rice (OEDD1); Wormser (AFTPS); Siraj (ASTTP); Pohl (EMTPS); Rajapatirana (LATAD); Bennett (ASTHR); Long, McNaughton (FSD); Caprio, Squire (PRD)

OFFICE MEMORANDUM

Chen

DATE: February 3, 1995

TO: Mr. James W. Adams, OPRDR

FROM: Michael Bruno, DECVP *MB*

EXTENSION: 3-3774

SUBJECT: Subsidy Dependence Index

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The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



With the compliments of
Michael Bruno
Vice President Development Economics
and Chief Economist

Feb. 3, 1995

Mr. Ernie Stern:

You may be interested in reading this.

Michael

Confidential

DECLASSIFIED

APR 29 2025

WBG ARCHIVES

MEXICO CRISIS BRIEF

Klaus Schmidt-Hebbel¹

Macroeconomics and Growth Division

Policy Research Department

January 30, 1995

¹ I thank Michael Bruno for discussions and comments to a first draft. I am also indebted to Masood Ahmed, Mark Baird, Uri Dadush, Ashok Dhareshwar, William Easterly, Norman Loayza, Robert Lynn, Peter Montiel, Luis Servén, Raimundo Soto, Alfredo Thorne, Paulo Vieira da Cunha, and Holger Wolff for inputs and discussions. Any remaining errors are mine.

Copy

February 3, 1995

Messrs Masood Ahmed, Lyn Squire, Alan Winters

Labor Standards

Gentlemen,

Attached is a note prepared by Michael Walton. The WDR as prepared does not take a strong position on links between labor standards and either trade or multilateral lending. Yet this is a key issue in the public debate and, arguably, we should be more upfront in confronting it. This is the position defended by the WDR team. Michael (Bruno) would like to know your views. Could you please send them as soon as possible and also let us know if you would recommend a wider process of consultation within the Bank.

Many thanks,

A handwritten signature in dark ink, appearing to read 'Paulo', with a long, sweeping diagonal stroke above it.

Paulo

cc (w/o attachment): Messrs Bruno, Baird, Walton
cc (w/attachment) : Mr Lateef

copy

February 3, 1995

Messrs Masood Ahmed, Lyn Squire, Alan Winters

Labor Standards

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The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Sven Sandstrom

February 1, 1995

Sven,

I agree with you on the need to have a clear Bank position not only on Atlas GNP numbers but also on PPP based estimates of GNP, given the continuing strong external interest in the subject and the publicity given to the PPP estimates last year by the Fund's switch to them for WEO aggregation. As you point out, this official view is set out in our Board Paper on Per Capita Income (SecM94-661 of June 28, 1994) which concluded that for operational purposes there was no alternative in the foreseeable future to using the exchange rate based Atlas GNP numbers. The paper also pointed out that while PPP based estimates have considerable conceptual merit in comparing living standards across countries, they currently suffer from poor data coverage and some still unresolved statistical weaknesses that make them unsuitable for more general application. I see no reason for us to modify this position at this time. The Board paper was reviewed across the Bank during its preparation, but I have asked for a copy to be circulated more widely to operational staff to ensure that the Bank's position on this issue is effectively disseminated.

You may also be interested to learn of the steps we have taken over the past eighteen months or so to improve the coverage and consistency of PPP estimates used in Bank work. Included in this is the move to replace two sets of PPP estimates in WDI with a single set of best available numbers, which are also reproduced in the annual World Bank Atlas. More importantly, we have launched (with support from the Fund and IBRD and with the cooperation of the UN) a program to improve the quality of PPP estimates by extending their coverage to a wider range of member countries. However, even here we have clearly stated that the intention is to improve these estimates for analytical work and not for operational purposes. If, sometime in the future, Bank Management decided to make the fundamental (and essentially political) decision to switch from the Atlas methodology to a PPP basis for per capita income measurement for operational purposes, there would be a corresponding need to revise, quite significantly, the associated thresholds in the Operational Guidelines.

As for the two specific cases you raised. China has been a difficult case for some time, as you know, not so much for the PPP estimate as for the Atlas figure itself which has been criticized by many as being unreasonably low. Last year, after a joint effort by the region and DEC, we finally reached agreement on a substantial upward revision to the

national accounts leading to an Atlas GNP/capita figure of \$470 for 1992. The report you refer to was prepared by the region primarily to provide the analytical basis for this upward revision in Atlas GNP. The PPP estimate for China has been subject to even wider ranges since there has been no systematic survey done there. (Incidentally, China is one of the countries that is likely to be covered under the new PPP initiative referred to above.) The number that we have now all settled on for this year's Atlas and the forthcoming WDI is \$2120 for 1993. This is (just) consistent with the position taken in the China gray cover report which was referring to 1992 data, although the chapter title certainly makes the report dated in terms of impact. As for the \$2460 figure in the IDA paper, this was an interim number being used for the preparation of the 1995 Atlas and was inadvertently given to FPR and then used in the paper. What this illustrates for me is the need for the Bank to work with one agreed set of PPP numbers at any time and I propose that the PPP estimates in the World Bank Atlas (which are prepared by DEC and reviewed by the regions) be used uniformly throughout the Bank to ensure consistency.

As for Argentina, the Atlas estimate for 1993 is \$7,290. This "high" figure is a result of an upward revision by the authorities to incorporate the informal sector as well as new information from the latest industrial census into the GDP estimate. It was not affected by the use of any PPP methodology. The corresponding PPP estimate is \$9,130.

I would be happy to provide additional information as needed.



Michael Bruno

cc: Messrs. Kaji, Burki, Cheetham, Linn, Ahmed

OFFICE MEMORANDUM

Chron

DATE: February 1, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Priorities and Strategies for Education

1. DEC staff have served on the advisory committee for this report, have reviewed previous versions and have worked closely with HRO staff in revising it. This collaboration has worked out well; we endorse the report's main messages and concur with the four major challenges: (a) access; (b) equity; (c) quality; and (d) reducing the lag between the reform of economic structures and that of education systems. We agree that the focus of the Bank's work should be on basic education, especially in the poorest countries that receive IDA funds.

2. There is however one major outstanding issue which we believe should be addressed by the PRC, and we have some additional comments.

3. *What is the motivation for public investment in basic education, and why should lower secondary education be integrated into "basic" education?* While most of the analysis is sound and sensibly presented, the report fails to address the question of why the public sector should be involved in the provision of education. Arguing that the social rate of return to investment in basic education is high is not a satisfactory answer. What would justify public investment is a significant difference between private and social returns. The case for a public subsidy is weak if both private and social rates of returns are high, and especially if private rates of return exceed social ones -- as shown in Table 1.1. The case for public investment should be based on arguments of equity (income distribution), externalities and failures in capital markets. This is well known and indeed appears in the report, only too late (para 6.8). Similarly, while there may be good reasons to extend the public provision of "basic" education to include lower secondary education, the case is not clearly made. What are the reasons for differentiating between lower and upper secondary in subsidization? This needs to be explained.

4. *Other comments.* First, two issues of presentation/motivation. (a) There is a problem with the motivation for Part 2 of the report. Chapter 2 lays out achievements and challenges and Chapters 3 and 4 "show that current patterns of education finance and education management are not fully appropriate to meet them." While Chapter 3 does this, Chapter 4 (on "improving quality") seems to belong either under challenges in Chapter 2 or

under key reforms in Part 3. The most likely theme to be taken up in Chapter 4 is a discussion of why education management fails to meet the challenges posed in Chapter 2.

(b) The six key reforms in Part 3 include a restatement of fundamental objectives of the educational system (such as equity), as well as specific policy instruments (such as reallocating resources to basic education or more autonomous institutions). Wouldn't it be better to separate instruments and objectives specifically?

5. *Presenting the Bank's agenda.* The main message is that the Bank is already moving ahead with the six key reforms. But is progress on all of them equally satisfactory? Are there areas (such as increased private financing and provision, as well as demand-side interventions) where we are lagging and should move ahead faster? The report does not address this issue -- and it should.

6. *Editing.* There is still much repetition in the report, including in the executive summary.

cc: Messrs. Baird, Squire, Jimenez, Vieira da Cunha; Ms James.

OFFICE MEMORANDUM

DATE: January 24, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Armeane M. Choksi, HROVP

EXTENSION: 31811

SUBJECT: **Priorities and Strategies for Education**

1. I request a Policy Review Committee Meeting to discuss the attached draft Board paper, entitled "Priorities and Strategies for Education."

2. The paper discusses policy options for low and middle income countries to meet educational challenges as they move toward the twenty-first century. Designed principally to assist policymakers in our client countries, the paper is the first World Bank overview of education since the 1980 *Education Sector Policy Paper*. It has been prepared as a mini-WDR, synthesizing recent subsectoral and regional work: *Education in Sub-Saharan Africa* (1988), *Primary Education* (1990), *Vocational and Technical Education and Training* (1991) and *Higher Education* (1994). It complements this synthesis with material from ESP's ongoing work on secondary education and with attention to those sectorwide financing and managerial issues that necessarily were not covered in the earlier subsectoral papers.

3. I sent the Initiating Memorandum for the education overview paper to EXC on February 9, 1994. The subsequent production of the paper has involved both Bank and external review. The process has been guided by a Bank-wide Advisory Panel at division chief level, including representation from all six regions and DEC.¹ The draft Executive Summary was circulated to all education sector staff. In addition, four regional consultations with human resource divisional staff were organized by the Technical Department division chiefs in November 1994.

4. An external review meeting, organized by EDI on our behalf in Dijon in September 1994, brought together ministers and senior officials from developing country education and finance ministries, together with several education researchers, consultants, international agency representatives and NGO staff. In addition, several individual external reviewers have commented on earlier drafts, a formal meeting was held at UNESCO to discuss the paper, informal exchanges have taken place with the Delors Commission, the paper's messages were presented to donor agencies at the International Working Group on Education meeting in November 1994 and to several bilateral agencies in special meetings,

¹ Panel members are Mark Baird, Carl Dahlman, Birger Fredriksen, Wadi Haddad, Ralph Harbison, Roslyn Hees, Stephen Heyneman, Emmanuel Jimenez, Homi Kharas, Jack Maas, Himelda Martinez, Philip Musgrove, George Psacharopoulos, Julian Schweitzer, Richard Skolnik, James Socknat and Donald Winkler.

TO P.V.C.

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The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 31, 1995

Messrs. Koch-Weser, Rischard, Malloch-Brown

Synchronizing the World Bank: Comments

As suggested I have now reread Jean Francois' document for our next meeting and will try to point out where I agree, which is a lot, and where I have problems with it, which are not negligible. I believe that we all agree that the Bank is in the business of Development Services and it is the Non-Lending aspect of these that now requires systematic recognition, better adaptation to client needs, change in budgetary procedures and in the incentive mechanism within the Bank. I would make this a central focus of our platform for managing change in the areas that Jean Francois calls the Policy Advice Bank and the Connector Bank. I also agree that the Money Bank could do with a lot of new thinking on a variety of new products in a rapidly changing world. Finally I have no problem with our role as a Fiduciary Bank. It is, however, important to be clear on a number of issues which, I feel, remain somewhat murky unless we spell them out very clearly:

- Whatever we propose that the Bank should do must stand to the test of *maximizing development impact*. Thus *what* to do is no less important than *how* to do it. Exclusive concern with the *how* can also lead to serious mistakes.
- The Bank should not try to compete with the private sector. While we must talk to the private sector our main counterpart for policy dialogue will remain *governments* of countries.
- Other than occasional international initiatives our focus will remain countries and how our work fits into the overall development *strategy of a country*.

Unlike Jean Francois I don't think the macroeconomic side of structural adjustment is "finished". In Sub-Saharan Africa, which is and will remain a major region for our concern, it is not. Nor is it in the FSU. And even where it is "done" it has to be monitored, via Mexico (a good example of what a drastic cut in ESW may do to our ability to keep a handle on things). Moreover, policy advice extends far beyond macroeconomic matters to sectors, regulation, investment issues which often must remain policy-related. The connector bank should be strongly linked to the ability to transfer policy experience and advice across our client countries.

Next, there is no way to get a handle on development impact through sectoral intervention, including promotion of the role of the private sector, other than constantly looking at the overall strategy of a country, for which the *macro assessment* will remain central. Hence the central role that the CAS has to play in our future role of lending and non-lending services in a country. Hence also the continued importance of ESW.

The fact that well-trained economists are now in power in LAC or EAS makes our future dialogue more meaningful. Unfortunately that is not the case in many African countries. It is indeed correct that many of the economists, like financial specialists, need retooling. Likewise many of the new recruits will have to be better general macro and applied micro economists.

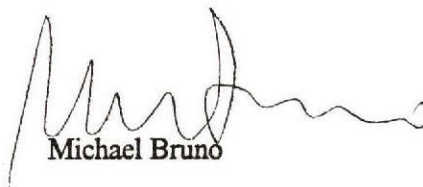
I would agree that many of our ESW products are obsolete (as are some of the economists that produce them). We need fewer voluminous reports and better focused policy notes (but they do nonetheless require good analytical grounding). We have to put greater emphasis on client involvement and dissemination to wider audiences in our client countries. And these have to be more cost-effective and at times (e.g., for graduating countries) subject to charge. I hope the working group that Gautam has appointed will come with some workable suggestions on how to budget and change incentives for our non-lending products. But I fail to see how either these or some of the fiduciary roles (be it in the Middle East or in South Africa) or the connector bank would do away with the need for analytical support from economists.

I am all for recruiting excellent specialists for development services that the Bank will have to provide. But there is no way to predict these in detail ahead of time. Therefore I am all for a much more flexible hiring policy that will make the Bank much less heavy and more agile.

- Finally, I suggest that in our next meeting we talk about the common elements in both Jean Francois' paper and in the DEC document and see how these could be further developed into some practical suggestions on which we could all agree.

The following seem to be major topics that we could concentrate on:

1. The role of non-lending services and its implications in terms of budgets, work program and staff incentives.
2. Decentralization of operations to task managers and to the field while bolstering quality control and strategic directions of policy at the Center.
3. How to upgrade strategic economy-wide views of countries going into the CAS, for both the lending and non-lending activities, through a skillful blend of economic, financial, social and institutional prisms, in which the local dialogue becomes an integral part.



Michael Bruno

The World Bank

Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Armeane Choksi

February 1, 1995

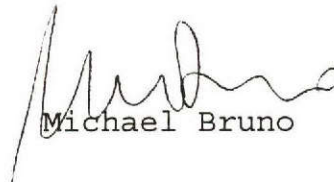
Armeane:

EDI Major Products, CY95

Please see attached a list of EDI products, which was prepared as part of DEC's review of work programs.

A large and growing number of EDI activities are in the area of human resources, and several of them involve close collaboration with your Education and PHN departments. There could be additional opportunities for collaboration, including joint programs for country participants and Bank staff as David De Ferranti and Vinod Thomas have recently discussed.

Vinod Thomas and his colleagues will follow up with you and your departments on joint activities.



Michael Bruno

Attachment

Economic Development Institute *Major Products, CY95*

This note highlights EDI's key products in 1995. They are categorized under five areas. A full list of products appears in the annex.

1. Reaching a Wider Audience through New Products

- *Seminar on Economic Reforms for Ukrainian Parliamentarians.* This seminar for parliamentary decisionmakers is intended to improve understanding of the reform process, alternative policy options, and relevant experiences of other countries, especially transitional economies. Short briefing notes are used to clarify key economic concepts. Discussions may be videotaped for later presentation to other audiences. A training-of-trainers component will ensure broad dissemination.

- *Macroeconomic Policy Options for South Africa.* In this interactive workshop parliamentarians, journalists, and government officials take part in a role-playing simulation aimed at deepening their understanding of South Africa's macroeconomic environment. The workshop is especially aimed at economically sustainable fiscal policies. Teaching methods will include videotapes on policy options for South Africa and interviews with Brazilian and Russian policymakers, and short lectures by World Bank staff and resource persons.

- *Current Policy Topics, Broad Dissemination.* A series of seminars for senior policymakers is also planned on key topics of current interest. The first in this series will be a seminar on *Capital Flows*, bringing together practitioners and analysts to discuss lessons of experience in the management of capital flows and macroeconomic policy. The findings of these seminars will be made available to a wide audience through various instruments.

- *Better Dissemination through Experiential Learning.* Participants who were asked to apply new concepts to their own organizations and in problem solving were more likely to learn and to retain new information.

"... all learning is contextual in at least three senses: new knowledge is acquired by extending and revising prior knowledge; new ideas acquire meaning when they are presented in a coherent relationship to one another; and knowledge becomes usable when it is acquired in situations that entail applications to concrete problem-solving." (C. R. Christensen, and others, *Education for Judgment*, Harvard Business School Press, Boston, 1991)

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Jean-Francois Rischard

February 1, 1995

Jean-Francois:

EDI Major Products, CY95

Please see attached a list of EDI products, which was prepared as part of DEC's review of work programs.

A growing number of EDI activities involve close collaboration with your departments. Elkyn Chaparro has been particularly helpful in advising us on future directions for EDI.

Vinod Thomas and his colleagues will follow up with Elkyn and others on further joint activities.



Michael Bruno

Attachment

Economic Development Institute

Major Products, CY95

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- *Better Dissemination through Experiential Learning.* Participants who were asked to apply new concepts to their own organizations and in problem solving were more likely to learn and to retain new information.

"... all learning is contextual in at least three senses: new knowledge is acquired by extending and revising prior knowledge; new ideas acquire meaning when they are presented in a coherent relationship to one another; and knowledge becomes usable when it is acquired in situations that entail applications to concrete problem-solving." (C. R. Christensen, and others, *Education for Judgment*, Harvard Business School Press, Boston, 1991)

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Shahid Husain

January 30, 1995

Shahid:

EDI Major Products, CY95

Please see attached a list of EDI products, which was prepared as part of DEC's review of work programs.

I would like to call your attention to Management of Education Reform (page 2 of attachment), which is a joint program for country officials and Bank staff. EDI is now in the process of adding two more seminars of this type during this fiscal year -- one for Project Management and another for Resettlement and Rehabilitation.

To begin with, these courses will focus on a particular region, and they will take place in Washington. About 30 participants might be involved in each including no less than 10 Bank staff. Based on this experience, we should be able to establish a selected set of core courses in FY96 for joint training of country officials and Bank staff.

Vinod Thomas, I understand, will be briefing you on this and other aspects of EDI's plans. We look forward to having your comments at that point.



Michael Bruno

Attachment

Economic Development Institute

Major Products, CY95

This note highlights EDI's key products in 1995. They are categorized under five areas. A full list of products appears in the annex.

1. Reaching a Wider Audience through New Products

- *Seminar on Economic Reforms for Ukrainian Parliamentarians.* This seminar for parliamentary decisionmakers is intended to improve understanding of the reform process, alternative policy options, and relevant experiences of other countries, especially transitional economies. Short briefing notes are used to clarify key economic concepts. Discussions may be videotaped for later presentation to other audiences. A training-of-trainers component will ensure broad dissemination.

- *Macroeconomic Policy Options for South Africa.* In this interactive workshop parliamentarians, journalists, and government officials take part in a role-playing simulation aimed at deepening their understanding of South Africa's macroeconomic environment. The workshop is especially aimed at economically sustainable fiscal policies. Teaching methods will include videotapes on policy options for South Africa and interviews with Brazilian and Russian policymakers, and short lectures by World Bank staff and resource persons.

- *Current Policy Topics, Broad Dissemination.* A series of seminars for senior policymakers is also planned on key topics of current interest. The first in this series will be a seminar on *Capital Flows*, bringing together practitioners and analysts to discuss lessons of experience in the management of capital flows and macroeconomic policy. The findings of these seminars will be made available to a wide audience through various instruments.

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The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: February 1, 1995 12:54pm EDT

TO: See Distribution Below

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

I will be on mission to Senegal, Kenya and So. Africa from Friday, February 10 through Friday, March 3. Mr. Lyn Squire will act for me.

Pursuant to paragraph 4 of Annex D of the Administrative Manual Statement No. 1.30, he is hereby designated to sign in the name and on behalf of the Bank/Association during that time any written instruments which I have been designated to sign.

(Signed copy of e.m. to Legal Files)

DISTRIBUTION:

TO: Lewis T. Preston	(PAPER MAIL)
TO: Gautam S. Kaji	(GAUTAM KAJI)
TO: SVEN SANDSTROM	(SVEN SANDSTROM @A1@WBWASH)
TO: RICHARD FRANK	(RICHARD FRANK @A1@WBWASH)
TO: IBRAHIM SHIHATA	(IBRAHIM SHIHATA @A1@WBWASH)
TO: ORSALIA KALANTZOPOULOS	(ORSALIA KALANTZOPOULOS @A1@WBWA)
TO: Ignacio Mas	(IGNACIO MAS)
TO: Masood Ahmed - IECDF	(MASOOD AHMED)
TO: Mark Baird	(MARK BAIRD)
TO: Gregory Ingram	(GREGORY INGRAM)
TO: Lyn Squire	(LYN SQUIRE)
TO: Vinod Thomas	(VINOD THOMAS)
TO: Michael Walton	(MICHAEL WALTON)
TO: Paulo Vieira Da Cunha	(PAULO VIEIRA DA CUNHA)
TO: Lesley Davis	(LESLEY DAVIS)
TO: Robert Voight	(ROBERT VOIGHT)
CC: INSTITUTIONAL ISC FILES	(INSTITUTIONAL ISC FILES @A1@WBW)

A L L - I N - 1 N O T E

DATE: 01-Feb-1995 01:23pm

TO: ERNEST STERN

(ERNEST STERN @A1@WBWASH)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

Attached.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

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(MICHAEL BRUNO)

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(Signed copy of e.m. to Legal Files)

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TO: Robert Voight
CC: INSTITUTIONAL ISC FILES

(PAPER MAIL)
(GAUTAM KAJI)
(SVEN SANDSTROM @A1@WBWASH)
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(VINOD THOMAS)
(MICHAEL WALTON)
(PAULO VIEIRA DA CUNHA)
(LESLEY DAVIS)
(ROBERT VOIGHT)
(INSTITUTIONAL ISC FILES @A1@WBW)

A L L - I N - 1 N O T E

DATE: 01-Feb-1995 12:53pm

TO: WEEKLY BULLETIN

(WEEKLY BULLETIN @A1@WBWASH)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: WKB--Sr. Management and Department Directors Travel Arrangement

Title : Vice President
Name : Michael Bruno
Destination 1 : Senegal
2 : Kenya
3 : So. Africa
4 :
5 :
Dep/Return : 2/10/95-3/4/95
Acting Assignment 1: *Lyn Squire*
2:
3:

Chro7

THE WORLD BANK GROUP

ROUTING SLIP		DATE: February 1, 1995	
NAME		ROOM. NO.	
Messrs. M. Ahmed		S8-055	
M. Baird		S9-055	
L. Squire		N11-051	
V. Thomas		M7-021	
☐	URGENT	☐	PER YOUR REQUEST
☒	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Attached for Vps meeting with S. Husain-2/13			
REMARKS: Could you please send any comments you may have to Lesley Davis by c.o.b. February 7. Thanks. Michael cc: Mrs. L. Davis			
FROM Michael Bruno		ROOM NO. S9-035	EXTENSION 33774

2909

THE WORLD BANK / IFC / M.I.G.A.

OFFICE MEMORANDUM

95 JAN 31 PM 4:42
RECEIVED
DEVELOPMENT ECONOMICS
ECONOMIST

DATE: January 30, 1995

TO: Distribution

FROM: Anthony Pellegrini, Sr. Adviser, TWUDR *OK for AP*

EXTENSION: 36752

SUBJECT: Business Process Innovation: Recommendations on Sector Professional Training

Attached is a summary report of the Business Process Innovation Team on Sector Professional Training. Mr. S. Shahid Husain suggested that the findings on professional training be circulated for discussion with the Vice Presidents.

A new follow-on BPI Team on Staff Development under the chairmanship of Tariq Husain and Clifford Gilpin has recently been established to look at Staff Development Issues that go beyond training. Members of both BPI Teams would be happy to brief you and your management team further at your convenience.

The full report can be obtained from Joe Murphy, x33981.

Distribution:

Messrs. Ibrahim Shihata, LEGVP; Johannes Linn, FPRVP; Stephen Eccles, CTRVP; Edward Jaycox, AFRVP; Russell Cheetham, EAPVP; D. Joseph Wood, SASVP; Wilfried Thalwitz, ECAVP; Caio Koch-Weser, MNAVVP; Shahid Javed Burki, LACVP; Hiroo Fukui, CFSVP; Michael Bruno, DECVP; Ismail Serageldin, ESDVP; Jean-Francois Rischard, FPDVP; Armeane Choksi, HROVP

Mme. Jessica Einhorn, TREVP

cc: Messrs. S. Shahid Husain, MPSVP; Peter Karp, PMDDR; Clifford Gilpin, PMDTR; Tariq Husain, MNAVVP; Ron Ashkenas, OBPOD

Business Process Innovation

Professional Sector Training

Summary of Proposed Model

January 1995

Members of the Team: A. Pellegrini, J. Waterston (Co-Chairs); A. Van Nimmen, G. Yepes, J.F. Ford, J. Doyen, P. Jones, S. Mink, S. Deol, C. Gilpin, V.K. Bhargava, E. Johnson. Consultant: Ron Ashkenas.

PREFACE

The Business Process Innovation (BPI) team on Sector Professional Training was established to review the training initiatives that had been adopted in the MENA and other Regions and consider how these initiatives could be extended Bankwide.

The BPI team reviewed the Regional programs, held discussions with the CVPUs, organized "benchmarking" visits with other institutions and held a number of in-depth discussions with staff of several sectors.

This note summarizes the team's findings and recommendations. Much of the team's effort was focussed on getting recommendations piloted in the "sectors." This is already happening in Infrastructure and elements of the recommendations are being taken up by other sectors, including PHN, ESP, FPD and ENV.

A follow-on BPI team has been established to look at broader staff development issues that go beyond professional training.

DIAGNOSIS OF EXISTING TRAINING PROCESS

A review of Bank business needs in relation to sector professional training by the Business Process Innovation Team led to the following diagnosis of issues that negatively affect the current training structure within the Bank:

- We have fallen into a trap of accepting an overly *ad hoc* approach to training that ignores institutional needs. Staff are free to sign-up for courses in the catalogue managed by the Training Division. They may receive some guidance from managers, but there is little institutional direction to staff or to managers that clarifies the institution's priorities with respect to training.
- Course offerings are scheduled to a significant extent based on the availability of the individual course manager, who typically is a staff member of one of the CVPU's. The Training Division is unable to program its curriculum properly because it has no authority over the individual sector staff who are responsible for training courses; the timing of courses is often unpredictable.
- PMDTR has difficulty obtaining information in the beginning of the planning cycle on the demand for its courses; special surveys are sometimes conducted to get this data, but information contained in individual training plans does not flow easily to PMDTR. Course scheduling is therefore often done without sufficient knowledge of demand.
- Incorporation of feedback on course design and improvement is erratic.
- There is no systematic process for revising sector curriculum.

GUIDING PRINCIPLE OF PROPOSED APPROACH

Use training as a strategic tool.

Professional sector training can and *should* be a vehicle for:

- *Building a common sectoral culture* - Changing the "culture" in a given sector requires that everyone working in that sector be exposed to the same set of messages; Training should be used to ensure that all staff are familiar with current sector policy and have a forum for discussion of sector issues.
- *Delivering on the Bank's strategic initiatives*; Giving emphasis to new priorities--e.g., protecting the environment, re-orienting government, increasing the role of the private sector in infrastructure, requires that staff have the knowledge needed to discuss these initiatives with clients. Training should be used to enhance staff skills and bring together experiences from outside and inside the institution to deal with strategic initiatives.

In other words, in a world where the *external environment is changing rapidly* - use training to help reshape thinking and keep Bank staff at the forefront of their sector.

A "STRATEGIC" TRAINING MODEL

The BPI team recommends the adoption of a "strategic" model for Training with the following characteristics:

- CVPU formally take accountability for the professional sector training of technical staff.
- *An annual high-level review* of training objectives, targets and achievements is initiated by senior management as part of a Training Cycle. The review defines institutional priorities and specific institutional objectives.
- CVPU (with guidance from Sector Staffing Groups^{1/}) *establish strategic direction* for training in sectors under their responsibilities based on business priorities and institutional objectives.
- CVPU (with advice from Sector Staffing Groups^{1/}) *establish a limited "core" curriculum* (2 or 3 courses) to build sector culture and provide focus on sector business priorities. Core courses would be part of a well-defined sector curriculum. All staff, even senior staff, "expected" to complete core curriculum or demonstrate competency - tied to PPR process. This would ensure that all Staff are exposed to the same set of sector "messages."
- *Course manager function significantly strengthened* to promote excellence in teaching.
- *Regional TDs supplement core curriculum* with a Region-specific customized program.
- *Orientation workshops* developed for each sector for new staff.

^{1/} Or an equivalent group of Regional Managers.

MAKING IT HAPPEN

To implement the "Strategic training model, the following steps need to be implemented:

- Develop an Annual Training Cycle:
 - a) An annual high-level management review (perhaps under the chair of the SVP for Management and Personnel Services) should be established to assess the training program of each Central Vice-Presidential Unit. This review would cover:
 - i) training priorities and objectives based on sectoral business priorities
 - ii) training targets
 - iii) accomplishments
 - b) A separate review should be conducted by Regional VPs of Regionally-customized training and dissemination plans prepared by the Regional Technical Departments. (It's clear that no centralized system can respond to all needs, and Technical Departments are well placed to organize special regional training activities.)
 - c) Regional Management should monitor the implementation of training and staff development based on agreed plans.
- Use Sector Staffing groups (or equivalent group of Regional Managers) to ensure that content of each sector's core program is "demand" based and takes into account Regional business needs.

(Cont.)

- Strengthen the course manager function. When course managers are appointed (a responsibility of the CVPU Departmental Director), the terms of reference should establish objectives, budget, work program and longer timeframe; Course managers should be judged on achieving their specific training target, (e.g., all infrastructure staff trained in private sector project finance over a three-year period) rather than be judged on delivery of a single course. A time frame involving delivery of repeat sessions by the same course manager would facilitate course improvement over time. Course evaluations should be sent to members of the sector staffing group and CVPU director. The budget system should facilitate reimbursing course managers from Regions where appropriate.
- Change the role of the Training Division (PMDTR) - for sector training - to one of support to CVPU's involving coordination, logistical support and pedagogical advice (PMDTR will continue to have other responsibilities for non-sector training).
- Develop an MIS module so that Office technology be used to facilitate timely information flow on course demand from individual training plans to CVPU's and PMDTR.

EXAMPLE OF CORE COURSES

COURSES INCLUDED IN THE INFRASTRUCTURE CORE PROFESSIONAL PROGRAM

For All Infrastructure Staff:

- Issues and Options in Private Sector Infrastructure (new)

For Transport Staff:

- Road Agency Organization and Management (new)
- Transport, Energy, and the Environment (new)

For Water and Sanitation Staff:

- Pricing of Water and Sanitation Services (redesigned)
- Enabling Environment for the Water and Sanitation Sector (redesigned)

For Urban Staff:

- Urban Service Delivery and Municipal Management (redesigned)
- Urban Environment Strategy and Action Plans (redesigned)
- Strategies and Programs for Urban Poverty Reduction (redesigned)

For New Staff to Sector:

- Sector Orientation Workshop (new 2-day workshop to be offered each January)

WHAT WILL IT COST?

- The process changes recommended do not in and of themselves involve significant additional costs. They involve shifts in accountability and a different way of doing business.
- The new focus on business needs is likely to lead to training targets being set that are more ambitious than the current situation. However, these costs are independent of the recommended process changes.
 - (i) For example: The Infrastructure Training Initiative will lead to a complete re-design of the infrastructure curriculum. The incremental costs of the accelerated design of new courses will cost approximately \$140,000.
 - (ii) The MENA training initiative, which involves meeting training targets for Regional Staff within 2 years, is costing approximately \$100,000.

NEXT STEPS

The approach recommended is already gaining acceptance in several parts of the Bank. Following discussion with the Infrastructure Sector Staffing Groups, the Infrastructure sector has adopted the model. Elements of the model are being incorporated in the training plans being prepared in several other sectors, including PHN, ESP, FPD and ENV. Next steps include:

- Review approach with VPs.
- Develop "delivery mechanisms" (e.g., MIS module, coordination mechanism).
- Adopt calendar for annual training cycle and high-level review.

WHAT WAS NOT LOOKED AT?

The BPI Training Team focussed only on sector professional training. It did not consider training for Bankwide skills, such as procurement, task management, training for managers, or languages, since new initiatives for this type of training are already being considered by the Training Division.

There are a number of areas where further work is desirable and which are being considered by a follow-on BPI initiative dealing with the broader issues of Staff Development^{2/}. These include:

- Extension of the model to other staff, e.g. economists, country officers and perhaps support staff;
- Development of a broader strategy for staff development, e.g., special assignments, sabbaticals, intensive training outside the Bank;
- Consideration of closer collaboration with EDI for staff training. A close link with EDI is strongly recommended; this would permit sharing of case study and other pedagogical materials and would facilitate expansion of current experiments (mostly in LAC) involving joint workshops for borrowers and staff on selected policy initiatives. Joint training of staff and borrowers on key new policy initiatives may have great potential and should be actively pursued.
- Consideration of the proposal for an in-house Staff Training Institute.

^{2/} Co-Chairs of this follow-on BPI initiative are Tariq Husain and Clifford Gilpin

SUMMARY OF RECOMMENDATIONS

Sector Professional Training

1. Each sector is encouraged to define a limited number (two or three) *professional core courses* that would be "required" of all sector staff, even senior staff, unless exempted by their manager. Sector-specific orientation courses should be established for new staff. Sector staffing groups should play the key advisory role in defining "core" courses.
2. The *accountability for sector professional training* should be decentralized from the Training Division to:
 - i) the CVPUs for Bankwide training, and
 - ii) the Regional Technical Departments for regional customized training.

(The Training Division would continue to provide logistical support and would continue to be responsible for other training.)
3. *The course management* function for training courses needs to be significantly strengthened.
 - Multi-session (perhaps multi-year) assignments for a course manager are necessary to permit course improvement over time.

(Cont.)

- Each course manager should be held accountable for developing a course schedule and program to achieve a specific training target (e.g., all sector staff trained in use of World Bank Guarantees over two year period) rather than just being accountable for organizing a single course. Scheduling and frequency needs to be related to demand and should be related to institutional objectives.
- Work programs for course managers need to account for training in a realistic manner. Cross-support budgeting, e.g., from CVPUs to Regions, needs to be made to work in cases where, for example, the best course manager is in the Regions. Outside contractors should be encouraged where this is feasible.

4. An *annual program budget* cycle for training needs to be established.

- i) For Bankwide sector training, a high-level annual review of the training objectives (e.g., due to strategic shifts in Bank priorities), yearly targets and past accomplishments of CVPUs should be undertaken each year. This review might be chaired by the Senior Vice President of Management and Personnel Services at the time of the Business Prospects Preparation.
- ii) The Bankwide training calendar needs to be related to demand. This will require that information from individual training plans is available in aggregated form when the training calendar is being prepared. Development of a training module for the MIS (or All-in-one) should be considered. This would permit entry of individual training plans and subsequent Bankwide aggregation of demand. The MENA Region is already utilizing a standardized format for a two-year training plan and a one-year training "contract" that could form the starting point for design.
- iii) Regional Technical Departments should prepare a brief indicative training program for Regional Customized training as part of the Technical Department annual prospects input.

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. E.V.K. Jaycox

January 30, 1995

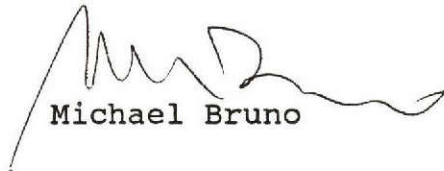
Kim:

EDI Major Products, CY95

Please see attached a list of EDI products, which was prepared as part of DEC's review of work programs.

A growing number of EDI activities are in your region. I would like to call your attention to Macroeconomic Policy Options for South Africa (Page 1 of attachment) which follows a similar activity in Tanzania. In these and other cases, you might be able to use EDI as a powerful resource in selected countries to facilitate the development and dissemination of their country strategies (please see Attachment 2 of the recent workshop in Tanzania).

Vinod Thomas and Peter Miovic would very much like to explore these and other possibilities with you and your colleagues. They will call to follow-up.



Michael Bruno

Attachments

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Caio Koch-Weser

January 30, 1995

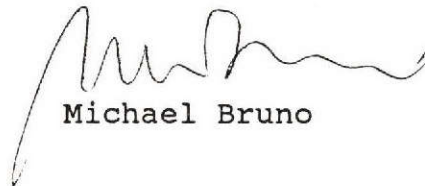
Caio:

EDI Major Products, CY95

Please see attached a list of EDI products, which was prepared as part of DEC's review of work programs.

A growing number of EDI activities are in your region (for example, Management of Development Policies for the Arab States; Environmental Management on page 3 of the attachment). You might be able to use EDI as a powerful resource in selected MNA countries in areas of strategic importance.

Vinod Thomas will call you to brief you on the current status of EDI activities and to explore with you where the additional possibilities are.



Michael Bruno

Attachment

OFFICE MEMORANDUM

DATE: January 30, 1995

TO: Mr. Ernest Stern

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Uzbekistan: Country Assistance Strategy

1. We have the following comments on the Uzbekistan CAS.
2. Macroeconomic framework. You will recall that we were concerned about the consistency of the macroeconomic framework during the review of the Rehabilitation Loan. At that time, the Region's response was that price liberalization was now largely complete and inflation had fallen sharply toward the end of 1994. The CAS is silent on prospects for inflation. But it does make it clear that major price adjustments are still ahead (e.g., for cotton, agricultural inputs, petroleum products, and following the abolition of indirect price controls through the anti-monopoly commission). These adjustments will lead to price spikes which, given the floating exchange rate and the auction market for Central Bank funding, are likely to feed through to the rest of the economy and raise inflationary expectations. Under these conditions, I am not convinced that a single money-based nominal anchor will be able to keep inflation under control. What kind of fiscal stance will make this program hold – and is it politically feasible? What are the implications for real wages? This is a central issue, given the importance attached to stabilization in the lending scenario triggers.
3. Enterprise reform. The critical triggers for moving ahead with the Enterprise Restructuring SAL under the high case are: (a) identification and isolation of 30-50 enterprises with largest arrears; and (b) initiation of, and progress under, the pilot restructuring program for enterprises (Table 3). Criterion (a) could have significant budgetary implications, especially if the Government is unwilling to accept large-scale layoffs. Whatever solution is adopted, it should not lead to any premature recapitalization of state-owned banks or to a bail-out of private investors. Can criterion (b) be made more explicit? Should it not be directly linked to parallel progress in financial reform, beyond the high case triggers on eliminating directed credit and strengthening the legal and regulatory framework? The CAS notes that loan design would benefit from the experience of Bank-supported programs in Kazakhstan and the Kyrgyz Republic (para. 64). How are these programs progressing and what have we learnt that will affect our approach in Uzbekistan?
4. Economic projections. The Technical Annex presents detailed projections for the high case. Is this the most likely scenario? Despite the presumed restructuring, there are relatively small changes in the level and composition of output, in comparison to the experience of other economies (Poland, Russia) where there has been further progress in meaningful ownership change. What explains the exception in the case of Uzbekistan? Similarly, despite the presumed macro adjustment, there are no changes in total absorption and the resource balance actually rises sharply in 1995. If the underlying projections for investment are overstated (with the initial recovery in output coming from redeploying and increasing the efficiency of the existing capital

stock) and export prospects are understated (growth in non-traditional exports is essentially flat, notwithstanding the presumed sea-change in the incentive structure), the external financing requirement might well be substantially less than projected.

5. Economic and sector work. The CAS does a good job of laying out the lending program and the triggers for moving between the three scenarios. By contrast, para. 73 does a very weak job of explaining and justifying the proposed ESW program. I would have liked to have seen more information on the issues to be covered by the proposed tasks and their links to our other services (lending, policy dialogue, aid coordination etc). Without this, it is hard to justify what might be a very expensive series of energy, poverty, environment and infrastructure reviews. The emphasis on short policy notes is appropriate. However, this is only one part of a process, starting with solid analysis and ending with an effective program of dissemination and policy dialogue. I would have liked to have seen more details on how these components will fit together in Uzbekistan.

cc: Ms Kalantzopoulos.

FOR YOUR INFORMATION

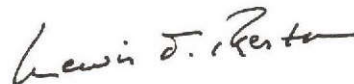
FYI/14/95002
January 26, 1995

Staff Announcement

World Development Report 1996

The 1996 WDR will focus on the transition from plan to market. During the last decade, many countries have liberalized their economies and undertaken deeper institutional reforms, but nowhere has the swing towards the market been more dramatic than in a set of countries that previously represented the polar end of the spectrum—the previously planned communist countries. For between forty and seventy years, about one third of the world's population and natural wealth has been locked away from the global economy in autarkic centralized regimes with state ownership of all significant assets. The WDR will emphasize issues arising in the course of fundamental systemic reforms, particularly (but not exclusively) in Eastern Europe, the Former Soviet Union and East Asia, and will assess the significance of these reforms for the world economy. Many of the individual elements of the process, for example, achieving current account convertibility or reforming banking systems, have parallel with reforms in market economies and can benefit from their experience. In the scale of the problem, the interrelationships among the elements of reform, the vacuity of institutions to support markets, and the necessary restructuring of the government's role in the economy, the transition problem is extreme. Yet, though extreme, this experience could provide valuable lessons for development, notably in the poorer countries where the institutional base and the organizational capacity is weak. While conclusions must still be preliminary, the WDR will seek to draw out lessons of interest, both for the less advanced of the reforming countries and for the development community in general.

I am pleased to announce the appointment of Mr. Alan Gelb as Staff Director for the 1996 WDR. As in the past, the preparation of the Report will draw upon the expertise of staff throughout the Bank. I am sure I can again count on your fullest cooperation in supporting this important work.



Lewis T. Preston
President

1/25

The World Bank

Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Gautam Kaji

January 24, 1995

Gautam,

1996 WDR

As we have discussed, I have selected Alan Gelb as the Staff Director for the next WDR on "Transition". We have prepared a draft of the announcement which I attach for your comments and suggestions. Because we have already received many inquiries regarding the 1996 WDR, I would appreciate it very much if the announcement from Mr. Preston could be distributed as soon as possible, preferably before the end of this week.

Thank you.



Michael Bruno

Attachment/1

OK

LTP

LTP

Mr. Kaji has OK'd the attached.

If you approve they will send it to staff. Signature will be auto-per.

Poh

FYI/14/95002
January 26, 1995

Staff Announcement

World Development Report 1996

The 1996 WDR will focus on the transition from plan to market. During the last decade, many countries have liberalized their economies and undertaken deeper institutional reforms, but nowhere has the swing towards the market been more dramatic than in a set of countries that previously represented the polar end of the spectrum—the previously planned communist countries. For between forty and seventy years, about one third of the world's population and natural wealth has been locked away from the global economy in autarkic centralized regimes with state ownership of all significant assets. The WDR will emphasize issues arising in the course of fundamental systemic reforms, particularly (but not exclusively) in Eastern Europe, the Former Soviet Union and East Asia, and will assess the significance of these reforms for the world economy. Many of the individual elements of the process, for example, achieving current account convertibility or reforming banking systems, have parallel with reforms in market economies and can benefit from their experience. In the scale of the problem, the interrelationships among the elements of reform, the vacuity of institutions to support markets, and the necessary restructuring of the government's role in the economy, the transition problem is extreme. Yet, though extreme, this experience could provide valuable lessons for development, notably in the poorer countries where the institutional base and the organizational capacity is weak. While conclusions must still be preliminary, the WDR will seek to draw out lessons of interest, both for the less advanced of the reforming countries and for the development community in general.

I am pleased to announce the appointment of Mr. Alan Gelb as Staff Director for the 1996 WDR. As in the past, the preparation of the Report will draw upon the expertise of staff throughout the Bank. I am sure I can again count on your fullest cooperation in supporting this important work.

Lewis T. Preston
President

THE WORLD BANK/IFC/MIGA
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THE WORLD BANK GROUP

ROUTING SLIP		DATE: January 27, 1995	
NAME		ROOM. NO.	
Mr. Bill Easterly		N11-069	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☒	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Attached			
REMARKS:			
Bill, FYI: I enclose comments made by Holger Wolf on the papers I gave him. A substantial part relates to our joint paper. Michael P.S. Many thanks for the data and very good additional comments.			
FROM Michael Bruno		ROOM NO. S9-035	EXTENSION 33774

Paper with Rafi

The paper provides a very useful addition to the literature by moving beyond the "static institution" approach taken in much of the existing work. The result on the link between the mean lag and the steady state inflation change is neat and unexpected. On the econometrics, the co-integration equation fits wonderfully - a rare event.

I just have a few points on the econometrics which - time permit- it might be useful to look into in a revision.

1. Looking at the wage and exchange rate pictures, the serial correlation of residuals raises the question whether we are looking at fairly persistent deviations from trend, or whether the trend itself is changing more frequently, lending a spurious autocorrelation to the measured deviations. Maybe replicating the results using residuals from a HP filter or another flexible detrending method would be instructive.

2. If I understand it correctly, there is no path dependence in the price setting behavior - if the inflation rate accelerates and then decelerates back to its original level, the original price setting rule will be re-attained. I do not know whether this is realistic for Israel, but for most of the countries I looked at, relatively short horizon price setting appears to remain the rule for a substantial time period after stabilization. I doubt that much would change, but in principle this could be addressed by replacing 7.3 by a partial adjustment framework.

3. The assumption of an exogenous deficit and a well specified money demand function is - as you note in the conclusion- problematic. Of course, this is more easily criticized than remedied, but it raises the important issue of whether thinking about hyperinflations in a steady state framework is really appropriate. If the feedback effects on financial structure adjustment and on the deficit are sufficiently strong, the long run equilibrium may not exist - at least not in the sense we normally define it. This seems to have been the case in the interwar and post-45 cases, though not the recent episodes. Applied to the former instances, the model -with a suitable redefinition of the long run- would provide an interesting explanation why the system eventually but not immediately goes over the edge.

4. It is not quite clear to me how to interpret λ . Is 11.2 surprisingly high? low? as expected? While obviously quite data-intensive, it would be useful to examine λ across the set of hyperinflation episodes to get a better feel for typical adjustment speeds..

5. A few minor comments:

[a] If I am not mistaken, should it read DDM rather than $D\dot{m}$ in equation 10.2 ?

[b] It might be useful to plot the estimated mean lag for Israel over time.

6. Norman's comments:

I think he is right, but in a broader sense, the issue is not relevant. ADF tests indeed have low power. More seriously if less econometrically, Figure 1 in the paper does not look like a garden variety $I(2)$ series. However, it is reasonable to assume that the type of adjustment processes you describe in the paper (wage indexation, price setting) are fairly invariant to inflation at low levels. The feedback effects thus arise predominantly in the actual high inflation episode, and there inflation is clearly $I(2)$ though there are too few observations to do meaningful tests.

Inflation and Growth

The paper yields a very intriguing result which is highly robust across countries. Apart from some quibbles about the precise definition of growth recovery, I have few fundamental comments but think it would be useful to see



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File Title Michael Bruno - Internal Chronological - January to February 1995		Barcode No. 30486492		
Document Date January 24, January 26, 1995	Document Type Email hard copy			
Correspondents / Participants Eveline Herfkens, EDS19 and Michael Bruno, DECVP				
Subject / Title RE: Visit of Mrs. Florence Braun, Bank of Israel				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by K. Brenner-Delp</td><td>Date June 25, 2025</td></tr></table>	Withdrawn by K. Brenner-Delp	Date June 25, 2025
Withdrawn by K. Brenner-Delp	Date June 25, 2025			

OFFICE MEMORANDUM

Ind. Chron

DATE: January 25, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Georgia - Rehabilitation Credit

Given the extremely difficult position and the measures that the Government has taken to date, we support the above credit. You may wish to consider the following issues for the agenda of the Loan Committee meeting:

- Consensus for reform within the Government. The Credit proposes a number of very difficult reforms including a reorganization of the structure of the Government and a reduction in the number of civil servants by at least 25 percent. Paragraph 141 mentions that there is a lack of unanimous support for the reforms within the Government. Given the severity of the reforms proposed, can the Region clarify the differences among different parts of the Government and implications for the political economy of reform?
- Fiscal issues. Paragraph 14 indicates that there has been a dramatic drop in tax revenue through 1994. It is estimated to have fallen under 3 percent of GDP. Revenue collection is expected to remain relatively low, reaching only 13.5 percent of GDP over a period of 9 years (compared to tax revenue excluding grants of 30 percent in 1991). While subsidies, which are said to have accounted for 70 percent of public expenditure have been cut back, the magnitude of the fiscal adjustment required is very large. Budgetary expenditure is estimated to be about 14 percent of GDP through the beginning of the next decade. Can the Region elaborate on the details of the fiscal adjustment underway? Is it not possible for revenue to climb higher than 13 percent of GDP? Is the fiscal adjustment sustainable given the massive reduction of expenditures required? Given the poor state of basic infrastructure in Georgia, can the economy really reach a growth rate of about 7 percent with total public expenditure at about 14 percent of GDP? What are the implications of the adjustment for expenditure allocations?
- Inter-enterprise arrears. Paragraph 47 discusses the imposition of hard budget constraints on the public sector by the Government and the banks. Paragraph 66 mentions that inter-enterprise debts are a significant problem. Not much is said about how the arrears situation will be addressed. Can the Region elaborate further on plans for dealing with inter-enterprise arrears?
- Financial reform. The financial institutions in Georgia are said to be in perilous financial condition. It is mentioned that the five major state banks are likely to have negative net worth and that financial restructuring will be required. Do plans for restructuring these banks include recapitalization? Do the appropriate conditions for recapitalization exist? One quarter of the banks created in recent years are said to warrant closing. To what

extent are the deposits in these institutions guaranteed? What are the fiscal implications of the financial measures that will be undertaken?

- Pension reform. Paragraph 78 discusses pension reform. Preparation of a reform plan of the social protection system is to be completed by mid-year 1995. Can the Region elaborate on the type of system it would see as suitable in Georgia? Will the system be following the principles set out in the recent study on Old Age Security by the Bank?
- The 1995 financing gap. The table on page 26 indicates that the unidentified financing gap for 1995 is quite large and that it is expected to be filled by either debt relief, refinancing of arrears and grants. What is the probability that such financing will materialize? What are the assumptions underlying the high growth rate of exports in 1995 and are they likely to materialize? Will the program be sustainable of the current account estimates turn out to be optimistic?
- The CAS. We accept the Region's explanation for including only a brief section on the Bank's assistance strategy. We trust that the Region will provide a fully developed CAS before the next policy-based operation.

cc: Ms. Kalantzopoulos

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Gautam Kaji

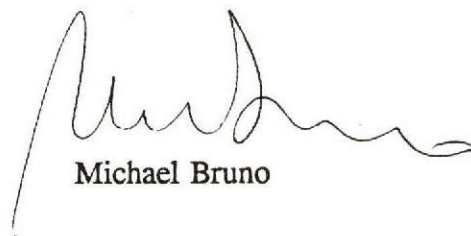
January 24, 1995

Gautam,

1996 WDR

As we have discussed, I have selected Alan Gelb as the Staff Director for the next WDR on "Transition". We have prepared a draft of the announcement which I attach for your comments and suggestions. Because we have already received many inquiries regarding the 1996 WDR, I would appreciate it very much if the announcement from Mr. Preston could be distributed as soon as possible, preferably before the end of this week.

Thank you.



Michael Bruno

Attachment/1

Staff Announcement

World Development Report 1996

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OFFICE MEMORANDUM

WTO 1/24

Approved by: _____

Gautam S. Kaji

Date: _____

DATE: January 23, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Relations Between the Bank and the World Trade Organization (WTO)

We have revised this paper taking account of your marked-up copy and Mr. Stern's drafting suggestions. I hope the revised version can now be cleared for distribution to the Board.

Attachments

cc: M. Ahmed (IECDR), L. Winters (IECIT)

*Pls ask AW to handle
distribution of 802*

1/25 ave

OFFICE MEMORANDUM

cc. ~~M. Ahmed~~
Chron.

DATE: January 24, 1995

TO: Mr. Jack Boorman

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: IMF Seminar on Trade Policy

Thank you for inviting me to this seminar. Unfortunately, I am already committed at that time. You may wish to invite Mr. Masood Ahmed to participate in the wrap-up session in my place. I feel he would provide both the right substantive and institutional input to the discussion.



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Correspondents / Participants To: Nina S. Ruivivar From: Michael Bruno				
Subject / Title Mr. Clem Tisdell				
Exception(s) Personal Information				
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Correspondents / Participants To: Vinod Thomas From: Michael Bruno				
Subject / Title Mr. Joao Batista				
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OFFICE MEMORANDUM

DECVP File (ED1)
Chron.

DATE: January 18, 1995

TO: Mr. Michael Bruno, DECVP MB

FROM: Vinod Thomas, EDIDR Vinod Thomas

EXTENSION: 36300

SUBJECT: **Notice on World Bank Graduate Scholarship Program Appointment**

1. Attached are two memoranda for the Executive Board regarding the appointments of Messrs. Walter Rill and Julio Nogues to the Steering Committee of the World Bank Graduate Scholarship Program (WBGSP). Appropriate consultations have been done by the Secretary's Department and Messrs. Rill and Nogues accepted.

2. A memo, also attached, addressed to the Secretary General accompanies the usual draft announcement required by the Secretary's Department.

Attachments

MdL

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

January 25, 1995

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: World Bank Graduate Scholarship Program
Appointment to the WBGSP Steering Committee

1. The Board Memoranda (SecM87-176, dated February 27, 1987 and SecM87-401 dated April 17, 1987) under which the World Bank Graduate Scholarship Program was established provide that a Steering Committee will oversee the Program. The Steering Committee is composed of two Executive Directors and four staff members of the Bank who serve for renewable periods of up to two years, as well as the Executive Director from Japan. The Executive Directors are selected by the Board of Executive Directors and the Bank staff are selected by the President of the Bank.
2. The Steering Committee is currently composed of Mr. Vinod Thomas, Mr. Yasuyuki Kawahara, Mr. Yoshiaki Abe, Ms. Katherine Marshall, and Mr. Michel Petit. Mr. John W. Cosgrove has retired and it is necessary to appoint his successor. After appropriate consultation, I propose that Mr. Julio Nogues be selected for a term of two years, starting January 1, 1995.

OFFICE MEMORANDUM

DATE: February 8, 1995

TO: Mr. Timothy Thahane, SECGE

FROM: Frank Farnier, WBGSP Administrator, EDIHR

EXTENSION: 36414

SUBJECT: ***Notice on World Bank Graduate Scholarship Program
Appointment***

Attached is a memorandum for the Executive Board regarding the appointments of Messrs. Walter Rill and Julio Nogues to the Steering Committee of the World Bank Graduate Scholarship Program.

Attachments

MdL

FROM: Vice President and Secretary

WORLD BANK GRADUATE SCHOLARSHIP PROGRAM

Attached are two memoranda from the President entitled "World Bank Graduate Scholarship Program: Appointments to the WBGSP Steering Committee".

In the absence of objection (which should be communicated to the Vice President and Secretary or Deputy Secretary by close of business February 15, 1995), it is recommended that the Executive Directors approve the appointments to the Steering Committee, to be so recorded in the minutes of a subsequent meeting of the Executive Directors.

Distribution:

Executive Directors and Alternates
Office of the President
Executive Vice Presidents, IFC and MIGA
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Javed,

Enc. a copy of
the document. It does not seem to
add anything. MB

P.S. please keep to yourself and destroy this
note.

Mexico

1. Background, 1989-1993

For a number of years, Mexico has pursued policies aimed at fostering sustainable economic growth, balance of payments viability, and low inflation. Key elements of the strategy included a sharp improvement in public finances and far-reaching structural reforms involving financial and trade liberalization, deregulation, privatization, and the orderly restructuring of the external debt.

In the effort to reform the public sector--the centerpiece of the authorities' economic strategy--emphasis was placed on privatization, increased spending on social and other priority sectors, and providing greater scope for the private sector to participate in key areas of the economy. Major tax measures included the correction of distortions, harmonization of the system with those abroad, widening of the base, and reductions in marginal rates. Concurrently, the fiscal position shifted from a deficit of 16 percent of GDP in 1987 to a surplus of 1.7 percent of GDP in 1992 and was roughly in balance in 1993-94.

Other aspects of Mexico's structural reforms included:

- liberalizing the external trade and payments system, including through entry into NAFTA and other free trade arrangements;
- liberalizing and privatizing the financial system;
- granting autonomy to the Bank of Mexico;
- implementing a new Foreign Investment Law to simplify procedures and expand the scope for foreign investment in Mexico; and
- modifying capital market legislation to strengthen the regulatory framework and permit the trading of foreign securities on the same terms as domestic instruments.

Real GDP growth averaged about 4 percent a year in 1989-91 but fell to 2.6 percent in 1992 and to an estimated 0.6 percent in 1993, the lowest rate since 1986. The growth in 1989-92 was led by a surge in gross domestic investment that followed deregulation and the opening up of the economy, and a rapid growth in private consumption which reflected increased demand for durable goods imports following trade and financial liberalization. The economic slowdown in 1993 was associated with declines in both investment and private consumption, while exports of goods and services recovered strongly after a slowdown in the previous year. Inflation as measured by the consumer price index fell to 8 percent during the year ended December 1993 compared with 20 percent during 1989.



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The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 18, 1995

Mr. Gautam Kaji

Loan Committee and CAS Reviews

Gautam,

I wanted to share a few additional thoughts on the proposed changes we discussed on Friday.

We support the increased focus on the CAS as the primary instrument of setting Bank priorities and our program of lending and non-lending services for a country. We also support the proposal to focus the Loan Committee on major policy and strategic issues, with most issues of detail resolved to the extent possible at the Regional level.

As I mentioned on Friday, we have been making an effort over the past year to make our own inputs upstream in the review process and only bring major residual issues to the Loan Committee. This seems to be working well, at least for adjustment operations (especially in AFR and ECA where these operations are now concentrated). However, we have not had any regular involvement at the Regional level on other operations. Occasionally we will get involved at the Region's request — for example on Russia Housing or India Financial Sector — but this is more the exception than the rule. We are therefore not well placed to assess Regional quality control or to judge whether major policy or strategy issues are involved.

We do not have the capacity to review non-adjustment operations on a regular basis. But it would be useful if we could at least be notified by the Regions when non-adjustment operations are to be reviewed. Then, based on a quick review of the documents and advice from the Regional Chief Economists, we could provide inputs on a highly selective basis. This is especially important for many of the quasi policy-based operations — such as rehabilitation credits and sector investment operations — for which Regions are following fairly ad hoc review procedures. Perhaps clearer guidelines in this area — for both Regions and CVPUs — are needed.

Finally, as you may be aware, we are currently undertaking our own review of our contribution to the review process. The preliminary findings suggest that most DEC staff accept the "tax" they have to pay for review work, but would like more feedback on impact. On the impact side, the findings suggest we have quite a significant impact on the review process, but our record on changing outcomes is more mixed. This is an area where we would very much appreciate your inputs on how we could do our review work better. In particular, any feedback on our contribution to EXC reviews — from the agenda through the meeting discussion to decisions — would be very useful. Mark and I will follow up with you in the near future.



Michael Bruno

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 18, 1995

Mr. Gautam Kaji

Economic and Sector Work: Implications of Budget Cuts

Gautam,

The attached note looks at the Bankwide implications for economic and sector work (ESW) of the recent budget exercise. It raises a number of important issues which I believe warrant further attention. These are summarized below. But, first, let me highlight the following findings:

- **Resource levels:** ESW is expected to bear the brunt of the budget cuts over the next two years. In real terms, ESW is to be cut by 19%. By contrast, resources for lending and supervision — by far the largest budget categories — are projected to decline by less than 2%. By Region, the largest cuts in ESW are in LAC (32%), AFR (23%) and EAP (23%). These cuts will also have significant implications for the demand for cross support from CVPUs.
- **Program composition:** Most Regions anticipate a reduction in mandated tasks (from the Board and Central VPs) and in macro work. Sector work is to be better focussed on lending priorities. AFR proposes a sharp cut in regional studies, with ESW (and lending) better targeted on countries with commitment to policy reform. LAC is looking to a clearer division of labor with partner agencies (e.g., IMF, IDB, CEPAL).
- **Products and processes:** Most Regions are planning a move away from large formal reports to shorter more-focussed policy notes. This is part of a more general trend to reduce the average cost, elapsed time and length of ESW outputs. There are several proposals to strengthen client involvement in the design, implementation and dissemination of ESW, and to decentralize Regional ESW control and review functions.

There is a general sense, which I share, that a lot can be done to make ESW more cost effective and relevant to our clients. But the magnitude of the proposed cuts also raises some concerns:

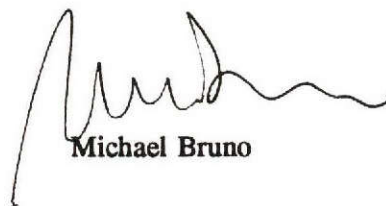
- **Measuring and valuing ESW:** One of the difficulties we face in making ESW decisions is that we know a lot about its costs but very little about its benefits. I therefore strongly support ongoing efforts — in both the Africa Region and Bankwide — to find ways to measure and evaluate the development impact of ESW, as well as other non-lending services. A systematic look at experience with charging for ESW services (e.g., as proposed for tax work in Slovenia) may also provide valuable lessons for Bankwide application.
- **ESW priorities:** While I support the general thrust of the proposed changes in products and processes, I would like to highlight three concerns: (1) shorter policy notes, while effective vehicles for disseminating ESW, still need to be based on thorough analysis; (2) the shift away from macro work may leave us exposed in key areas, such as country risk and public expenditure

analysis; and (3) partner agencies may not always be able to deliver the same quality of services, and start-up costs may be high.

- **ESW management:** Decentralization will place added responsibility on task managers. It will also require more effective ESW management processes and quality control: to ensure we are covering the right issues, to provide adequate resources (and guidance) to priority tasks, and to cut our losses on others. A number of Regions are proposing changes in these areas, and I support these initiatives. CVPUs can support Regional quality control efforts, as requested, through peer review and advisory services.
- **Economist recruitment and development:** Decentralization will also require good economists to manage ESW tasks. Experience has shown that well-trained general macro and applied micro economists can adapt well to the diverse and changing needs of the Bank. We also need to provide training programs which are responsive to the professional and operational needs of Bank economists, and ensure that promotion criteria reflect the skills and competencies required in today's Bank. I will ask the revamped Economist Staffing Group to look at these issues on a priority basis.

ESW underpins a number of Bank functions: country strategy and risk analysis, policy dialogue, aid coordination, and project selection and design. There is clear evidence that better economic analysis leads to better projects. As shown in Attachment I, projects with bad economic analysis are seven times more likely to be rated poorly (based on development objective ratings three years after becoming effective) than projects with good economic analysis. As noted above, we also need to maintain a "core" level of macro work. Public expenditure work is important, not just for our own country programs, but also to provide inputs to the Fund (as discussed at the recent lunch between Messrs. Camdessus and Preston). Even in sectoral areas, our ability to influence policies and expenditures often depends on our access to macro policymakers. And, internally, we need to maintain an independent capacity to assess country risk and creditworthiness (as illustrated, most recently, by events in Mexico).

For these reasons, I am concerned that the proposed cuts in ESW, compared to the projected resources for lending activities, may undermine our capacity to deliver quality services to our clients. I believe this is a critical issue, which warrants a strategic Bankwide approach. EXC is obviously best placed to do this, drawing on the guidance and assistance of the Regional Chief Economists. DEC stands ready to provide whatever support is needed.



Michael Bruno

Attachment

cc: Messrs. Preston, Sandstrom, Stern, Shihata, Husain; Vice Presidents, Regional Chief Economists; DEC Senior Managers; Messrs./Mme. Lynn, Adams, Belli, Schneider, Nishimizu, Bery

OFFICE MEMORANDUM

DATE: January 18, 1995

TO: Mr. Michael Bruno

FROM: Mark Baird 

EXTENSION: 31666

SUBJECT: Economic and Sector Work: Implications of Budget Cuts

1. The purpose of this note is to look at the Bankwide implications for economic and sector work (ESW) of the Regional Prospects Summaries and Proposals for Implementing the Guiding Principles. The note covers three broad areas: resource levels, program composition, and products and processes. It concludes with some issues for further discussion.

Table 1: Actual and Projected ESW by Region
(\$ million at FY95 prices)

	FY93 Act.	FY94 Act.	FY95 Bud.	FY96 Proj.	FY97 Proj.	FY98 Proj.
AFR	50.4	52.7	50.7	43.0	38.9	38.9
EAP	21.3	22.5	22.0	18.3	17.0	16.9
SAS	16.2	18.8	18.8	18.3	16.9	16.9
ECA	40.5	31.5	31.0	30.0	28.8	27.5
MNA	13.6	14.2	12.8	11.0	10.3	10.3
LAC	25.5	27.8	26.3	20.2	18.0	17.7
CVPU's	0.7	0.0	0.4	1.4	1.3	1.3
TOTAL	168.2	167.5	162.0	142.2	131.2	129.5
Memo items:						
% change		-0.4	-3.3	-12.2	-7.7	-1.3
% of budget	22.3	20.2	19.1	16.8	16.4	16.2

Source: PBD.

2. Resource levels. ESW is expected to bear the brunt of the budget cuts over the next two years (see Table 1). In real terms, ESW is to be cut by 19.0%. By contrast, resources for lending and supervision — by far the largest budget categories — are projected to decline by less than 2%. As a result, ESW's share of the total administrative budget will fall from 19.1% in FY95 to 16.4% in FY97. By Region, the largest cuts are in LAC (31.6%), AFR (23.3%) and EAP (22.7%). There is no obvious correlation between the size of the ESW cuts and either the

initial budget share for ESW (which ranges from 19.7% in MNA to 24.7% in AFR, with all other Regions around 23%) or the projected trend in lending (although the two Regions with the smallest cuts in ESW, ECA and SAS, also have above average cuts in lending, suggesting there may be some element of substitution).

3. Program composition. With the exception of LAC, which had undertaken a major review of ESW prior to the Prospects Summary (see below), there are very few details on program composition in the Regional Prospects Summaries.^{1/} Most Regions anticipate a reduction in mandated tasks, once the first round of Board obligations are met (for poverty, private sector and environmental assessments etc) and with some rationalization of Central demands (e.g., fewer country briefs, merger of the CAS/CSP and better coordination with the Unified Survey). Most Regions also project a reduction in macro work, with sector work better focussed on lending priorities: infrastructure (LAC); environment (EAP, MNA); poverty and human resources (LAC, EAP); and regulatory reform, privatization and public sector management (ECA). AFR proposes a sharp cut in regional studies, with ESW (and lending) better targeted on selected countries with a commitment to policy reform.

Table 2: Proposed Changes in LAC's ESW Program, FY96-98
(% of total)

	From FY95-97	To FY96-98
A. Requested ESW	33	24
CEMs	19	14
Public Expenditure Reviews	4	3
Private Sector Assessments	2	0
Environmental Assessments	3	2
Poverty Assessments	5	5
B. Other Macro Work	14	11
C. Environment & Urban	8	11
D. Human Resources	18	18
E. Infrastructure	7	14
F. Natural Resources and Rural Poverty	11	8
G. Private Development and Public Management	9	14
TOTAL	100	100

Source: ESW Reform in LAC Task Force Report (September 15, 1994).

^{1/} For some Regions, ESW priorities and issues are presented in other documents. See, for example, "Economic and Sector Work Program for Sub-Saharan Africa, FY95" (October 1994).

4. The proposed changes in LAC's ESW program are summarized in Table 2. This shows the projected reduction in "requested" work (for the Board, CGs etc), other macro work (including on trade integration) and the increased focus of sector work on the environment, infrastructure, private sector development and public sector management. LAC is proposing to rely more on the IMF for short-term macro work, and the IDB for work on human resources, governance and the civil society. Responsibility will be shared on CEMs (with IDB) and poverty assessments (with IDB and CEPAL). Sub-regional partners will be encouraged to take the lead for smaller countries, while the Bank focusses on regional programs and policy studies in areas where partner capacity is weak.

5. Products and processes. Most Regions talk about a move away from large formal reports to shorter more-focussed policy notes. This is part of a more general trend to reduce the average cost, elapsed time and length of ESW outputs. LAC, for example, will require that most ESW outputs are no longer than 30 pages, with a delay of no more than three months from main mission to issuance of a report for government discussions. CEMs will be unbundled, with each component judged on its merits. Technical annexes will be left "unpolished", without major translation or editing. Other Regions are also proposing a 30-page limit on ESW outputs.

6. All Regions are proposing to strengthen the client orientation of their ESW, at the design, implementation and dissemination stages. For example, LAC will require country interest to be assessed before the IM is reviewed. EAP will encourage more local participation in ESW (and projects) to facilitate implementation and sustainability (although probably at higher cost). ECA is considering the use of multi-country policy workshops as an efficient way to disseminate ESW findings. In general, the "demand driven" approach to ESW will require greater flexibility: to add tasks as new issues emerge and drop tasks which are no longer relevant.

7. Most Regions propose changes in their ESW control and review functions. Decentralization is a recurring theme. ECA plans "immediate, substantial reductions" in ESW (and lending) control functions in the RVP's Office. The objective is to place greater responsibility, and accountability, on the task manager. MNA has made similar proposals. In LAC, a separate unit to review ESW has been established in the Technical Department (EAU). The EAU and Chief Economist Office will focus at the early design and IM stages, with subsequent review and clearance largely delegated to the Lead Economist.

8. Issues for Discussion. ESW supports a number of related Bank functions: formulation of country assistance strategies, assessment of country risk and creditworthiness, dialogue with client governments on policy issues, coordination with other donors, identification of lending opportunities, and improving project design and performance. In some cases, the boundaries between these functions become blurred, and it may be that economic work is, in fact, being carried out under other budget categories (e.g., project preparation, aid coordination). It is also apparent from the Regional proposals that there are many constructive ways to make our ESW more cost effective and better focussed on client needs. Even so, the extent of the ESW cuts over the next two years, compared to the projected resources for lending activities, does raise the question of whether we have the balance right. As shown recently by Pedro Belli (see Attachment I), good economic analysis does lead to better projects. Similar analysis by Bob Schneider suggests that good sector work also leads to better projects.^{2/} More generally, good

^{2/} This work is part of a broader OPR study on the operational impact of ESW. The results of this study, which is part of the Next Steps Program, will be available in the near future.

ESW is needed to underpin our policy dialogue and country strategy work. Is there a danger that the proposed ESW budget cuts will undermine our capacity in these areas?

9. Part of the case against ESW comes from a perception that there has been a rapid expansion of ESW in recent years, often substituting for rather than supporting lending activity. However, it is difficult to substantiate this trend. Table 1 shows a real decline in dollar resources for ESW from FY93 to FY95. For earlier years, dollar data are not available. However, staff-year data from PBD show ESW growing by 5.9% per annum from FY88 to FY93.^{3/} While substantial, this is not wildly out of line with the overall growth of the administrative budget (4.5% per annum) over this period. Furthermore, virtually all of this growth is accounted for by ESW on new and reactivated countries (including FSU) and ESW responding to new demands (e.g., poverty, environment and private sector assessments). More analysis on actual trends in ESW resource use – by Region and major outputs – would be useful to provide a benchmark for analyzing the proposed changes. More information is also needed on the projected demands for cross support from the CVPUs, to see whether there are any major imbalances which need to be addressed.

10. Irrespective of past trends, the total cost of the Bank's ESW program – budgeted at \$162 million in FY95 – as well as the cost of individual ESW tasks – in LAC, the typical report formally transmitted to the government costs between \$385,000 and \$600,000 – makes it an obvious target for budget savings. The difficulty is that we have little information on the benefits of the ESW program, to judge whether it is too large or too small, or how it should be reshaped to become more cost effective. Many of the proposed changes in the program composition, products and processes seem to make a lot of sense. But when we come to evaluate them in two to three years time, how will we know whether or not they have been effective? More generally, how will we know whether the Bank and our clients have received value for money from the ESW program?

11. Three approaches are worth pursuing:

- The first is to change internal budgeting procedures, which still tend to allocate resources based on lending activity.^{4/} This will require independent measures of the development impact of ESW, not just as an input to the lending program but also through its contribution to other development services (e.g., policy dialogue, technical assistance, aid coordination). AFR has already launched a pilot effort to "specify non-lending outputs explicitly in terms of development impact and monitor their accomplishment. A successful pilot would lead to wider adoption in FY96-98." EXC has proposed a Bankwide working group to address this issue more broadly. This warrants high priority.
- The second is to consider new mechanisms for funding and evaluating ESW and other non-lending services. A recent paper by PRD proposed four mutually reinforcing reforms: charging user fees for selected non-lending services; inviting external evaluation of non-lending services provided free of charge; exposing other non-lending services to external competition; and delinking funding for non-lending activities from lending

^{3/} From PBD, "Trends in Lending and Nonlending Activities: Implications for Planning and Budgeting" (July 1993).

^{4/} PBD's budgeting model projects ESW as a percentage of lending resources. For an application, see PBD, "Special Study of the Africa Region Program and Budget" (July 20, 1994).

income.^{5/} Some aspects of these proposals still need to be thought through. However, it is also clear that many of them, including charging for ESW, are in fact being adopted on an ad hoc basis in different parts of the Bank. A systematic look at this experience might provide valuable lessons for Bankwide application.

- The third is to ask our clients. In LAC, for example, a regular expert group has been set up to advise the Region on the relevance and quality of its work, including ESW. The group includes ex-officials and academics from countries in the Region. In SAS, the Chief Economist has commissioned a special client study – being undertaken by Vinod Dubey – on the ESW program in four countries: Bangladesh, India, Nepal and Pakistan. Finally, the BIAS Committee is funding several client feedback surveys (including the contribution of ESW) in AFR, MNA and LAC countries.

12. Many of the proposed changes in program composition and products make a lot of sense. However, three issues warrant further discussion:

- Shorter policy notes can provide very effective vehicles for disseminating ESW findings and facilitating dialogue with high-level policymakers. But, to be persuasive, they still need to be based on thorough analysis. Are we confident that adequate provision for upfront analysis, closely linked to priority policy issues, has been built-in to the scaled-down ESW program?
- The shift away from macro work is problematic. While this is an area where the Fund takes the lead in policy dialogue, the value of independent analysis by the Bank is still well recognized. In some areas, such as public expenditure analysis, the Fund is expecting more from the Bank, with closer coordination on the macro framework.^{6/} Even in sectoral areas, our ability to influence policies and expenditures often depends on our access to macro policymakers. And, internally, our ability to assess country risk and creditworthiness depends on our capacity for independent macro work (especially on fiscal sustainability). Have we done enough to protect the Bank's "core" macro work? Are there ways in which these core activities could be done in a more cost-effective way?
- We clearly should make better use of work done by partner and local agencies, and avoid duplication of effort. However, as noted by EAP, greater local participation may actually be more costly, at least in the initial capacity building phase. And LAC is finding that local acceptance of the work by other agencies is not always as strong as for our own ESW (itself, an indication of our value). How far and fast can this trend be pushed in different Regions, and what are the risks? Could we do more to avoid duplication, and develop a sensible division of labor, with the Fund (especially on data and macro issues)? Have we done enough to build on partnerships within the Bank (between the Regions, CVPU's and DEC)? What will be the priorities for central support, given the changing pattern of Regional ESW?

^{5/} See Chomitz, Levine, Squire and Suthiwart-Narueput, "Improving Development Services in a Leaner and More Efficient World Bank: A Proposal to Restructure the Funding of Non-Lending Services" (October 21, 1994).

^{6/} See IMF, "Report of the Task Force on Public Expenditure Policy" (December 2, 1994).

13. Decentralization will place added responsibility on the task manager. However, as noted in a background paper for the LAC Task Force Report: "a key limit on high quality ESW tasks arises from the lack of task managers and from overloading the capable ones with too many tasks".^{7/} There is a widely-shared sense that junior economists are being asked to lead major ESW tasks without adequate management on the one hand, and grooming and training on the other. As one Chief Economist notes: "Too many tasks drift, with the resource meter running, or are dropped after large resource expenditures for one to conclude that the programs are being well managed, with managers accountable for resources." In a sense, decentralization will require more effective ESW management processes and quality control: to ensure we are covering the right issues, to provide adequate resources (and guidance) to priority tasks, and to cut our losses on others. This has to be the responsibility of Regional management (including the Chief Economist and Lead Economists), with CVPUs providing support, as requested, through peer review and advisory services. How effective are current ESW processes and how could they be improved?

14. Decentralization also means that we need to give priority to recruiting and developing good economists to manage ESW tasks. Three related staffing issues need to be addressed:

- The Bank will probably be recruiting fewer staff, including economists, in the future. But this is even more reason to make sure we attract the very best candidates to the Bank. Experience has shown that well-trained general macro and applied micro economists can adapt well to the diverse needs of the Bank. While experience is important, it cannot substitute for good training. And technical/economic specialists may lack the fungibility required to respond to unanticipated demands.
- Training programs need to be more responsive to the professional and operational needs of Bank economists. Some well-designed courses are in place (e.g., on poverty) and some Regions (e.g., MNA) are developing their own training programs. But a more systematic assessment of Bankwide economist training needs – including on-the-job training and ready access to best practice – is urgently needed. Opportunities for economists to take advantage of external programs for retooling and development also need to be explored.
- The economist promotion criteria should fully reflect the skills and competencies now expected from today's Bank economists. As noted in your report on this year's ERP results, shorter policy notes are often more valuable than longer formal reports.^{8/} Credit needs to be given for "results on the ground". Peer recognition provides a valuable measure of technical ability. Leadership and task management skills need to be recognized and rewarded.

Attachment

^{7/} Fleisig and Hicks, "Economic and Sector Work in LAC: Issues in Improving Cost-Effectiveness" (March 1993).

^{8/} See Memorandum from Michael Bruno on "Economist Review Panel" (December 15, 1994).

Attachment I

Does Good Economic Analysis Lead to Better Projects?

1. Most emphatically, yes, according to a recent study by Pedro Belli (OPRPG). All of the available evidence shows that the better the economic analysis, the better the project. Or more precisely, the probability that a project will be rated poorly three years after becoming effective, given that the economic analysis in the SAR was bad, is seven times higher than when the economic analysis was good.
2. How does Pedro Belli reach this conclusion? In 1991 the ECON Task Force reviewed 181 projects approved by the Board in FY91. Of these, about one-half were projects subject to economic analysis and an ERR test. The quality of the economic analysis of the SARs of these projects was rated on a scale of one to four, with good economic analysis receiving a rating of one. By now we know how these projects are performing in the field from the Form 590 ratings that they have received.
3. The Forms 590 rate project performance according to several objectives, of which two reflect the overall performance of the project: Development Objectives and Implementation Progress. Pedro Belli took both ratings and divided the projects into two groups: those that were a "success" (rating of HS or S); and those that were a "failure" (rating of U or HU).
4. On the basis of this information, Pedro Belli and Lant Pritchett estimated the probability that a project with good economic analysis failed (i.e., obtained a rating of 3 or 4 in the third year of implementation) with respect to the Development Objective criterion.^{9/} The results are presented in the table below:

Probability of Failure as a Function of the Quality of Economic Analysis
(Development Objective Rating)

Quality Rating:	EAP	LAC	SAS	AFR	Bank
1	1.3%	7.1%	5.5%	5.9%	4.6%
2	3.0%	15.2%	12.0%	12.8%	9.4%
3	6.7%	29.6%	24.1%	25.6%	18.3%
4	14.5%	49.6%	42.7%	44.6%	32.7%

5. As the last column shows, for the Bank as a whole, the probability that a project with good economic analysis fails increases as the quality of analysis declines. For projects with bad economic analysis, the probability of failure goes up to almost 33% — seven times as large.

^{9/} The analysis was repeated for the Implementation Progress ratings and obtained similar results. However, although the results look similar, the estimated coefficients have large standard errors and, on this rating, it is not possible to reject the hypothesis that better economic analysis is not associated with the performance of the project three years into implementation.

6. The table also shows the same probabilities broken down by Region. For EAP, the probability that the project will fail, given that it was preceded by good economic analysis, is only 1.3%, but even in this Region, the probability of failure increases eleven-fold if the economic analysis in the SAR was poor. For LAC, SAS and AFR, the probability of failure, given poor economic analysis, is almost one-half. The other Regions were not included for the dearth of observations.

7. What do these findings mean? Do we know for sure that good economic analysis leads to better projects? The evidence certainly points in that direction, but we also know that performance ratings deteriorate as implementation advances. Will the relationship hold throughout the life of the project? We don't know yet. The relationship could weaken, or strengthen. The link could strengthen if, for example, only projects with poor economic analysis deteriorate. At this point, however, we can affirm that economic analysis is a good predictor of project performance, as measured by the Development Objective rating in the Forms 590, three years into implementation.

Summarized from a note by Pedro Belli (January 6, 1995)

are a consistent part of EDI's work program, for which staff and budgetary allocations are provided in EDI's budget.

**Cost Recovery
Arrangement**

In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank with respect to the Grant, the Bank may, following the deposit of Grant funds by the CEC, invest the Grant funds pending their disbursement and retain for its own account the income earned on such investments.

**External Audit
Requirements**

The Bank shall cause the financial statements of the trust fund to be audited by its external auditors at the completion of the project and shall furnish the audit report to the CEC. The cost of such audit shall be borne by the Bank.

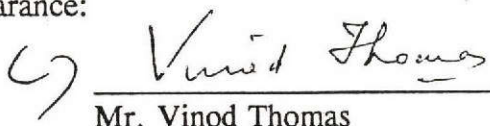
**Other Reporting
Requirements**

- Quarterly unaudited summary financial statements will be provided to the donor
- One semi-annual progress report, and one final summary report describing the activities carried out during the program.

Cleared by

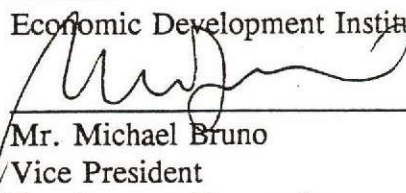
- 1) Mr. Herbert Langer, Office of Trust Funds Administrator
- 2) Ms. Isabel Mignone-del Carril, Lawyer
- 3) Ms. Carolle Carr, Assistant to the Director, EDI
- 4) Mr. Paul Cadario, Chief Administrative Officer, ECA

Director's Clearance:



Mr. Vinod Thomas
Director
Economic Development Institute

Approved by:



Mr. Michael Bruno
Vice President
Development Economics

Date:

1.17.95

OFFICE MEMORANDUM

2817

DATE: January 6, 1995 95 JAN 17 PM 1:41

TO: Mr. Michael Bruno, Vice President, DECVP
Vinod Thomas

FROM: Vinod Thomas, Director, EDIDR
RECEIVED
DEVELOPMENT ECONOMICS
* P. S. S. ECONOMIST

EXTENSION: 36300

SUBJECT: **Signature on Initiating Brief on a Trust Fund for ECU 458,000 CEC-TACIS Grant for EDI Market Economics Training Program for Former Soviet Union**

Please find attached for your signature an Initiating Brief on a Trust Fund (IBTF) for a ECU 458,000 (approximately US\$558,000) grant from the Commission of European Communities. This grant is from the CEC's TACIS regional budget for an EDI Market Economics Training Program for the Former Soviet Union which will take place in Moscow, Kiev and Tashkent in the Fall of 1995, and is similar to the grant which we received in FY94 for the same training and which you approved.

Thank you.

Attachment

**Initiating Brief for a Trust Fund
Training Program in Market Economics
in the Former Soviet Union**

Date	January 4, 1995
Submitting Department/Division	EDIEM
Task Manager	Dusan Vujovic
Project ID Code	<u>TF026097</u>
Donor/ Agency	The Commission of the European Communities (CEC) - TACIS Regional Budget
Beneficiary Region	Azerbaijan, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Belarus, Georgia, Moldova, Ukraine
Beneficiary Amount and Currency	Four hundred and fifty eight thousand ECU
Estimated Equivalent in US\$	Five hundred and fifty eight thousand US dollars
Duration	From: January 1995 Through: January 1996
Trust Fund Category	Freestanding
Cofinancing Operation	No
Program Implementation	The Project will be executed by the Economic Development Institute.
Trust Fund Objectives	The training of government officials in the beneficiary countries in the principles of modern economics and financial analysis to strengthen their ability to formulate and carry out economic policy decisions, as specified in Annex A.
List of Goods and Services	Grant funds will contribute towards the funding of technical assistance; the travel and subsistence costs of participants;

costs incurred by the training institutions; and the costs of engaging consultants for travel, fees and subsistence according to the Bank's normal procedures for three preparatory programs for the Joint Vienna Institute to be offered in Moscow, Kiev and Tashkent in 1995. EDI will contract teaching staff who come primarily from EC countries and secondarily from PHARE and TACIS countries. Only as an exception will other staff be acceptable. No more than 15% such staff will be considered. Any materials purchased with CEC funding will be donated to the local recipient on completion of the project. A budget for each program is included in Annex B.

Rationale for Bank Involvement

This training program will strengthen the ability of young government officials from the beneficiary countries to formulate economic policy decisions, act as policy analysts and advisers, as well as implement policies.

EDI is a leading institution in the provision of training to government officials in economic policy, and has extensive expertise in this area, which derives both from the World Bank's extensive staff of high-quality, experienced economists, and from EDI's track record of specialization in the provision of economic training over several decades.

Benefits and Risks

Benefits include providing government officials from core ministries with an intensive introduction to the principles of modern market economics and financial analysis. The introductory course will also provide training in practical statistical, econometric and other computer based techniques used in the analysis of complex microeconomic and macroeconomic phenomena, as well as intensive training in English language.

As in any multi-institution exercise, there are risks of delayed action by some of the training or executing institutions, which may result in unequal quality in the training activities delivered, and lack of consistency in total project implementation. Those risks should however be minimized by the strong coordinating role in the program assumed by EDI and donor.

Administration

Incremental costs to the department in managing this fund

OFFICE MEMORANDUM

Chen

DATE: January 13, 1995

TO: Mr. Ibrahim F.I. Shihata

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: 1995 WDR on Labor: Comments on White Cover Draft

1. Thank you for your comments on the draft WDR. I had thought it a good idea to send you a working, white cover draft: the report has some discussion of political issues and labor rights, and I felt it would be productive to benefit from your counsel, at the same time as we reviewed the report within DEC, so that we had plenty of time to incorporate any views into subsequent drafts. I was pleased that you took the time to look at it personally. I was, however, both surprised and shocked that you copied your response to the President's Office. I believe it would have been more appropriate for us to raise any outstanding issues with the President's Office after the formal Bankwide review and the WDR team had had an opportunity to respond.

2. On the issues you raise, some discussion of the impact of political systems and institutions on labor market policies and outcomes is inevitable in a WDR on labor. However, as you (and other DEC reviewers) have pointed out, devoting a full chapter to the question of "democracy and efficient labor market policies" may unnecessarily highlight the political aspects of the problem, and may be too controversial for the WDR. We have in the meantime decided to drop Chapter 15 and to integrate the political-economy of labor markets with the analysis of economic and social effects of labor market conditions in the rest of Part C, especially in the section on the role and behavior of trade unions.

3. It is virtually impossible to discuss political economy questions without classifying countries as democratic and authoritarian, or free and less free. It would also be hard to discuss this without reference to some country examples. The approach we have followed is consistent with that already used in the 1990 and 1991 WDRs, and I am not aware that this caused the Bank any difficulties after publication. Nevertheless, I have asked the WDR team to review carefully the tone and language of any country reference; these will all be cleared with the Regions prior to green cover (as is standard practice for any country references in the WDR).

4. We intend to distribute the yellow cover for formal Bankwide review by the end of this month. I look forward to further discussion on these important issues at that stage.

cc: Messrs. Preston, Kaji, Sandstrom, Stern

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 13, 1995

Mr. Ernest Stern

Ernie,

WDR 95

As you can see, Ibrahim Shihata was reacting to a preliminary draft (at my request) and should not have sent copies of his comments to higher places.

Sorry you fell into the trap.



Michael Bruno

Chen (att. MB's
memo to Shihata 1/13/95)

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

File
Personal

January 13, 1994

Mr. Lewis Preston

Lew,

I can understand your concern at Ibrahim's comments. However, as you will see from the attached reply, I believe it was unfortunate that these were sent to you at this early stage, before the formal Bankwide review and before the WDR team had had an opportunity to respond. It had been my decision to send Ibrahim an informal copy of the white cover draft to benefit from his early counsel on the political and legal issues involved. This was very much part of our internal "quality control" efforts. If you think this consultative approach was inappropriate, feel free to shoot me!


Michael Bruno

Attachment

See Bruno's e.m. to I. Shihata 1/13/95

cc: M B - fyi

January 15, 1995

Mr F. Desmond McCarthy

PERs Issues Paper

Desmond,

Thank you for sending me a copy of the paper. I have a number of observations, but let me say that I support what I take to be the main thrust of the paper, as set out in para. 34: We need a much more strategic view of PER work basically along two lines.

- * For all countries, the CAS should have as an annex a "public sector assessment (PSA)" which addresses the issues outlined in Appendix B; namely: together with a succinct statement of the current scope of public activities (and financing) a *normative* and time-bound statement of what should be the public sector, its budgetary envelope and sustainable financing, concluding with an assessment of management capability (including the impact of past Bank lending). Why so much fuss? Because we are a public institution lending to the public sector (or to segments of the private economy where there is a role for the public sector). These PSAs don't have to be re-done with every CAS: if little has changed in between CASs, a simple repetition with update would do. Nor should these be massive, in-depth tomes. On the contrary, the idea is to keep it light and very analytical, combining a "bird's-eye" yet insightful view of what's on the ground with a hard-nosed treatment of the normative prescriptions. A discussion of the political economy should be added at the end: "getting from here to there" with some treatment of sequencing.
- * For selected countries, a program of analytical and operational support to build the in-country capacity to manage and reform the public sector. This multi-year program should become a priority for all borrowing countries where the Bank has identified weak public institutions, confused and incoherent expenditure patterns (and assignments of public and private functions) and unsustainable patterns of financing. This detailed work program, spanning several years, should become a pre-condition for sectoral lending--building up, as you note (in para 31) to lending for general budgetary support in selected poor countries. As you note, it should be clearly spelled out in the CAS.

If you agree with my summary of your paper, I'd suggest the following editorial changes to sharpen its focus and messages:

- * Begin the IP with a clear statement of what the problem is (why do we need PERs?), what's wrong with the current approach, and what is the proposed alternative.
- * Devote one section to spell out the proposal in greater detail. This would address first the (PSA) tying-in both the analytical and lending issues. Two, it would address the issues of selectivity and building impact (ownership) in the more complex work programs. Here, I would try to provide some idea of what an adequate sectoral coverage should be, and

how it should be integrated with the macro framework. I would leave problems of data, coordination with IMF, etc for an "operational" annex.

* Conclude with a final section reviewing very briefly the existing output (details in annex) and making suggestions on how to operationalize *within the Bank* the proposed changes. This includes the issue of incentives, etc but also the question of what prior research is needed; eg, Sanjay's work to establish some basic indicators for expenditure shares, capital vs. operations & maintenance, etc.

I hope this is helpful.

A handwritten signature in black ink, appearing to read "Paulo", with a long, sweeping diagonal stroke above it.

Paulo

cc: Mr Baird.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 13, 1995

TO: Publications Department, Rm. T8-062

FROM: Michael Bruno, DECVP *MB*

EXTENSION: 33774

SUBJECT: Attached Request

I'd appreciate it if you would handle attached. I'd also be interested in knowing if these are Bank studies.

Thanks.

9844

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CASA 1A143372

DATE

Jan 06 95

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(Please indicate this number on all correspondence)

MESSAGE

Rural Poverty, Migration, + The Environment in Developing Countries: Three Case Studies by: Bilborrow, Richard E. 1992 (WPS#1017)

One of our library customers has requested that we obtain One copy(ies) of the above mentioned publication(s). You have been suggested as a possible supplier. Please advise availability and ordering requirements to my attention. If this publication is available for shipment from your office, please forward One copy(ies) to my attention, invoicing us for any charges, and referencing the above mentioned subject number. Please advise if prepayment is required. If you cannot supply this publication, please provide the complete name and address of an alternate source.

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Lora

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Mr. A. Gelb		N11-035	
Mr. P. Vieira da Cunha		S9-029	
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE	XX	FOR INFORMATION
	FOR SIGNATURE		LET'S DISCUSS
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: Attached			
REMARKS:			
FROM: Michael Bruno		ROOM NO.: S9-035	EXTENSION: 33774

Very preliminary. Comments welcome.

95 JAN 11 PM 4:19

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**Cancelling, Transferring, or Repaying Bad Debt: Cleaning Banks' Balance Sheets
in Economies in Transition**

Janet Mitchell
Economics Department
Cornell University
Uris Hall
Ithaca, NY 14953

First Draft: December, 1994

* This paper draws upon ideas in Bonin and Mitchell (1992), "Creating Efficient Banks During the Transition: Do Bad Loans Lead to Bad Policy?" I am grateful to John Bonin for many useful discussions.

OFFICE MEMORANDUM

DATE: January 11, 1995

TO: Mr. Ernest Stern

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Armenia - Rehabilitation Credit

The Armenia Rehabilitation Credit covers many important issues in a country facing an extremely difficult situation. DEC has commented on two previous versions. In particular, we have argued that in the current context, it is best to focus on the rehabilitation role of the operation and to focus on limited specific conditions that signal the Government's commitment to reform and will move the country toward a desirable long-term path. We feel that the Credit now successfully does this, particularly with respect to small-scale privatization. We also support the focus on improving the social safety net. We have a few points that you may wish to raise at the Loan Committee meeting:

- Political stability. In paragraph 46, the document mentions that there has been rising opposition to the reforms. Elections are due in May 1995. The program currently envisages increasing bread prices in April 1995. Can the Region comment on the current political context and whether there is sufficient political stability to carry these difficult reforms through? In addition, can the Region comment on the status of the peace negotiations in Nagorno-Karabakh? Are we confident that the assistance we provide will be used for economically productive purposes?
- Export driven growth. Growth is expected to be driven by high real rates of growth in exports to the FSU countries. Can the region elaborate on the prospects for such increases in the demand for Armenian goods (given growth prospects in FSU countries and alternative sources of supply)? To what extent will weak infrastructure act as a constraint on export growth?
- Fiscal stabilization/arrears. The magnitude of fiscal stabilization required in 1995 is quite large (the deficit is to be reduced from 24 percent of GDP in 1994 to 12 percent in 1995 on a commitments basis). Footnote 7 indicates that on a cash basis the deficit remains constant between 1994 and 1995 at 15 percent of GDP, but that substantial arrears will be cleared in 1995. Can the Region elaborate on the plan for the clearing of these arrears and how it will be financed?
- The CAS. We accept the Region's reasons for including only a brief section on the Bank's assistance strategy. From the current document it is not entirely clear whether the high or medium case is to be considered the base case, which is referred to para 87. The macro triggers in the current version might also be made more specific. For example, in the high case triggers, will any macro policies that lead to low inflation be considered sustainable? With respect to the low case, can we be more specific about what we mean by "weakening of stabilization policy"? We trust that the Region will be

able to provide a fully developed CAS before the next policy-based operation. Given the limitations on implementation capacity in Armenia and the broad range of actions to be undertaken, we look forward to a discussion of reform priorities and of the sequencing of reforms. We would also like to see a discussion of the Bank's strategy for moving beyond Rehabilitation credits, both with respect to policy-based lending and investment operations focused on infrastructure.

cc: Ms. Kalantzopoulos

TO: ROBY FIELDS, JOINT LIBRARY

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

January 10 1995



With the compliments of

Michael Bruno

Vice President Development Economics
and Chief Economist

Returned with many thanks for your quick response.

Michael Bruno

**PLANNING THE EXTERNAL SECTOR:
TECHNIQUES, PROBLEMS
AND POLICIES**

**REPORT ON THE FIRST
INTERREGIONAL SEMINAR**

ON DEVELOPMENT PLANNING. 1st, Ankara, 1965/

ANKARA, TURKEY

6-17 September 1965



**UNITED NATIONS
New York, 1967**



88980

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 9, 1995

Mr. Ernest Stern

Antidumping in Senegal

Ernie,

I have now reviewed the minutes of the Loan Committee discussion on December 21 and would like to register two concerns on the addendum:

- (1) It is important that this guidance not be interpreted as implying that the Bank cannot ask countries to forego policies permitted under the GATT/WTO. The Bank regularly does this — for example, removing QRs, reducing bound and unbound tariffs — and the same principle should apply to the way in which we treat antidumping. In other words, it is entirely appropriate for the Bank to push for measures which, while not violating the country's obligations under GATT, go beyond those obligations.
- (2) In the specific case of Senegal, as we have pointed out, the conditions likely to lead to an abuse of antidumping appear to be present and I am concerned that the proposed ex post review of antidumping actions will be seen as highly subjective and therefore difficult to implement. Moreover, any actions that we take under such a review may also cause problems with the WTO over jurisdiction. I therefore continue to have a strong preference for the simpler, and more transparent, alternative of the ex ante tariff cap.



Michael Bruno

cc: Messrs. Kaji, Shihata

The World Bank
Washington, D.C. 20433
U.S.A.

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 9, 1995

Messrs. Guatam Kaji and Sven Sandstrom

DEC Review of Policy Papers

Gautam and Sven,

In our Prospects Summary we noted DEC's role in the review of "policy" papers from other Vice Presidencies (mainly CVPU). Recent examples include HRO's papers for the population and social summits, ENV's Board paper on economywide policies and the environment, and papers being prepared for the IDA Deputies on Africa and Private Sector Development. DEC's review function is generally recognized as a valuable contribution, but one which imposes a heavy tax on DEC staff. Comments from DEC staff, especially when they come late in the game or in an uncoordinated manner, can also be frustrating to the paper's authors. During the review of our Prospects Summary with Mr. Preston, there was some discussion on how this review process could be made more efficient. We have also been giving this issue some thought within DEC.

From our point of view, there would be considerable value in having a more systematic procedure for reviewing policy papers. The monthly report on "Major Papers Requiring EXC Review" provides a good starting point for scheduling key review steps and identifying those papers where a formal DEC input is expected by EXC. For all policy papers, we would like to see: (a) an early initiating memorandum (IM) on the proposed scope and approach of the work; and (b) a formal Bankwide review of the draft paper through the Policy Review Committee (PRC). At the moment, we see very few IMs for policy papers, and not all policy papers are submitted to the PRC. These two stages would anchor the review process, and allow us to comment in a way which would be efficient for both DEC staff and the authors. They would also impose a certain discipline on the scheduling of papers, to ensure that adequate time is provided for papers to be reviewed and our comments taken into account. In addition, we would continue to provide peer review and contribute to other stages of the review process as appropriate.

I would be happy to discuss these proposals further at your convenience. I believe that some communication from EXC on review procedures for policy papers would be very helpful for all involved.



Michael Bruno

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



Mr. Peter Montiel

With the compliments of
Michael Bruno
Vice President Development Economics
and Chief Economist

January 9 1995

Peter--as discussed. Would appreciate your
comments.

Thanks.

Michael

Att./-

LEZIONE PAOLO BAFFI DI MONETA E FINANZA

INFLATION, GROWTH AND MONETARY CONTROL:

Non-linear Lessons from Crisis and Recovery

Michael Bruno

Hebrew University and the World Bank

Second Draft

January 5, 1995

The World Bank
Washington, D.C. 20433
U.S.A.

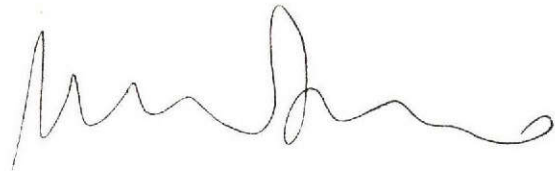
MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

January 4, 1995

Mr. Gautam Kaji

Attached please find a brief note setting out the proposed approach and agenda for the Colloquium of the Executive Directors in March. The topic for this year is Globalization and the Developing Countries. You should be aware that at the request of the EDs we have included a session to discuss in broad terms the implications for the Bank's work of this trend towards increased globalization.

Subject to any comments you might have, we plan to send this note to the EDs early next week.

A handwritten signature in dark ink, appearing to be 'Michael Bruno', written in a cursive style.

Attachment

cc: Messrs. Ahmed, Dadush (IEC)

OFFICE MEMORANDUM

DATE: January 4, 1995

TO: Mr. Ernest Stern

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: FYR Macedonia - CAS and the FESAL
Loan Committee

1. These documents reflect earlier discussions quite well, and we endorse the design for the FESAL. Our suggestions for the agenda are as follows:

- There is little in the CAS (paras. 4.02-4.03, 5.02), and nothing at all in the IM, regarding the robustness of the stabilization program and its interdependence with the specific reforms being supported under this loan. Table 1 shows inflation falling rapidly while the fiscal balance worsens. The Region might clarify just what is being assumed under the Fund program, and how realistic it is to expect a resumption of per capita growth so soon.
- In this context, the presentation of the "high" and "intermediate" cases remain unconventional: the ECA should be urged to consider using the "base case" concept. At any rate, although the Technical Annex contains tables for the intermediate case, the Region should explain whether this case represents: (a) lower contributions from other donors but the same good policies (as seems to be implied in paras. 5.15-5.16); or (b) a combination of poorer policies and lower external support. If the latter, how does the policy stance differ?
- Finally, the Region proposes that the IBRD/IDA blend be softened by increasing the IDA component in the intermediate case. This would control the already-high Bank exposure in the event that other donors come up with less money. But is this consistent with the idea of "burden-sharing"? There is little doubt that Macedonia is a high-risk country with uncertain creditworthiness. But this should call for softer blends in any event. The idea of increasing IDA when other donors reduce their exposure should be compared with the alternative of reducing our lending as well.

OFFICE MEMORANDUM

Chen

DATE: January 3, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno, DECVF *MB*

EXTENSION: 33774

SUBJECT: **Relations Between the Bank and the World Trade Organization (WTO)**

1. Following the request from the Board's Steering Committee we have prepared the attached note setting out our current thinking about the relationship between the Bank and the WTO. It comprises a draft internal document for Bank staff to guide their work and a note prepared by the GATT Secretariat for the Preparatory Committee of the WTO which the Board asked explicitly to see. The latter raises some issues of possible friction between the Bank and WTO, but since it has not yet been properly discussed by the GATT/WTO it does not represent their considered position. Accordingly we have not emphasized its presence in the package.

2. The covering note seeks verbal or written comments from members of the Board, but it is possible that they will request a seminar/discussion. If they do not, we would propose to circulate our note internally and communicate it informally to the WTO. It could provide the basis for negotiating a more formal relationship with the WTO in future, but under the present transitional circumstances it is unlikely that the Secretariat will be able to be very definite about the WTO's position. For this reason it seems best not to present our proposals to them in a fashion which appears to require a response.

3. The present draft has been agreed by the Legal and Secretary's Departments. In addition, most of the present draft was discussed with senior GATT staff--Messrs. Seade (Deputy Director General) and Sampson (Director)--in Madrid. It appears to be broadly acceptable to them, their comments having been incorporated. It was also discussed with Fund staff and modified in the light of their comments. They have prepared a roughly parallel document pertaining to Fund-WTO relations, which has now been circulated to Fund directors.

4. We would use the opportunity of sending a copy to the WTO to urge upon them the importance of the Bank obtaining observer status at the Dispute Settlement Body and of their offering, as previously agreed, unfettered access to their database of trade and tariff data. We have not yet received any encouraging signals on either of these important issues.

5. I would appreciate your comments and agreement to our proceeding as suggested above.

Attachments

c.c. M. Ahmed (IECDR), L.A. Winters (IECIT)

OFFICE MEMORANDUM

DATE: January 3, 1995

TO: Mr. Lyn Squire, PRDDR

FROM: Michael Bruno, DECVP *MB*

EXTENSION: 36099

SUBJECT: Terms of Reference: Rabat, Morocco

1. On January 6, you will leave Washington for Rabat for the Second Annual Meeting of the Economic Research Forum to serve as a discussant on a paper entitled: *The Role of Development: An Empirical Investigation*.

2. On route back from Rabat, you will stop in London to help on future plans for disseminating the report *Policies to Protect the Old and Promote Growth*.

3. On your return to Washington on January 17, you will submit a report.

Attachment

OFFICE MEMORANDUM

DATE: January 3, 1995

TO: Gautam S. Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Senegal CAS

1. The current version of the Senegal CAS is much improved and has responded to the comments made at the regional review level. In particular, this version now includes a more effective discussion of what remains to be done in Senegal (para 16), as well as a more detailed analysis of potential scenarios and our lending strategy under differing scenarios (paras 44-49).

2. Although most of our concerns with the previous version of the CAS have been addressed, there are two issues that we would like to discuss at the EXC level, first as they relate to Senegal and then on a more general level for CFA countries:

- In our discussions with the Region we have expressed strong concerns over the possibility of backtracking on reforms given Senegal's poor record. The CAS has addressed this by emphasizing that any backtracking on reforms will lead to a shift to the core lending program (paragraph 48). The CAS also specifies that each adjustment operation will be contingent on the implementation of the reforms in previous operations (para 47). Does the CAS need to define more clearly what it means by backtracking? Does the Region plan to put any mechanisms in place -- for example through the letters of development policy in adjustment credits -- to give the statements on backtracking in the CAS some legal content? Such mechanisms play an important role in shaping expectations and also indicate that the Government fully understands that the type of reversals made in the past will lead to a discontinuation of adjustment lending.
- The current version of the CAS gives more information on economic developments since the devaluation than the previous version. More generally, now that almost a year has passed since the devaluation, it would be useful to have some cross-country comparisons on the economic effects of the devaluation and on how countries have responded. Through the past year DEC has supported the quick response to the devaluation by limiting comments on first-round operations with the understanding that second round operations would receive greater scrutiny and that the Region and DEC would work together to monitor economic developments. We have received regular reports concerning lending to the CFA countries. We may now wish to broaden our perspective by considering economic developments in the CFA countries.

3. As you are aware, the issue of anti-dumping legislation has been discussed extensively under the Senegal PSAC. We were satisfied with the outcome of the Loan Committee meeting on the PSAC, but it now appears that the Government may not be willing to agree to these measures. This once again raises concerns about the Government's commitment to liberalization

Gautam S. Kaji

- 2 -

January 3, 1995

and potential abuse of anti-dumping legislation. The meeting on the CAS provides a good opportunity to revisit this issue.

cc: Ms. Kalantazopoulos

OFFICE MEMORANDUM

ATE: December 16, 1994

TO: Michael Bruno, Vice President, DEC

FROM: Gregory Ingram, RAD and Moshe Syrquin, Editor, WBER and WBRO

EXTENSION: 31052 and 31056

SUBJECT: New Editorial Board Member for The World Bank Economic Review

We would like to propose Lant H. Pritchett, PRDPH, as a new internal member of the WBER Editorial Board.

We would be grateful if you could give your approval by initialling below.

Approved: _____

Michael Bruno

Date: _____

1.1.95