Folder Title:	Michael Bruno - Internal Chronological - March to April 1995
Folder ID:	30486493
Series:	Michael Bruno's Chronological Correspondence File (Internal and External Chronological Files)
Dates:	03/03/1995 - 04/12/1995
Subfonds:	Records of the Office of the Vice President, Development Economics and Chief Economist and later Senior Vice President, Development Economics and Chief Economist (DECVP)
Fonds:	Records of the Office of the Chief Economist
ISAD Reference Code:	WB IBRD/IDA DEC-03-04
Digitized:	05/08/2025

DECLASSIFIED
WITH RESTRICTIONS
WBG Archives

MB

Internal
Chron

MAR. 95
APR. 95

WOLFENSOHN

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. James Wolfensohn

April 12, 1995

Jim,

Domingo Cavallo, (Minister of Economy, Argentina) will be in Washington for the Interim and Development Committee meetings and will also be giving the keynote address at our Annual Bank Conference on Development Economics on May 1. Domingo is also a good personal friend and I've known him for a number of years. I was planning to have dinner with him on Sunday, April 30th, and wonder if you would be free to join us as I know he would be keen to meet you. I might also invite Enrique Iglesias (and possibly also Stan Fischer) to join. Do let me know if you're free that evening.

I am back in Jerusalem again, but your office could leave a message with my assistant, Kate Oram (tel. 473-3774).

Michael

Dictated from Jerusalem

The World Bank

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

March 29 1995

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

Ms. Jane Armitage

Jane,

Could you please pass this on to Mr. Wolfensohn. Thanks.

Michael

The World Bank

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

March 29 1995

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

Mr. Gautam Kaji

Gautam,

Attached is a copy of a note I sent to Mr. Wolfensohn today.

Michael

Att./-

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 29, 1995

Dear Jim:

I thought a bit more about your excellent idea of visiting countries on a regular basis as you make your entry into the development issues that you and the Bank will have to face in the near future. I have a supplementary practical proposal to make that could simultaneously enhance your familiarity with the issues and help us in Development Economics (DEC) to focus on the type of knowledge and advice that you may want to use in your work.

The idea is that I (with DEC staff and with possible help from others) will arrange a regular (say bi-weekly) small informal meeting with you (lasting an hour or two) in which we, each time, take up one, or a set, of general development policy issues that are relevant either generally or to the region (or any other target group) that you will be visiting next. In each such meeting we would cover together what we in the Bank and the profession at large know, or do not know, about the topic. For example, we might first (starting already in May?) have one or two general discussions charting a general road-map in which we take a broad-brush cross-regional view of pertinent poverty and growth issues and relevant Bank instruments (e.g., Do we know what are necessary and sufficient conditions for successful development? Has aid been (in)effective? What type of sectoral, such as infrastructure or education, policies have been most or least effective?). We could then, in preparation for your Africa trip, consider more specifically lessons of African (mal)adjustment (e.g., could East Asian success be transferable? should there be debt-forgiveness? how should the Bank tackle crisis countries in terms of lending and non-lending policies?). In preparation for the Latin American trip we can take up issues of Latin American reform, of the Mexican crisis, how to handle private capital flows, issues of Bank-Fund collaboration, etc.

A likely format for each meeting could be for one or two discussants to prepare a short presentation of slides and/or written material, for you to respond with (hopefully hard) questions and have a free dialogue and exchange of views, which may in turn lead to the preparation of additional material for future use, etc.

The purpose of this note is to get your reaction to this proposal or have any alternative suggestions from you that would help DEC prepare material well in time so as help you in what will no doubt be a "flying start".

Please feel free to respond either to my home in Jerusalem (Phone: 972-2-611-166, Fax 972-2-611-868) or to the office (Fax 202-477-0549) where in either case it would reach me and/or Mark Baird, who will be acting for me while I am away from headquarters.

I hope that between unwinding business and gearing up for the new job you keep your evident good spirits.

Michael Bruno

Mr. James Wolfensohn
President-Designate
The World Bank

The World Bank

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

March 28 1995

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

Ms. Jane Armitage

Jane, I'd be grateful if you could give/send attached to Mr. Wolfensohn.

Thanks,

Michael

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 28, 1995

Mr. James D. Wolfensohn

Jim,

As promised, attached are the names of relatively young independent "thinkers" with operational experience.

Kind regards,

Michael Bruno

Names	Title	Department	Telephone
Mr. Bruno Boccara	Senior Economist	Africa Department	437-4689
Mr. Gerry Caprio	Principal Financial Economist	Policy Research Department, Finance & Private Sector Development	473-7658
Mr. Ishac Diwan	Senior Macro Economist	World Development Report 1995	473-3120
Mr. Hafez Ghanem	Senior Economist	World Development Report 1995	458-5557
Ms. Isabel Guerrero	Division Chief, Economic Development Institute	National Economic Management	473-8014
Mr. Dani Kaufman	Resident Chief	Regional Mission in Ukraine	(7-044) 293-5902
Mr. Homi Kharas	Lead Economist	Latin America & Caribbean Region Country Department 1	473-9757
Mr. Ruben Lamdany	Lead Economist	Europe & Central Asia Region	473-1229
Mr. Ross Levine	Economist	Policy Research Department Finance & Private Sector Development	473-8738
Ms. Joanne Salop	Chief Economist	South Asia Region	458-4641
Ms. Nemat Shafik	Senior Economist	Middle East & North Africa Region	473-8632
Ms. Christine Wallich	Lead Economist	Europe & Central Asia Region Director's Office	473-7686
Mr. Michael Walton	Staff Director	World Development Report 1995	473-8418

file copy

March 28, 1995

Mr Michael Bruno

Topics for "exchanges" with Mr Wolfenshon

Michael

Here is my proposed list:

1. Why do growth rates differ: miracles and other post-War stories;
2. Why do policies matter *in Sub-Saharan Africa;*
3. What is aid effectiveness and why we should care about it;
4. What works and doesn't work in poverty reduction;
5. What works and doesn't work in environmental regulation;
6. How to design projects that target and involve the poor;
7. How and when does divestiture (of PE's) stimulate growth;
8. What are the lessons post-Mexico: some cautionary tales about private capital flows;
9. What have we learned from the transition from plan to market;
10. What is the economic rationale for Bank action.

I hope this is helpful,

Paulo

Paulo

cc: Messrs Ahmed, Baird, Squire, Thomas.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 22, 1995

Dear Mr. Wolfensohn,

I am very grateful for the opportunity you are giving me to meet with you at this early stage. On my side, there are three topics which I would very much like to discuss with you in our first meeting: (a) my perspective on the future of the Bank; (b) the substance and range of the Development Economics Vice-Presidency's (DEC) activities; and (c) my thoughts on the role of the Chief Economist.

Let me just highlight a few of the key points for your consideration:

— The Bank's primary asset is the knowledge, gained from fifty years of global experience in development. Countries are increasingly seeking lessons of experience as they push ahead with reform agenda. We should be prepared to provide a broad range of services which rely heavily on information and technical advice, as well as financial transfer. The balance of lending and non-lending services will vary from country to country, depending on client needs. We should also be more selective in where we put our resources, focussing on those countries which are prepared to help themselves. The Bank should welcome other players in the provision of development services and facilitate, rather than compete with, private capital flows.

— The aim of DEC is to build and maintain the Bank's knowledge base. Investment in research and dissemination are essential for the Bank to remain effective in a world that is complex and changing. DEC is able to maintain a degree of objectivity that is difficult in operations. At the same time, DEC's proximity to operational work gives it a comparative advantage over the academic institutions in relevance and access to information. Many of DEC's research products—such as the latest World Development Report on labor and the new Global Economic Prospects on globalization—are very influential both inside and outside the Bank. In addition, DEC staff are actively involved in supporting the Bank's operations directly through their advisory and quality control functions, as well as contributions to Bankwide initiatives (most recently, on non-lending services). DEC is also heavily involved in the training and sharing of experiences for country participants as well as Bank staff.

— There are a number of DEC-related issues which we can discuss in due course. But, for now, I want to highlight one central issue: the role of the Chief Economist. In my view, the principal role of the Chief Economist should be to provide economic advice to the Bank and our client countries. However, in practice, the advisory function is not used efficiently and much of the Chief Economist's time is taken up with management

functions. This situation—which has persisted for a number of Presidents and Chief Economists—obviously has something to do with the Bank's culture and personalities. However, I also believe we have to look closely at a range of structural changes to make better use of the Chief Economist in policy and operational decisions, while also reducing his/her management responsibilities. Several options to address these issues are proposed in the attached notes.

I am enclosing a short paper on each one of these topics. Given your obvious time constraint I would appreciate it if you could at least glance at the one pertaining to the third topic as it raises a concrete issue of some immediate concern.

I very much look forward to a fruitful discussion on at least some of these issues in our Sunday meeting.

Yours sincerely,

Michael Bruno

Attachments

Mr. James Wolfensohn
President-Designate
The World Bank

cc: Mr. Kaji, Ms. Armitage

Thoughts on The Role of the Chief Economist

This note highlights some structural issues that seriously affect the ability of the Chief Economist to enhance the quality of the Bank's decisions. It proposes several options for strengthening the substantive role of the Chief Economist, while reducing some of his/her management responsibilities.

Background

Since the late 1960s, the World Bank has appointed an eminent outside economist to serve as the institution's Chief Economist. This has been seen as a valuable way of bringing in expertise and experience and strengthening the Bank's credibility. The first Chief Economist, the late Hollis Chenery, was appointed by Robert McNamara to establish the Bank's research capability and to act as economic adviser to the President. The nature of the job and the length of tenure have subsequently evolved depending on the inclinations of the institution and the individual. Chenery, who served for twelve years, was succeeded by Anne Krueger who served for seven. My two predecessors Stanley Fischer and Larry Summers, each served for about two years on average.

Still with the perspective of a quasi-outsider (having now been in the position for 18 months) I am convinced that the current functions of the Chief Economist in the Bank do not work well. Some of this depends on personalities, and it could well be different with a new President or another Chief Economist. But the problems have also been shared by my recent predecessors under different Presidents.

The Chief Economist's Functions

2. Four basic roles correspond to the title *Vice President Development Economics and Chief Economist*:

- Chief Economist: the Bank's principal economic adviser
- Manager of the Development Economics Vice Presidency
- Chief of research Bankwide
- Professional oversight of the Bank's economists and economic work.

Providing economic advice to the Bank and to our client countries is potentially the most important function, but the least efficiently utilized. In practice, much of the time is taken up with management functions (e.g., manager of DEC, employing close to 400 people, Chairman of the Research Committee which allocates all of the Bank's research budget, Chairman of the Economist Panel which is responsible for Bankwide economist job promotions). This tension

between managerial overburden and the inefficient utilization of the advisory function is at the core of the problem.

The Chief Economist's role as the Bank's principal economic adviser is carried out in principle in three ways: (a) formal participation in Bankwide committees, such as the Loan Committee, the Policy Review Committee and Country Assistance Strategy Reviews; (b) advice to the President and Senior Management on specific economic and policy issues (presently minor); and (c) informal advice to Bank staff and country governments (increasingly substantial).

How Things Have or Have Not Been Working

Each of these channels has severe limitations. The Chief Economist, while taking much of the quality control work load, only acts as an adviser on the Bankwide committees. Decisions at the Loan Committee are taken by the Chairman and do not necessarily reflect the views of the Chief Economist, sometimes not even the majority views of the Committee members. In some cases (as in lending to Russia), operations have gone ahead over the written objections of the Chief Economist. And many important operations (such as the recent large Financial Sector Loan to India) don't even come to the Loan Committee.

Despite these limitations, DEC does have an influence on the Bank's policy and operations through other more informal means. Indeed there are many examples of positive contributions over the past year (e.g., the Population Policy paper, the Senegal CAS and even the India Financial Sector Loan). But this influence comes more from DEC's upstream interaction with Bank staff and alliances with Regional economists and managers, than from the formal interventions of the Chief Economist.

The Chief Economist has been clearly in demand for policy advice. Over the past year, there have been frequent requests for personal country visits and meetings, often initiated by the economic leaders, for example, of India, Russia, Ukraine, Brazil and Argentina. There have also been strong internal demands to chair Economic and Sector Work reviews, especially from the Africa Region, and provide policy advice, as with the Central European Department. The response to these efforts has been uniformly positive, with very tangible influence on both Bank actions and country policies. But these latter initiatives have all come from individual Bank staff and managers, rather than from Senior Management in response to broader institutional concerns. Moreover, efforts by DEC to raise broader strategic issues have, at least until recently, been brushed aside by Senior Management.

The poorly defined role of the Chief Economist - which has been a source of frustration to all recent incumbents - reflects two key elements of the Bank's culture. The first is the focus on country programs, especially since the reorganization of 1987. As a result, basic responsibility for operational decisions lies with the Country Departments and Regional Management. The Central Vice Presidencies are seen as providing support: advising but not deciding. The second element is the case-by-case approach to decision making. This is seen as a

major strength in allowing the Bank to adapt to different and changing circumstances, without having to go through major policy reviews. However, the weakness is a lack of attention to strategic and policy consistency across countries and over time. Both of these elements tend to weaken the Bank's use of one of its primary sources of strength: its broad cross-country experience over many years of development work.

Like in any other institution the Bank's culture also depends on personalities. Ernie Stern has had a pervasive influence on the Bank in recent years. As someone who had come from an economic background, and served as head of research in the Bank, he was *de facto* his own "Chief Economist." He played a strong role as Chairman of the Loan Committee, and rarely felt the need to consult with others on major operational issues (Russia and Mexico for instance). The former relevant Managing Director, Attila Karaosmanoglu, also came from an economist background, and was sympathetic to many of DEC's views, but was not a major force within Senior Management. There has been a noticeable change in consultation and involvement since the latter two retired. In particular, Gautam Kaji, the new Managing Director, has clearly signaled that he wants to draw on the Chief Economist for both Bank strategy work (for example in taking up DEC's initiative on non-lending services and the VP's task force on the Bank's "vision") as well as on country advice (Mexico and Argentina).

Options

What structural changes could make better use of the role of the Chief Economist in policy and operational decisions? There is a hierarchy of options: obviously the choice of options very much depends on personalities and chemistry.

The most logical and far-reaching would be to shift the Chief Economist into the President's Office. Both symbolically and substantively, this would signal his role as the President's principal economic adviser. The Chief Economist could be supported by a small executive office. Formal management of DEC would shift to a Vice President, who could report to the Chief Economist. This would leave the Chief Economist with more time for the economic advisor role. He or she would also be able to draw more widely on expertise from the CVPUs and the Regional Chief Economists. The relationship between the Chief Economist and the VP DEC would have to be carefully defined to avoid conflict and duplication.

The minimal, less far-reaching, option would be to establish a high-level decision-making committee, chaired by the President and including Senior Managers and the Chief Economist (similar to the President's Council under McNamara). This would provide a formal forum to decide on major unresolved issues emerging from the current committees looking at policy papers, country strategies and operations.

An intermediate alternative would be to establish a separate committee, chaired by the Chief Economist, to advise the President on economic matters arising from the Bank's policy and operational work.

DEVELOPMENT ECONOMICS AND OFFICE OF THE CHIEF ECONOMIST

Introduction

The lessons of experience combined with the rapidly evolving external environment suggest changes to the Bank's role in the development agenda. To meet some of the new and unresolved challenges, the Bank will no doubt need to enhance its comparative advantage as a knowledge-based institution so as to complement and supplement its traditional role as development financier.

The aim of the Development Economics vice-presidency (DEC) is to build and maintain the Bank's knowledge base; to share worldwide experiences and best practices among policy-makers and practitioners; to provide high quality economic information, analysis, research and training to Bank staff and management, to policy makers and practitioners in the field; and to have an impact on the Bank's operations and more broadly on the Bank's development efforts by improving the quality and relevance of the Bank's products. The Bank has been and should continue to be an intellectual leader in the development effort. DEC is the Bank's main player in this field, and it is in the vanguard of Bank thinking about the Bank's role in a changing world. The services DEC provides are rarely sold to clients and they often are not directly seen. But they are critical inputs into many of the products of the Bank. They include operational support, quality control and advisory activities. DEC and the Chief Economist in particular are the Bank's principal source of advice on economic policy. DEC also plays an important role in training, both within and outside of the Bank, which is an important means of listening to our clients and beneficiaries. The Annex to this note presents DEC's current administrative structure and resources.

Research

Investment in research is essential for the Bank to maintain its effectiveness in a world that is complex and changing. Nevertheless, the Bank-wide share of the administrative budget devoted to research has been declining in recent years and is now less than 3 percent of the total. In FY94, DEC was responsible for about 77 percent of the Bank's total own-funded research output. Bank-sponsored research has two aims: one, to find out what works and what doesn't in development and, two, to draw lessons from country and regional experience. DEC is in a unique position to do this. DEC's research has three defining characteristics:

- *Relevance*. Our research serves five audiences: operational staff, senior management, policy- makers in our client countries, the international development community, and the research community in developed and especially in developing countries.

- *Comparative Orientation.* Our research draws the lessons of experience through cross-country, quantitative analysis.

- *Independence*. While our work is geared to the demands of others, we strive to

maintain the highest professional standards, offering our findings as independent contributions that stand on their own merit. As a separate unit, DEC is able to obtain a degree of objectivity that is difficult to maintain in operations. At the same time, DEC's proximity to operational work gives it a comparative advantage over academic institutions in terms of the relevance of the work and the depth of information available.

Recent examples of DEC's research outputs include the *East Asia Miracle* study, the reports on *Adjustment in Africa* and *Old Age Security*, in addition to the 1994 WDR on *Infrastructure for Development*. DEC also produces many of the familiar Bank documents such as the *Global Economic Prospects* and the *World Debt Tables*. These and similar documents provide information on the global economic context and on specific trends that are fundamental inputs into operations, as well as into the Bank's borrowing activities in international capital markets.

DEC is pursuing a diverse portfolio of research activities; much of the current work addresses three key issues:

- *Redefining the Role of the State.* The transition from centrally-planned to market-based economies is the most visible manifestation of the changing role of the state, but in fact most economies are struggling with the redefinition of the public sector's role. Where should the public sector focus its efforts? How can it extract itself from areas where it has no comparative advantage? And how can it perform better in those areas where its role is clear? Several projects address aspects of these questions. One of them, *Bureaucrats in Business: The Economics and Politics of Government Ownership* will provide the most comprehensive compilation yet of evidence on world-wide efforts to privatize and reform public enterprises, drawing lessons for policy-makers, World Bank staff, and donors.

- *The Fundamentals of Long-Run Development.* While the issues of transition will play themselves out with the passage of time, the fundamentals of long-run development will remain a central challenge for research. What factors contributed to the high growth rates in East Asia and why is growth so slow in Africa? Can growth be relied on to benefit all members of society, especially the poor? How can poor countries protect the environment while also raising living standards through higher incomes, better health, and more education? The range of work addressing these issues is wide – from *The Economics of Industrial Pollution Control* to *The Dynamics of Poverty in India.* The best illustration of the overall approach is a department-wide effort to examine *The Social and Environmental Consequences of Growth.* The World Bank has been challenged to analyze better the poverty and environmental consequences of economy-wide policies designed to stimulate growth. Cross-country data, firm and household level information, and country case studies will be used to investigate in an innovative way the impact of growth policies on both the poor and the environment.

- *Globalization.* A driving force for change in the global economy has been the near-universal push toward trade and capital market liberalization, combined with increasing internationalization of corporate production and distribution strategies, and with technological change that is fast

dismantling barriers to the international tradability of goods and services and the mobility of capital. The integration of developing countries into the global economy represents a major – perhaps the most important – opportunity for raising welfare of both developing and industrial countries over the long term. The growth in private flows and Mexico's recent crisis suggest a whole range of issues: Should we revisit our conventional wisdom about controls on such flows? How does the presence of large and reversible foreign capital affect the way in which domestic financial systems should be regulated? Should we be finding ways of helping countries anticipate potential crises and deal with them? Are we doing enough to deal with their new vulnerability and to learn how to maximize their advantage from the new realities? The Uruguay Round and the spate of proposed regional trade agreements raise a series of related, complementary questions: What is the impact of the Round and what are the transitional costs of adjustment? Are the regional agreements a boon or a counter-force to rapid integration? What happens to the countries that get left behind, how can they catch-up?

In addition, research in DEC is also being undertaken to respond to institution-wide needs. Research on aid effectiveness will consider the circumstances under which aid is most likely to be effective and the factors that are associated with the effective use of external resources. It will also explore operational changes that will permit aid providers to deliver resources with greater efficiency. Research on institutions, the importance of which is increasingly recognized, focuses on empirical ways to apply the recent developments in institutional economics to issues important to the Bank's operational work. In this area, interdisciplinary approaches will be particularly relevant.

The *World Development Report* is another major DEC research product. WDRs have had a marked effect on development thinking and Bank policy. The 1995 WDR focuses on labor. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates and it widens the scope of analysis to look explicitly at outcomes for labor. It also addresses controversial but central issues of labor policy, including labor regulations, collective bargaining, child labor, and questions of labor standards and trade. The 1996 WDR will focus on the transition from plan to market. 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 role of government in the economy, the transition problem is extreme. It is also a unique example of the application of policy to reform, both successful and unsuccessful. While conclusions may 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.

Operational Support and Policy Advice

As outlined above, research plays a central role in setting the development agenda and general policy direction of the Bank. But DEC's knowledge and expertise also has a much more immediate and direct impact on Bank policies, country strategies and operations.

The Chief Economist is a member of the senior management committees which review all country strategies and adjustment operations. DEC staff work closely with the President's

Office in setting the agenda for these meetings. Country assistance strategies and adjustment loans that come to the Board are systematically reviewed by DEC. This provides one of the few Bank-wide checkpoints to ensure that the guiding principles - particularly results orientation and selectivity - are reflected in the Bank's operational work..

Perhaps of even more importance in terms of impact on what the Bank does, DEC staff participate upstream in the regional review process. Over the past year DEC has made a special effort to focus its expertise on important country programs and issues, such as aspects of financial sector reform, where we feel that our research findings provide genuine value added.

DEC staff are also in strong demand to provide support to the Regions and to act as peer reviewers on adjustment operations and economic and sector work. On average, about one-third of the *Policy Research Department* (PRD) staff time is absorbed by these activities. The *International Economics Department* (IEC) also provides support on issues related to the external environment, trade policy, international debt, commodity price prospects and statistics. Wherever possible, we try to develop synergies between our operational support and research priorities.

While most of the Bank's policy papers are prepared by the Central Vice Presidencies, they also benefit from extensive comments and inputs from DEC staff. For example, DEC staff played an important role in helping to shape the population policy paper prepared for the recent summit in Cairo, and the Bank's statement at the Social Summit in Copenhagen. DEC contributed to the regional paper on *Africa: A Continent in Transition* and prepared its own paper on *Lessons of Development Experience* for the recent meeting of IDA Deputies.

DEC staff are engaged in several Bankwide initiatives; for example, DEC has spearheaded and has been asked to chair the task-force on non-lending services. This group is reviewing the wide range of financial and advisory services being provided by the Bank. It is preparing recommendations for more effectively assessing them in terms of development impact, and subjecting them to more systematic quality control and evaluation. The group is also exploring the use of cost-sharing and charging for some non-lending services.

DEC staff are also actively involved in the Next Steps Program to implement the findings of the Wapenhans Report. Recent contributions include a note for Bank staff on performance indicators for adjustment operations and an assessment of adjustment lending for the Annual Review of Portfolio Performance.

Many of the Development Committee papers - such as last year's on aid effectiveness and the Uruguay Round, and this year's on financing infrastructure - are prepared by DEC staff. DEC staff also manage or contribute to a range of other functions, many of which are rarely seen first hand. For example, IEC staff represent the Bank at Paris Club and Berne Union meetings. The *Vice President's Office* (DECVP) staff prepare the country performance ratings for the annual IDA allocations exercise and provide the central point of liaison with the International Monetary Fund. DEC is currently managing the Bank's contribution to a joint working group with Fund staff on public expenditure issues.

Finally, the Chief Economist often joins staff from operations in a number of trips to our client countries. These trips help shape Bank policy and provide advice to Government authorities.

Training, Technical Assistance and Dissemination

In addition to DEC's research and operational support and advisory functions, DEC provides a range of training, technical assistance and dissemination activities. These activities not only encourage the transmission of our research findings, but also help to build capacity in the understanding, design and implementation of economic policies.

DEC works to strengthen development policy-making in member countries by sharing the knowledge and experience accumulated by the Bank and its member countries. This purpose is achieved through facilitating policy design and regulatory reform with people who make or influence development policy and decisions, promoting public dialogue on development options through dissemination of best practice, and skills training for those who must implement development policies and programs.

To this end, a specialized department in DEC, the *Economic Development Institute* (EDI) delivers courses and seminars, mostly in developing countries and normally in partnership with a local teaching institution. In addition, it reaches audiences through its publications and, increasingly, through electronic media.

Established in 1955, EDI has evolved from an institution offering one course a year in Washington for some 50 participants, to an organization that conducted 150 activities last year, 90 percent of them all around the globe, reaching about 4,400 participants. EDI pulls together the Bank's extensive experience in developing countries, with research into which measures have worked best and which have failed, and have disseminated these ideas and lessons to help Governments in both policy formulation and implementation

Three emerging changes in EDI's direction are noteworthy. The first is a gradual change in focus from basic skills for selected audiences to policy lessons that are increasingly being sought by a broader audience across the Regions. The second is an effort to forge closer interaction with the Bank to tap better into its knowledge base and to allow for a flow of information to and from countries. The third innovation involves new products to assure quicker responsiveness, and forge alliances with outside partners.

Current examples of reaching a wider audience through new products include a seminar on economic reforms for the Ukraine's Parliamentarians; a seminar on macroeconomic policies for South Africa; and a seminar on capital flows for policy makers. A number of products are developed collaboratively with other parts of the Bank; for example, investment decision-making and project management, management of education reforms, and water resource management.

There are also new regional initiatives. A senior policy seminar on management of development polices for the Arab States and involvement in the Central Asian Republics are cases in point. Finally, new thematic initiatives include work on environmental management, resettlement and rehabilitation, girls' education and regulatory frameworks.

DEC also provides important technical assistance and training. The management of the Debt Reporting System has afforded DEC the opportunity to develop debt management training packages and technical assistance services to help debt offices in developing countries to manage their external liabilities. A variety of modules have been formulated to

date covering 24 countries in Anglophone and Francophone Sub-Saharan African countries and 12 states of the Former Soviet Union. DEC has also been active in providing training and technical assistance in the area of commodity risk management.

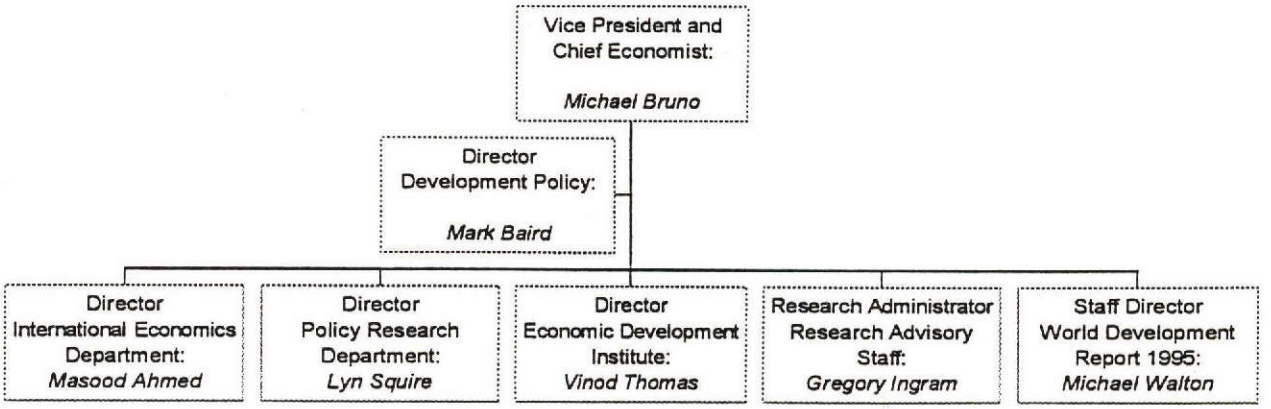
DEC staff are also involved in organizing and presenting training courses for economists within the Bank.

Conclusion

DEC's work and the dissemination of its results, are essential ingredients for the effective supply of development services by the World Bank. This link between knowledge and action is reinforced by current trends in the world's economy. The demand for the Bank's traditional product, money, is declining. At the same time, the Bank's role in facilitating private flows, providing "comfort" to private investors, and sound advice to governments is growing. This role is highly knowledge-intensive and draws on the Bank's comparative advantage in spanning its activities and its knowledge-base over all developing countries and across varying types of cumulative experience. As countries are becoming clearer on the *what* of development and want to know more about the *how* of development, both this cumulative knowledge base and DEC's capacities will have to be utilized and further enhanced.

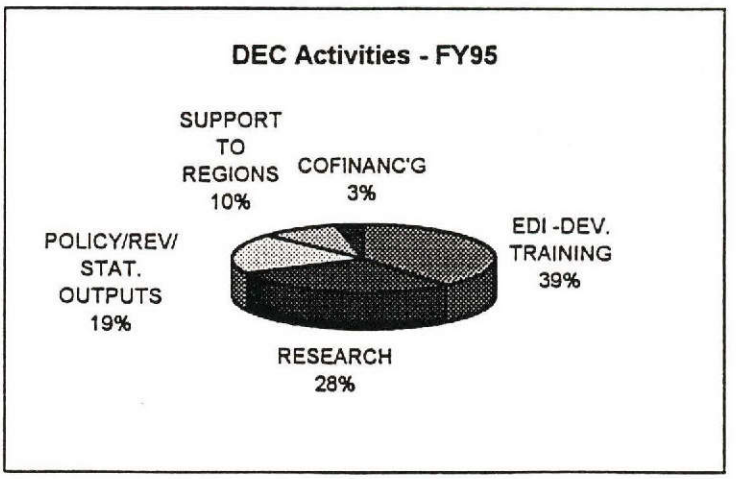
ANNEX: DEC'S STRUCTURE AND RESOURCES

Structure: DEC is comprised of three large departments and three small units, as shown in the organization chart, below, and summary of dimensions (Box 1).



Resources: Budget resources provided to DEC from Bank funds amount to $82.9 million in FY95, and have remained around seven percent of the total Bank budget (net of overheads and benefits) for the past five years. Included in this budget is the Research Support Budget (RSB), a fund of about $5.8 million allocated on a competitive basis to finance approved research projects throughout the Bank. In addition to Bank-provided funds, DEC uses external funds in support of its work program - about $17 million in FY95, about 75 percent of which is provided by donors in support of EDI's training programs.

The chart below illustrates how DEC's effective (non-overhead) resources are being applied in FY95. About 39 percent of DEC's resources are devoted to the development training activities of the Economic Development Institute. Twenty-eight percent are spent on research; 19 percent on policy, operational review, and IEC's statistical outputs; 10 percent on support to the Regions.



Box 1: Summary of DEC Dimensions

DEVELOPMENT ECONOMICS AND CHIEF ECONOMIST	*VP DIMENSIONS*	
	Staff on Board - H/L	245
	- S/L	125
	Long-Term Consultants	98
	Administrative Budget	$82.930m

INTERNATIONAL ECONOMICS DEPARTMENT	*DIMENSIONS*	
IEC focuses on global policy issues and trends in the world economy, supports and generates national and international data for research and Bank operations, and carries out research on international finance and trade issues.	Staff on Board - H/L	107
	- S/L	36
	Long-Term Consultants	21
	Administrative Budget	$22.115m
POLICY RESEARCH DEPARTMENT	*DIMENSIONS*	
PRD is the principal research arm of the Bank. Its primary function is to conduct research and disseminate key findings, but it also makes a large contribution through operational support, quality control, training, and advisory functions.	Staff on Board - H/L	58
	- S/L	25
	Long-Term Consultants	39
	Administrative Budget	$15.418m
ECONOMIC DEVELOPMENT INSTITUTE	*DIMENSIONS*	
EDI disseminates the ideas and findings of Bank research and operations, facilitates policy design and regulatory reform, and provides training to policy-makers around the globe.	Staff on Board - H/L	65
	- S/L	48
	Long-Term Consultants	28
	Administrative Budget	$30.180m
RESEARCH ADVISORY STAFF	*DIMENSIONS*	
RAD serves as the secretariat for the Research Committee, coordinates research initiatives throughout the Bank, and disseminates findings through the World Bank's journals, working paper series and publications.	Staff on Board - H/L	4
	- S/L	4
	Long-Term Consultants	3
	Administrative Budget	$1.592m
	Research Support Budget	$5.846m
WORLD DEVELOPMENT REPORT	*DIMENSIONS*	
The WDR team pulls together experts from within and outside the Bank to produce the annual World Development Report, the Bank's flagship publication.	Staff on Board - H/L	1 regular, 7 seconded
	- S/L	4
	Long-Term Consultants	5
	Administrative Budget	$3.439m
VP FRONT OFFICE	*DIMENSIONS*	
DECVP provides research support and policy advice to the VP, manages the operational review function within DEC, and coordinates DEC's work program, budget, and other administrative services.	Staff on Board - H/L	10
	- S/L	8
	Long-Term Consultants	2
	Administrative Budget (excl. contingency)	$3.514m

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

TE: June 1, 1994

TO: DISTRIBUTION

FROM: Michael Bruno

EXTENSION: 33774

SUBJECT: A Vision for the Future from DEC

Attached for your information is DEC's contribution to the Bank's vision and agenda for the 50th Anniversary. I would welcome any comments or reactions.

DISTRIBUTION

Messrs./Ms. Preston, Karaosmanoglu, Sandstrom, Stern, Shihata, Thahane, Linn, Einhorn, Eccles, Jaycox, Kaji, Wood, Thalwitz, Koch-Weser, Burki, Kashiwaya, Serageldin, Rischard, Choksi, Husain, Lindbaek

The Bank's 50th Anniversary
A Vision for the Future from DEC

The Bank's 50th Anniversary is an opportunity to reassess the role of the Bank in a rapidly changing world. Fifty years of development experience have provided valuable lessons for the future. These combined with changes in the Bank's external environment suggest that, in the future, the Bank's role in the development agenda will change. The economic rationale for Bank action continues to be valid, but increasingly the Bank will need to emphasize its comparative advantage as a knowledge-based institution to complement and supplement its traditional role as development financier. Building upon its unique reservoir of development experience, as well as its global scope, the Bank will need to deepen its knowledge and understanding of what works and what does not work in development. Indeed, the Bank's role as a generator, repository and disseminator of knowledge on development will be critical for meeting the existing as well as the emerging challenges in the development agenda, and for making a tangible contribution to its goal of facilitating sustainable economic growth and poverty alleviation.

The development record

Fifty years of development experience has resulted in tremendous achievements on a variety of fronts. Substantial economic growth has led to a significant increase in income and consumption per capita in the developing world as a whole. Broader measures of well-being as captured in key social indicators -- life expectancy, child mortality, and educational attainment -- have all improved markedly.

At the same time, daunting development challenges remain. Over a billion people in developing countries continue to live in poverty. More than 100 million children in the developing world lack access even to primary education. Absolute levels of mortality in developing countries remain unacceptably high, with child mortality rates about ten times higher and maternal mortality rates thirty times higher than high-income countries. Across developing countries, environmental problems are becoming increasingly apparent and pose formidable challenges for the future.

Moreover, the economic progress that has been achieved has been very uneven across regions and countries. While the East Asian countries have achieved impressive outcomes in terms of economic growth and poverty reduction, many low-income countries -- particularly in Sub-Saharan Africa -- have experienced negative growth and increasing poverty. At the same time, Eastern Europe and the FSU face unprecedented problems in their transition to market economies. Between these extremes, there is a broad range of countries who have had mixed results over the past decade.

Key changes in the global environment

The remaining and emerging development challenges need to be addressed in the context of a rapidly changing global environment. Of the many changes, a few features warrant special attention:

Surge in private capital flows. Recent years have seen a structural change in world wide financial markets consisting of increased globalization of capital markets and generally enhanced access to capital markets by developing countries. Over the last few years, there has been a surge in private capital flows to developing countries. Some 20 developing countries, mostly middle-income countries but also including some of the Bank's biggest low-income client countries with credible programs (e.g., China), get most of their inflows from private sources. While some of these flows may reflect temporary market conditions, there are good reasons to believe that a significant portion will be sustained over time (see attached note). Substantial private flows, however, are unlikely to spread across-the-board to all countries, even though increased financial innovations make it feasible to finance particular enclaves or packages in almost any country. Indeed, some forty countries are stagnating at low income levels with limited prospects for attracting private capital. These countries will continue to depend upon official aid.

Increased global integration. The world economy is characterized by increasing integration and interdependence, with the growth in trade outpacing the growth in GDP. Developing countries account for the fastest component of the growth in trade, which is likely to be enhanced even further by the successful completion of the Uruguay Round. In fact, even the establishment of regional trading blocs opens the opportunity for deepening integration in a trade-enhancing rather than trade-diverting manner. Global integration is extending beyond trade in goods to trade in services, regulatory frameworks and international labor mobility. Integration of international financial markets is one factor underlying the surge in private capital flows.

Changing aid priorities. A confluence of factors has led to changing aid priorities. Fiscal constraints in OECD countries have led to a tightening of aid budgets. Moreover, the end of the Cold War has taken away the national security rationale for much aid, and has introduced new, high priority aid recipients who may crowd out others. In addition,

the political support for multilateral aid has dwindled as bilateral donors increasingly attempt to link aid directly to their specific national interest and agenda. Finally, there is increased questioning of the effectiveness of aid in general and of multilateral institutions in particular. All of these imply that there will be an overall reduction in official development assistance, including through the World Bank, and at the same time, there will be a reallocation of aid among recipient countries.

Lessons of development experience and the emerging development agenda

Diverse outcomes and new challenges combine to underscore the complexity of the development agenda. There are some important lessons from experience: the demise of the Soviet Union and the successful performance of East Asian economies vindicate the benefits of a market-friendly approach to development. Early optimism about the role of the public sector, in regulating the economy and managing investments, was not borne out by results. Experience also confirms that macro stability and growth go hand in hand, and that growth and the provision of basic social services are essential to sustain poverty reduction. We have learned that policies matter more than projects and that the provision of project financing with technical input is insufficient for satisfactory outcomes. But we have also learned that the adjustment process involves deeper and more complex policy reforms, and that it takes longer than anticipated a decade ago. A broader policy framework is necessary for sustainable growth and poverty alleviation. Thus, the most critical component for successful outcomes is strong government commitment and broad-based "ownership" within the country.

Though well known, these lessons are exacting. They have not been fully absorbed. Many countries are still tackling macroeconomic problems, have failed to redress the balance between the public and private sectors, and have yet to put in place adequate regulatory and legal structures. In those countries that have performed poorly (e.g., in Sub-Saharan Africa) or that are in the process of transition (e.g., in the FSU), experience suggests that improved performance will require a deeper understanding of the institutional and social setting and how they may constrain the implementation of policy and projects. Experience has shown that growth is path dependent, and institutions are a significant determinant of the path taken. Future policy reform will need to be based on a much richer understanding of the constraining institutional features in different countries. These encompass factors such as governance and the civil service that may impinge upon the performance of the public sector on the one hand, and factors such as the regulatory and legal environment that influence the success of privatization and private sector development on the other. Indeed, even in countries where adjustment has progressed there are a

whole series of more complex, second generation issues (e.g., regulation, supporting private sector development, facing serious environmental problems such as pollution and natural resource degradation) which need to be addressed to secure sustainable growth and poverty reduction in the long-run.

The new challenges and the lessons of experience point to three critical elements in the emerging development agenda:

- *A more central and active role for the private sector.* Development strategies and assistance should facilitate and build upon this role. To sustain country competitiveness, the focus will need to shift to more sophisticated, second-generation policy packages that emphasize regulatory and legal reform, financial sector reforms, development of local capital markets, etc. Countries will need to address the transition from the public to the private sector not only in tradeables but also in sectors such as telecommunications and power and activities such as health care and old-age pensions which have long been in the hands of the state. There will be a premium on upgrading and adapting policies, skills and technologies in an increasingly competitive and rapidly changing international environment.

- *A more effective and efficient public sector.* Despite the growing importance of the private sector, the public sector will continue to play a critical role. It must ensure macroeconomic stability, foster human resource development and provide environmental protection. It will need to focus with greater attention and improved selectivity on the standard areas for public intervention: concern with income distribution, and recognition that markets work imperfectly and in some circumstances may not exist. Yet public sector performance has proven disappointing in many countries, and a deeper understanding of underlying problems and more comprehensive institutional reform will be required.

- *A more competitive and integrated global economy.* Increased global integration binds more closely the performance of developed and developing countries. Not only will trends and issues in the international economy have an increasingly important impact on developing countries, but also developing countries are going to be increasingly significant in the world economy through trade, capital flows and migration. Despite the success of the *Uruguay Round,* and the so far benign emergence of more deeply integrated regional trading blocs, new collaborative global policy strategies will have to be developed to avoid ever-more damaging barriers and/or distortions to trade and resource flows. This includes programs to encourage industrial countries to facilitate downsizing of sectors which will move progressively to developing countries.

Key implications for the World Bank

The rationale for Bank action rests on two conditions: one, in redistributing incomes between and within countries, and two, in addressing failures in international capital and information markets. This rationale continues to support Bank action in confronting the development agenda. The prevalence of poverty points to a continued role in transferring concessional resources from rich to poor countries, together with the necessary best-practice knowledge, in order to have an impact on poverty reduction. Though vibrant, international capital markets are selective and can be fickle. Many countries continue to lack sustained access to private capital flows and, for them, the Bank can be a critical catalyst. The Bank also has a vital role in disseminating information on what works and what does not work in order to meet the remaining and new development problems. By drawing on its cross-country experience and unparalleled, fifty-year association with development, the Bank can help countries with policy design, practice and implementation.

The rationale for the Bank also implies changes in its role over time. The Bank's traditional financial role diminishes in importance with the expansion and diversification of international flows of private capital. More importantly, the scope for efficient intervention diminishes with the expansion of competitive markets and of the private sector in the economies now in transition and throughout the developing world. Many of the arguments for Bank involvement are time bound. To the extent that there is progress, arguments for a continued role for the Bank based on failures in international capital or information markets will become weaker and weaker. The private sector will increasingly be able to fulfil the role currently played by the World Bank. Countries that eventually acquire access to markets for capital should graduate from World Bank financing. In such countries, the World Bank may continue to provide information, and undertake research and analysis to transfer their successful experience to other countries.

While the arguments for the Bank may grow weaker, they are likely to endure. The point, however, is that *even when applicable* (and they will be applicable for decades to come) these arguments delineate only a first set of criteria for justifiable action. The rationale is a necessary condition for having such an institution as the World Bank but not a sufficient one to guarantee developmental impact. Intervention should be effective or, better yet, the most effective possible. There are three important implications:

In order to maximize development impact, the Bank will need to be more selective in its country and sectoral focus. One of the Bank's great strengths is its global reach, bringing together a diverse range of country experience. By offering a

range of services and being responsive to country conditions and development outcomes, the Bank will continue to be a global institution. But in adhering to its rationale, there will be a natural shift in the country focus of the Bank, with a greater emphasis on low-income countries with poor outcomes and the transition countries. And these countries are precisely the ones where the plain transfer of money is likely to be least effective. Even within this set of countries, the Bank should be prepared to be more selective in where it puts its resources. To maximize development impact, the Bank (including IDA) should focus on countries with commitment to economic reform. And the nature of its interventions should follow from its rationale; i.e, they should be justified on redistributive grounds, increase the efficient supply of public goods, or help address market failures. This implies a sharper focus on human resource development, certain physical infrastructure such as roads, and the series of second generation issues concerning regulation, the environment and support for private sector development. In other sectors -- such as industry and telecommunications -- lending should diminish and then cease as the Bank moves to support rather than replace the private sector.

The Bank will also need to give more emphasis to the contribution of non-lending services (shifting the balance from money to ideas). Drawing on its global development experience, the Bank can play a critical role in disseminating the lessons of success, in working with clients to move from the *what* to the *how*, and in bridging the gap from policy formulation to institutional design. It can also help governments to "package" and "deliver" development services provided by others. By selecting and leveraging its own activities to "crowd in" other players, the Bank will indeed become a "knowledge-based" institution. Our non-lending services have a direct development impact which needs to be recognized and valued within the Bank. They also provide key ingredients -- in terms of building our country knowledge and helping governments with their policies and spending priorities -- for improving the quality of our own lending. Money and non-lending services often go together: the technical assistance inherent in projects and the policy advice in adjustment lending. But this need not always be the case. Flexibility will be needed to provide non-lending services in countries which want to draw on our knowledge but no longer need our money or cannot use it effectively. In some circumstances, the Bank might want to consider charging for its services, to avoid crowding out private information flows.

The Bank should take a more pro-active stance in analyzing and influencing international economic arrangements which affect developing country prospects. As developing countries become more integrated into the mainstream of the international economic system, they also acquire a greater stake in the rules and institutions governing the functioning of this system. Following the Uruguay Round, many

countries are turning to the Bank for information and advice on how best to take advantage of the more open but more competitive international trading environment. These prospects will be significantly affected by the manner and scope of future changes to the trading system, for example through the introduction of environmental, labor and competitiveness issues into the trading agenda. They will also be affected by the manner in which regional trading blocs develop, not only between developing and industrial countries but also amongst groups of developing countries. Similarly, the ability of developing countries to access the new private capital flows will depend on a better understanding both of the motivations and concerns of the investors behind these flows as well as of the movement of these flows. The Bank can play a role in responding to this demand for objective and credible analysis on key determinants of developing country prospects. Finally, a stronger analytical presence by the Bank is important to raise issues of market access in industrial countries and counter growing but fundamentally misplaced concern (especially in Europe) that greater integration of the developing countries into the international economy will exacerbate unemployment.

Conclusion

In sum, over the next decades, meeting the Bank's objective of raising incomes and reducing poverty will require selectivity in action and a commitment to provide competitive, best-practice advice. The Bank should welcome other players in the provision of development services and explore new ways of encouraging efficient private solutions to public sector problems. It should not try to compete in financial markets. Rather, it should be prepared to provide a broad range of services which rely heavily on information and technical advice, as well as financial transfer. The Bank's traditional financial role is likely to diminish as more with the expansion and diversification of private capital flows. Non-lending services (ideas) will become relatively more important. The Bank is the only institution with an enduring relationship with the gamut of developing countries, a wealth of cross-country development experience, and a product mix that combines finance, policy advice and in-depth research. The resulting operational experience of the Bank, combined with the accumulated information on developing economies it has acquired over the years, give it a substantial comparative advantage in determining "best practice" in different country contexts and disseminating this information to policy makers throughout the world. Unlike many institutions, however, the Bank not only determines what has worked, but tries to understand why some countries have had disappointing outcomes. The Bank is committed to resolving the key problems that remain in these countries, as well as the new challenges that may emerge.

INTERNAL CHRON

April 27, 1995

Mr. Gautam Kaji

Gautam,

Re: Operational implications of the WDR

You'll recall we circulated this to VPUs with a plan to send to the Board after the WDR itself. The only additional comment we received was from Mr. Shihata on the precise wording of the subsections on severance pay and on future dealings with unions. We have incorporated his additional comments into this revised text. Shall we send it to the Board as is or would you like to hold a PRC meeting on it? The Board meeting on the WDR is next Thursday May 4th, and, since it is likely that some Directors will raise questions on operational implications, it would probably be good if we were in a position to advise the Board on the process we plan to follow.

Michael Bruno

Attachment

Operational Implications of the WDR on Labor

1. This note summarizes the operational implications of the WDR.

2. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates, including the priority of: investment in capital and human resources; openness in trade; prudent macroeconomic management (*inter alia* to reduce volatility of capital flows); the elimination of urban and anti-poor biases in the allocations of public spending in economic infrastructure and the social sectors; and effective reform strategies in both market oriented developing and former centrally planning economies. These parts of the report do not have new implications for Bank policy, but they do widen the scope of analysis to explicitly look at outcomes for labor. These are often hot issues in a country context and will warrant attention in the analysis and country dialogue.

3. The main areas with relatively new material relate to labor policy. In analyzing the role of labor policies, the report emphasizes that these have to be assessed within the context of the overall functioning of an economy. Labor policies directly influence wages and conditions of work of formal sector workers, which form a small fraction of the labor force in low income countries. Labor policies do influence the size and dynamism of the formal sector via the influence on formal sector hiring and firing, the size and formality of firms. Often, however, the priority in a policy dialogue over how to improve the conditions of workers will lie in other areas than labor policy, such as macroeconomic, trade, agricultural and education policy. Such a judgment should be made by the Country Department.

4. The main areas where there are new conclusions with operational impact are as follows. As discussed in the WDR, the motivation for many of these flows, in varying degrees, from efficiency or welfare motivations, or both:

- *Labor regulations* can be important to the policy dialogue in particular circumstances, for example where restrictive labor policy is an impediment to restructuring (as with excessively onerous job security regulations in Latin America or South Asia) or have large distributional or incentive effects (as with formal social security schemes in middle income countries, not least in former centrally planned economies). It is also possible that *de jure* labor regulations that now have little impact become important as a consequence of becoming linked to bilateral trade relations (as under NAFTA). In cases such as these, it is recommended that explicit analysis of the effects of labor regulations and reform options be undertaken with the aim of regulatory reform to increase labor mobility, setting of standards at reasonable levels to broaden the formal sector, and legislative reform to provide the underpinnings

for collective bargaining, individual labor contracts and dispute resolution procedures in the formal sector.

- *Collective bargaining* can be an effective way of determining wages and conditions, and monitoring health and safety standards for the formal sector, and is important wherever there are independent unions. In general, decentralized collective bargaining within competitive product and factor markets can make sense in generating efficient outcomes and avoiding excessive powers to particular worker groups. When the functioning of the formal sector labor market is important and the conditions for a dialogue on the role of unions exist, it is recommended that issues of collective bargaining be incorporated in country analysis.

- *Compensatory measures to deal with job loss* can play an important role in reducing risks faced by workers. Severance pay will often form part of private contracts (and should generally not be mandated), and unemployment insurance makes sense when administrative capabilities are high. Large-scale downsizing of public sectors will frequently necessitate additional publicly financed compensation for those laid off, where these are essentially once-off measures (and so do not have adverse incentives effects). Under current practice, borrowers have financed such compensation schemes via counterpart funds under adjustment lending. Such compensation schemes will have to be devised to trade off acceptability, fairness, and low cost.

- *Public works* can have strong beneficial effects for labor and should be supported by the Bank in two areas. First, public works schemes that provide temporary employment when demand is slack (especially in cases of drought and severe macroeconomic shocks) are often a good instrument for providing income security to the working poor, in rural or urban informal sectors. Second, for some categories of infrastructural investment (rural roads is the key example), labor-intensive techniques can be superior, even in terms of private rates of return, on both efficiency and equity grounds, at least over the range of wages prevailing in low income countries. They are sometimes not used now either due to procurement practices or failure to consider labor-intensive alternatives. This should generally be done by private contractors, under local competitive bidding, with, in some countries, initial start-up public supervision. For both categories of public works, the local market wage should be paid, that may be below the urban minimum wage.

- *Child labor* is a complex problem that requires a multi-faceted approach, including legislation against hazardous and dangerous work, health and educational facilities for those children who are working, and transfers to poor families who may be forced to put their children to work. Country policies to deal with this problem will generally work best with strong local community

or NGO involvement. The Bank should make special efforts in assisting countries in providing access to schooling for young girls.

- *The productivity of public employment* remains one of the key issues to be tackled in many economies undergoing reform. Restructuring and downsizing as well as improved public pay structures are necessary parts of the solution. Additional reforms will be necessary to restore productivity. While these have often proved politically and practically difficult, it is recommended that the Bank continue to support civil service reform, incorporating carefully designed and evaluated experiments into this work.

- *Agricultural and land policy distortions* can reduce labor incomes for small farmers and landless laborers through restrictions on tenancy and sales markets and subsidies that are biased toward large farmers and capital-intensive techniques. It is recommended that the Bank push for the elimination of these distortions and be willing to support market-based land reform (perhaps with grants for land purchase for small farmers) where inequalities of landholdings are severe.

- *Active labor market policies such as retraining, job search assistance and business start-up allowances,* that are used extensively in industrial countries, are generally not relevant for most developing economies, and are of limited use in the former centrally planned economies of Europe and Central Asia. Few countries have the necessary preconditions of high administrative capabilities and growing labor demand. The small number of empirical evaluations show poor results. It is recommended that the Bank only supports retraining, job search assistance and business start-up allowances on a limited scale with built-in evaluations.

- *Labor market information* is a public good that has benefits for the analysis of labor market and macroeconomic developments. It is recommended that the Bank encourage and advise labor ministries and statistical offices to provide timely information from market sources on general labor market developments, and incorporate labor-related information into household and enterprise based statistical work.

- *Labor standards and international trade* should not be linked. Advocates of such a link (that include the US and French governments and the union movement) propose that multilateral trade should be linked to a core set of basic standards, usually including freedom of association, collective bargaining and avoidance of forced labor, exploitative forms of child labor and discrimination. These are legitimate areas for domestic policy and may make sense for foreign policy. However a link to international trade policy would be inappropriate. The effectiveness of trade negotiations in improving labor

standards is unproven, while the dangers of abuse for protectionist purposes are great.

5. The preparation of the WDR has involved substantive interactions with both the ILO and the union movement. This revealed a high degree of interest, expertise and commitment by our counterparts, as well as a recognition of some differences in outlook. It is recommended that efforts be made at a country level to share views with the union movement in the process of country dialogue. Local circumstances will determine modalities, and this would have to be undertaken with the knowledge and approval of the government as with other interactions between Bank staff and other groups outside the government. The continuation of periodic interactions at a central level is also likely to be fruitful. Consultation with the ILO is encouraged in areas where their specialized knowledge and expertise on labor issues can enhance the quality of the analysis and the effectiveness of the country dialogue.

6. The WDR will be disseminated with intensive press consultations in June, followed by a series of seminars in the remainder of the year. EDI and HRO will be involved in the design of seminars and the overall dissemination strategy. It is planned to develop materials that would provide Bank staff and developing country officials with tools and examples for the analysis of country-wide developments of labor outcomes and the analysis of the range of specific labor policy interventions.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 27, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Reply to Mr. Sutherland**

1. I attach a brief reply to Mr. Sutherland's letter suggesting prior consultation between WTO and Bank staff before publishing research results.

2. Mr. Sutherland's letter was not commenting on the substance of our statements on agriculture, so we have focused explicitly on the consultation issue. We have had some difficulty engaging the Secretariat in serious discussion about Bank-WTO relations, and we hope to use this opportunity to address Mr. Sutherland to speed up progress.

3. Tomorrow is Mr. Sutherland's last day as Director-General, and it would be very good if this letter could be sent by fax to him before he leaves.

Attachment

c.c. M. Ahmed, IECDR; L.A. Winters, IECIT

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 25, 1995

TO: Mr. Gautam S. Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **ETHIOPIA - CAS**

1. This is a very good CAS on a country which is undertaking a number of difficult transitions. It contains a frank assessment of the impact of ethnicity on the existing political realities and on the future direction of economic policies. It notes that the achievements of the Government have been considerable, but the political situation remains fragile as the largely Tigrayan ruling party faces opposition from other ethnic groups, even those that support the policy of decentralization.

2. The revised CAS and the detailed cover note have responded, at least in part, to the comments made at the Regional review level concerning the optimistic fiscal and growth targets and the weak commitment of the Government to private sector development. More detail has been provided on the sources of GDP growth, and the need to address the fiscal problem is noted in para. 4 of the cover note. However, the revised CAS still does not point to any specific, credible actions which will help to meet the fiscal targets given the many pressures for increased spending.

3. The cover note also highlights the concern about the Government's commitment to private sector development and the CAS adopts a cautious approach of working with the Government since the differences may be a matter of degree and pace not principle.

4. The present version incorporates IECIF's input on the analysis of debt sustainability, and shows that Ethiopia would have a manageable debt service burden if the proposed debt management strategy is successfully implemented. Annex C7 showing projected reductions in debt and debt service needs to be included in the final version for Board presentation.

5. Our suggestions for the agenda are:

- **Fiscal Management.** What specific measures will be taken by the central Government to hold down spending by the regional authorities in line with the growth of revenues? What further cuts can be made in non-social sector spending? and what steps can be taken to improve revenue collection?

- **Private Sector Development.** It would be useful to have some discussion of how this issue will be tackled after the elections. Should a list of policy initiatives and a timetable for action be drawn up for presentation to the new administration after the May elections?

- **Base Case Scenario.** We continue to believe that the CAS would have benefited

from a more explicit consideration of the likely risk that progress in policy implementation would be short of the optimistic expectations underlying the base case scenario. Consequently, it would have been useful to have a clearer statement regarding the conditions under which SAC 11 would proceed. Also, in view of the uncertainty about the governmental structure after the elections and the country's weak institutional capacity, would it not be better to start with a smaller lending program which can be expanded than to cut back lending because of delays in implementation?

cc. Messrs./Mmes. Baird, Kalantzopoulos, Mas, Pieters, Hardy, Pradhan, Ning Zhu.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

April 26, 1995

Dear Mr. Lindbaek:

I have just been asked to represent the Bank at the OECD Ministerial meeting in Paris on May 22-23 and cannot therefore give a presentation at the IFC BAC meeting on May 23. I am very sorry to have to cancel but it is unfortunately outside my control. Please let me know if I can help in finding a replacement.

Sincerely,

Michael Bruno

Mr. Jannik Lindbaek
Executive Vice President
IFC

0239

1850 I (EYE) STREET, NW • WASHINGTON, DC 20433, USA
TELEPHONE (202) 473-0381 • FACSIMILE (202) 676-9566

95 MAR 30 PM 2:02

RECEIVED
DEVELOPMENT ECONOMICS
CHIEF ECONOMIST

JANNIK LINDBAEK
Executive Vice President

March 28, 1995

Mr. Michael Bruno
Vice President and Chief Economist
Development Economics Department
The World Bank
Washington, D.C.

Dear Mr. Bruno:

I am writing to invite you to speak at the Annual Meeting of the International Finance Corporation's Business Advisory Council (BAC). The BAC consists of 38 prominent CEO-level business leaders drawn from as many countries throughout the developed and developing world (membership list attached). They act as advisers to IFC, helping us decide on our priorities and facilitating our work generally, through their experience and contacts.

This year's BAC Annual Meeting will be held in Washington, D.C., May 22 and 23, 1995 at the Grand Hotel. We at IFC would be most pleased if you would be available to join the BAC meeting on the morning of Tuesday, May 23, at 11:30 a.m. to give a presentation of 30 minutes, followed by 15 minutes for questions from the audience. The theme I would suggest is developments in the world economy over the next decade. I realize this is a broad topic but our BAC membership and those attending from IFC would benefit from your unique perspective as you look into your crystal ball. Perhaps you might take the first 10 minutes of your talk to predict macroeconomic conditions followed by a more region-specific review of developing country prospects. These are, of course, merely suggestions, and the precise content I leave to your discretion.

The BAC meeting provides an opportunity for IFC management and staff to exchange views and tap the collective wisdom of an experienced group of private sector business leaders from around the world. Such exchanges help us to better serve our clients and maximize our impact in support of private sector development.

I am looking forward to a lively exchange of information and hope that you will be able to accept my invitation. Please give me or Mark Constantine of the Corporate Relations Unit (473-9331) a call should you have any questions.

Sincerely yours,

Jannik Lindbaek

I.F.C.

BUSINESS ADVISORY COUNCIL MEMBERS

1. **Mr. S. Babar Ali**
Adviser
Packages Limited
Lahore
Pakistan

2. **Mr. John E. Avery**
Chairman
Americas Society and Council of the Americas
New York
United States

3. **Mr. Aburizal Bakrie**
Chairman
Bakrie Group of Companies
Jakarta
Indonesia

4. **Mr. Frank Balanc**
Vice President, Finance
SAVA Kranj
Kranj Skofjeloska
Slovenia

5. **Mr. Y. Alain Bambara**
President and Chief Executive Officer
Cosmivoire
Abidjan
Cote d'Ivoire

6. **Mr. Bao Youde**
Vice Chairman and President
Shanghai Investment and Trust Corporation
Shanghai
China

7. **Mr. Lajos Bokros**
Chairman and Chief Executive Officer
Budapest Bank
Budapest
Hungary

8. **Mrs. Birgit Breuel**
President
Treuhandanstalt
Berlin
Germany

9. **Sir Michael Caine**
Chairman, Retired
Booker, plc
London
United Kingdom

10. **Mr. Yavuz Canevi**
Chairman
YASED, Association for Foreign Capital Coordination
Istanbul
Turkey

11. **Mr. Ariston M. Chambati**
Chairman and Chief Executive Officer
T. A. Holdings Limited
Harare
Zimbabwe

12. **Mr. Oliver F. Clarke**
Chairman and Chief Executive Officer
Gleaner Company
Kingston
Jamaica

13. **Amb. Ramon V. del Rosario**
Chairman of the Board
The Phinma Group
Manila
Philippines

14. **Dr. Hamed El Sayeh**
President
Economic Council
Zamalek, Cairo
Egypt

15. **Mr. Philippe Erard**
Chairman of the Board and President
Corimon S.A.C.A.
Caracas
Venezuela

16. **Mr. Jaime Garcia-Parra**
President
J. Garcia y Cia.
Santa Fe de Bogota
Colombia

17. **Mr. Kazuo Haruna**
Chairman of the Board
Marubeni Corporation
Tokyo
Japan

18. **Mr. James R. Houghton**
Chairman and Chief Executive Officer
Corning Incorporated
Corning, New York
United States

19. **Olorogun Michael C.O. Ibru**
Chairman
Oceanic Bank International (Nigeria) Limited
Victoria Island, Lagos
Nigeria

20. **Mr. Mahsoun Jalal**
Chairman and Managing Director
The National Company for Glass
Riyadh
Saudi Arabia

21. **Mr. Sam E. Jonah**
Chief Executive
Ashanti Goldfields Company Limited
Gold House
Accra
Ghana

22. **Mr. Abellatif Jouahri**
President Directeur Generale
Banque Marocaine du Commerce Exterieur
Casablanca
Morocco

23. **Mr. Il Kyu Kang**
President
Korea Development Leasing Corporation
Seoul
Korea

24. **Mr. Stefan Lewandowski**
Chairman
Foreign Investors Chamber of Industry and Commerce
Warszawa
Poland

25. **Mr. Keshub Mahindra**
Chairman
Mahindra & Mahindra Limited
Bombay
India

26. **Mr. Ernesto Martens**
Chief Executive Officer
Vitro, S.A.
Garza Garcia, N. L.
Mexico

27. **Mr. Roberto Mathies R.**
President
Compania Azucarera Salvadorena, S.A.
San Salvador
El Salvador

28. **Mr. Eliodoro Matte**
Vice Chairman of the Board
Empresas C.M.P.C., S.A.
Santiago
Chile

29. **Mr. Philip Ndegwa**
Chairman
First Chartered Securities Limited
Nairobi
Kenya

30. **Mr. Rosolino Orlando**
President
Assomet Association Non Ferrous Metals in Milan
Italy

31. **Anand Panyarachun**
Chairman
Saha-Union Corporation Limited
Bangkok
Thailand

32. **Mr. A. J. Petrina**
Vice Chairman
Placer Dome Inc.
Vancouver
Canada

33. **Dr. Marcus Pratini de Moraes**
Chairman
Brazilian Foreign Trade Association
Rio de Janeiro
Brazil

34. **Mr. Alexander Roubtsov**
Director General
Ernst and Young Vneshconsult
Moscow
Russia

35. **Mr. Enrique Ruete Aguirre**
Chairman
Roberts S.A. de Inversiones
Buenos Aires
Argentina

36. **Mr. Thomas Schmidheiny**
Chairman and Managing Director
Holderbank
Switzerland

37. **Mr. O. Francois Tankpinou**
President
Societe Fruitex Industrie
Cotonou
Republic of Benin

38. **Mr. Gerard Worms**
President and Director General
Compagnie de Suez
Paris
France

39. **Mr. Gordon Y. S. Wu**
Managing Director
Hopewell Holdings Limited
Hong Kong

March 24, 1995

elena\bacmembers.lst

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

OFFICE MEMORANDUM

DATE: April 25, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **AZERBAIJAN: Rehab Credit - IM**

1. We recognize the need to act with speed, to sustain the momentum for reform and buttress the IMF-led program, and we understand that the Region has been under pressure to respond in a timely manner. We have interacted with the Region on reviews of previous drafts of the IM for this operation and of the CAS. We have the following comments:

2. Country strategy. As Mr. Dervis' note to you explains, it was agreed with the Region that a "limited" CAS would be presented to the Board within the Petroleum TA Project (April 20) and a "full" CAS would be discussed with this credit. We had noted to the Region (on March 17) that the limited CAS "may be the best way to meet the Board's requirement at minimum cost. But it's not really sufficient to define a clear strategy of government action and Bank assistance." Given the urgency in processing this operation, we are concerned that some of the issues that were raised in the "limited" CAS will not be able to be addressed in the "full" CAS which we have not yet had occasion to review. Our main comment then was the following:

> Though Azerbaijan differs considerably from the "typical" Central Asian economy, most notably in the aftereffects of a major war, these differences are not reflected in the CAS. The report fails to convince the reader that the authorities are ready for a radical plan of reforms. Indeed, in emphasizing the institutional limitations, the still precarious peace agreement, and the burden of sustaining nearly one million refugees and displaced persons (13% of the population), the CAS would appear to argue for a very limited and highly select program of reforms and interventions. Instead, ... it presents the now "standard" list of reforms in "radical" programs without any discussion of sequencing or specificity to the particular circumstances. Given that these programs have met with at best moderate success, and have largely failed even in Russia with her relatively privileged starting point and access to donor support, what are the chances of success in Azerbaijan? Stabilization is critical. Yet there are reasons of national security to maintain higher than otherwise desirable levels of military spending and of aid to refugees and displaced persons. This argues for a continued large presence of the government if not as a producer as a buyer and distributor of goods and services. In this circumstance, what are the key two or three measures which could be taken and which could set the economy in the right path of reform? What is the best strategy for demobilization? Can it be combined with a program

of land reform and privatization? How can public infrastructure investments be combined with the need to address the problems of displaced persons?

Are these questions still pertinent? The revised IM still does not take them into account–perhaps because they are not a major policy concern any longer. Are the problems of the war and its aftermath not relevant to this operation? If they are, the IM does not reflect them.

3. Macro program and stabilization. With the questionable exception of the Kyrgyz Republic, there has not been a single example of fast disinflation in the IMF programs for the FSU. Why will this program be different? How is the sequence of price reforms compatible with the assumption of very low levels of inflation by end-1995? What will be the impact of the increases in energy prices and of prices of public utilities (to cover 100 percent of operating costs including the efforts of the planned increases in energy prices)? Are these price adjustments not likely to pass-through to other producers? Can the banking system (which apparently lacks procedures to classify the quality of its portfolio) absorb the impact of the increase in the real interest rate which may be necessary to prevent the contagion effect emanating from a repetitive but asynchronized sequence of price spikes with significant changes in relative prices?

4. The list of prior actions is long but soft; the actions to be taken are either plans, proposals and improvements, or they are part of the IMF's STF program. Is this deliberate and, if so, can we rely on the IMF to "deliver" on the key structural conditions? Stabilization is critical. Yet there are no prior actions which will reinforce the commitments to the IMF. Does this reflect a judgment that the measures proposed under the STF are sufficient?

5. IDA commitments and creditworthiness. Azerbaijan's external creditworthiness depends critically on its oil reserves. But access to them is constrained by Russian interests. The optimistic scenario is that "given the potential benefits to all concerned, it is likely that these difficulties will be overcome." Even then, significant export revenues cannot be expected before the year 2000. What is the downside scenario? If no benefits can come before the year 2000, is IDA willing and capable to make a commitment of significant net transfers *for the next decade*? Are we prepared to make this commitment now?

6. Containing the fiscal/financial drain of SOEs. The mid-term review (to be held in December 1995) is to focus on privatization and the IM outlines some useful benchmark questions for evaluation. With the emphasis given in Para. 40 on "isolating the largest loss-making enterprises," why is this element excluded from the list of issues to be looked at with greater attention? It could be argued that, without an effective program to reduce and monitor flows to these enterprises, neither financial nor fiscal consolidation would be possible. Indeed, considering that the main impediment to effective control of PE's is political, not technical, why not accelerate the program of reforms and insist on partial but actual implementation of clear nominal ceilings by December 1995?

7. Interest rate liberalization. What is the advantage of the auction mechanism for Central Bank funding if: (a) the major banks are state banks and are excluded from the auction; (b) the Central Bank controls both access to the auction and the quantity of funds to be auctioned? (c) the Savings bank is forced to transfer all marginal increases in liabilities to the Central Bank?

cc: Messrs./Mmes. Baird, Kalantzopoulos, Mas, Pieters, Vieira da Cunha, McCarthy.

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

DATE: 26-Apr-1995 11:11am

TO: Bertrand Renaud (BERTRAND RENAUD)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: Israel: Housing Finance Under Inflation

Dear Mr. Renaud,

Thank you for your EM of April 11 which I read on my return to the office yesterday. I would suggest you write to Dr. Leora Meridon, Director of Research Department, Bank of Israel, who could advise you of the relevant person in the Bank. If you like, you may mention my name. I hope this helps.

Michael Bruno

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

DATE: 11-Apr-1995 03:34pm

TO: Michael Bruno (MICHAEL BRUNO)

FROM: Bertrand Renaud, FSD (BERTRAND RENAUD)

EXT.: 32496

SUBJECT: Israel: Housing Finance Under Inflation

Dear Mr. Bruno,

The problem of developing viable housing finance systems in transitional economies is very difficult. Casual references are sometimes made to the Israeli experience. I should like to learn more about the structure of Israel's housing finance system, its inistutional structure, its fundings under inflation, its mortgage instruments, its history and its recent evolution after stabilization.

Is there someone in the Bank of Israel whom you would recommend I contact for such information?

Thank you very much in advance for your advice and assistance.

Bertrand Renaud
Housing Finance Advisor, FSD

Let him write to

Dr Leora Meridor,
Director of Research Dept
Bank of Israel (can mention me)
& I will suggest the relevant
person in the Bank

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

DATE: 12-Apr-1995 09:10am

TO: Bertrand Renaud (BERTRAND RENAUD)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

Sent By: Kate Oram

SUBJECT: **RE: Israel: Housing Finance Under Inflation**

Mr. Renaud, thank you for your em to Michael Bruno. He is away at present; back in the office April 25. I will bring your question to his attention at that time.Kate Oram Exec.Asst.

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

OFFICE MEMORANDUM

DATE: April 25, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **AZERBAIJAN: Rehab Credit - IM**

1. We recognize the need to act with speed, to sustain the momentum for reform and buttress the IMF-led program, and we understand that the Region has been under pressure to respond in a timely manner. We have interacted with the Region on reviews of previous drafts of the IM for this operation and of the CAS. We have the following comments:

2. Country strategy. As Mr. Dervis' note to you explains, it was agreed with the Region that a "limited" CAS would be presented to the Board within the Petroleum TA Project (April 20) and a "full" CAS would be discussed with this credit. We had noted to the Region (on March 17) that the limited CAS "may be the best way to meet the Board's requirement at minimum cost. But it's not really sufficient to define a clear strategy of government action and Bank assistance." Given the urgency in processing this operation, we are concerned that some of the issues that were raised in the "limited" CAS will not be able to be addressed in the "full" CAS which we have not yet had occasion to review. Our main comment then was the following:

> Though Azerbaijan differs considerably from the "typical" Central Asian economy, most notably in the aftereffects of a major war, these differences are not reflected in the CAS. The report fails to convince the reader that the authorities are ready for a radical plan of reforms. Indeed, in emphasizing the institutional limitations, the still precarious peace agreement, and the burden of sustaining nearly one million refugees and displaced persons (13% of the population), the CAS would appear to argue for a very limited and highly select program of reforms and interventions. Instead, ... it presents the now "standard" list of reforms in "radical" programs without any discussion of sequencing or specificity to the particular circumstances. Given that these programs have met with at best moderate success, and have largely failed even in Russia with her relatively privileged starting point and access to donor support, what are the chances of success in Azerbaijan? Stabilization is critical. Yet there are reasons of national security to maintain higher than otherwise desirable levels of military spending and of aid to refugees and displaced persons. This argues for a continued large presence of the government if not as a producer as a buyer and distributor of goods and services. In this circumstance, what are the key two or three measures which could be taken and which could set the economy in the right path of reform? What is the best strategy for demobilization? Can it be combined with a program

of land reform and privatization? How can public infrastructure investments be combined with the need to address the problems of displaced persons?

Are these questions still pertinent? The revised IM still does not take them into account– perhaps because they are not a major policy concern any longer. Are the problems of the war and its aftermath not relevant to this operation? If they are, the IM does not reflect them.

3. Macro program and stabilization. With the questionable exception of the Kyrgyz Republic, there has not been a single example of fast disinflation in the IMF programs for the FSU. Why will this program be different? How is the sequence of price reforms compatible with the assumption of very low levels of inflation by end-1995? What will be the impact of the increases in energy prices and of prices of public utilities (to cover 100 percent of operating costs including the efforts of the planned increases in energy prices)? Are these price adjustments not likely to pass-through to other producers? Can the banking system (which apparently lacks procedures to classify the quality of its portfolio) absorb the impact of the increase in the real interest rate which may be necessary to prevent the contagion effect emanating from a repetitive but asynchronized sequence of price spikes with significant changes in relative prices?

4. The list of prior actions is long but soft; the actions to be taken are either plans, proposals and improvements, or they are part of the IMF's STF program. Is this deliberate and, if so, can we rely on the IMF to "deliver" on the key structural conditions? Stabilization is critical. Yet there are no prior actions which will reinforce the commitments to the IMF. Does this reflect a judgment that the measures proposed under the STF are sufficient?

5. IDA commitments and creditworthiness. Azerbaijan's external creditworthiness depends critically on its oil reserves. But access to them is constrained by Russian interests. The optimistic scenario is that "given the potential benefits to all concerned, it is likely that these difficulties will be overcome." Even then, significant export revenues cannot be expected before the year 2000. What is the downside scenario? If no benefits can come before the year 2000, is IDA willing and capable to make a commitment of significant net transfers *for the next decade*? Are we prepared to make this commitment now?

6. Containing the fiscal/financial drain of SOEs. The mid-term review (to be held in December 1995) is to focus on privatization and the IM outlines some useful benchmark questions for evaluation. With the emphasis given in Para. 40 on "isolating the largest loss-making enterprises," why is this element excluded from the list of issues to be looked at with greater attention? It could be argued that, without an effective program to reduce and monitor flows to these enterprises, neither financial nor fiscal consolidation would be possible. Indeed, considering that the main impediment to effective control of PE's is political, not technical, why not accelerate the program of reforms and insist on partial but actual implementation of clear nominal ceilings by December 1995?

7. Interest rate liberalization. What is the advantage of the auction mechanism for Central Bank funding if: (a) the major banks are state banks and are excluded from the auction; (b) the Central Bank controls both access to the auction and the quantity of funds to be auctioned? (c) the Savings bank is forced to transfer all marginal increases in liabilities to the Central Bank?

cc: Messrs./Mmes. Baird, Kalantzopoulos, Mas, Pieters, Vieira da Cunha, McCarthy.

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

OFFICE MEMORANDUM

DATE: April 24, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **Togo: Country Assistance Strategy (CAS) and IM for Economic Recovery Adjustment Credit (ERAC) - Loan Committee**

During the last few weeks we have actively participated in the discussions, at the Working and Regional Loan Committee Levels, on the CAS and ERAC for Togo. The two documents now submitted to the Loan Committee reflect most of our concerns and take into account the comments made at the previous occasions. Listed below are a few remaining concerns for further consideration.

CAS

The economy has recovered strongly, although from a low base, in 1994 and the mid-term IMF review indicates that the ESAF program targets have been met. However, given the continuing political fragility, low income levels and the financial sector's weak intermediation capacity is it realistic to assume that the Base Case scenario would materialize? Specifically, can the ratio of gross domestic savings to GDP be raised from 2.7% in 1994 to 18.7% in 1998 and the share of private sector investment in GDP from 10.7% to 16.8% over the same period? If the shortfall does occur, what mid-course actions are envisaged to keep the program on track?

ERAC

Given the political sensitivity, the Region is adopting a cautionary approach to the reform of the public enterprise sector, especially the economy's dominating phosphate company, OTP. Several questions still remain on the horizon: What is the probability of the private sector taking an active participation if the Government holds on to its majority ownership? What assurances are sought to constrain the government's past practice of siphoning-off OTP resources for other uses? Under the recommended second-best solution (i.e. the government retaining the majority ownership for the time being) what exactly is the actual minimum level of reform that the Bank expects to achieve through the proposed operation?

Some broader questions are: if external financing in 1995 is also in short supply as was the case in 1994, what measures will be adopted to keep the program on track? Given that the 1991-93 political turmoil and fiscal crises have inflicted great hardships on the Togolese in general, and its poorer segments in particular, what is being proposed to mitigate the sufferings of those who would be adversely affected by the adjustment process?

cc: Messrs./Mmes: Kalantzopoulos, Mas, Pieters, Baird, Chaudhri

Chron

THE WORLD BANK GROUP

ROUTING SLIP	DATE: April 19, 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

REMARKS:

FROM	ROOM NO.	EXTENSION
Kate Oram	S9-035	31107

0332

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

Office of the President

95 APR 19 PM 2:0

RECEIVED

April 18, 1995

Messrs: Burki, Cheetham, Choksi, Fukui, Husain, Iida, Jaycox, Koch-Weser, Lindbaek, Linn, Malloch Brown, McHugh, Muis, Picciotto, Rischard, Serageldin, Shihata, Thahane, Thalwitz

Corporate Management Meeting -- April 20-21, 1995

We would like to thank you for your positive and helpful comments and suggestions on the substance and organization of the upcoming Corporate Management Meeting. Out of the think-piece we circulated last week, two themes -- private sector development, and decision making in the Bank -- have generated considerable interest.

As planned, we are going to start off the plenary discussion with the more general think-piece and then, continue in plenary with the private sector development and decision making topics:

> The Private Sector Development discussion will concentrate on the Bank Group's instruments -- lending, guarantees, and non-lending services -- and on the collaboration between the Bank, IFC and MIGA;
>
> The Decision Making discussion will center on processes and procedures, speed and responsiveness, adaptability and innovation, and short-term versus long-term planning.

Following the plenary, we could break up into sub-groups. This would allow for a more focused discussion and the development of specific action plans in areas selected at the plenary.

At the end of the day, we will conclude with a plenary session during which the sub-groups will report back on their recommendations. Of course, we will be flexible on when and how we break up into sub-groups and on the duration of the sub-group and plenary sessions.

Orsalia Kalantzopoulos

Orsalia Kalantzopoulos

attachments: revised agenda and map

cc: Messrs/Mmes. Preston, Bruno, Einhorn, Wood, Frank, Kaji, Sandström, Armitage, Mas, Rice

Corporate Management Meeting
April 20 - 21, 1995
River House, Aspen Institute
Queenstown, Maryland

Thursday, April 20

4:15 p.m.	Bus departs from J Building Entrance
6:00 - 6:30 p.m.	Arrival/Check-in at River House
6:30 - 7:30 p.m.	Cocktails (Sun Room)
7:30 p.m.	Dinner (Dining Room)

Friday, April 21

7:30 - 8:45 a.m.	Breakfast (Dining Room)
9:00 - 12:00 noon	Plenary session or sub-groups (Ground Level, Main Conference Room)
about 10:45 a.m.	Coffee break
12:30 - 2:00 p.m.	Buffet Lunch (Sun Room or Patio, weather permitting)
2:30 - 4:00 p.m.	Plenary session or sub-groups, continued
about 4:00 p.m.	Coffee break
4:30 - 5:30 p.m.	Concluding plenary session (Main Conference Room)
5:30 p.m.	Bus returns to World Bank

chron cy 8

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

OFFICE MEMORANDUM

DATE: April 18, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Mark Baird, Acting VP, DEC

EXTENSION: 31666

SUBJECT: **Efficiency and Growth: The Case for Gender Equality**

This is a good paper which has been extensively reviewed by DEC. The authors have strived to incorporate our comments and we are in agreement with the paper's messages, tone and empirical grounding. We have no further comments at this stage. For your information, we attach comments we have given at earlier drafts of the paper.

An editorial remark: paragraphs vii and viii of the Executive Summary are hard to follow. The difficulty is in describing the simultaneous supply and demand factors. It may be better to use a more linear argument: lower education and lower work experience lead to lower wages which adversely affect participation. The negative feedback from low participation, to, again, lower wages is reinforced by institutions in the labor market (discrimination) and in households.

Thank you.

Attachments

cc: (w/attachments) Messrs: Bruno (o/r); Squire, Alderman, Vieira da Cunha.

61

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: February 22, 1994

TO: Mr. K. Y. Amoako, Director, ESP

FROM: Mark Baird, Director of Development Policy, DECVP

EXTENSION: 31666

SUBJECT: Enhancing Women's Contribution to Economic Development

As requested, attached are DEC's comments on this draft policy paper. They were prepared by Harold Alderman (PRDPH) and suggest strengthening of two basic themes:

(i) the gender gap as a symptom of the relative poverty of females; and

(ii) the interaction of gender roles.

There are also a number of comments on specific tables and paragraphs.

Attachment

cc: Messrs. Squire, Jimenez, Alderman, Vieira Da Cunha

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: February 17, 1994

TO: Mark Baird

FROM: Harold Alderman, PRDPH

EXTENSION: 30372

SUBJECT: Comments on Enhancing Women's Contribution to Economic Development

Given all the potential controversies and nuances within the subject, I find the paper quite clear and balanced. In addition to pointing out two or three places where additional clarification may be required, I would like to amplify two themes apparently covered in the Board discussion in January.

1. The distinction between seeking social justice and seeking poverty alleviation may more in presentation than implementation. While there have been times when Bank staff argued that the Bank was not really set up to target the poor, few would argue that now. Furthermore, one would not say that poverty alleviation should be put on hold if it means confronting caste discrimination in India or the special obstacles of indigenous people in Latin America, though both imply confronting social change. Why then should there be more squeamishness about addressing the poverty of women? One can argue that one is not seeking change for itself, but because it is necessary to address poverty.

If one takes this view that the gender gap is a symptom of the relative poverty of females (in Sen's sense of capabilities as much as in terms of purchasing power) then one need not introduce -or at least dwell on - the additional concept of social justice.

However, I would suggest that some point be made to this effect prior to paragraph 15. While that paragraph is nice and crisp, at that stage of the paper the existence of the gap has been shown but nothing has been presented that argues that the gap needs to be closed. If, however, the gap is presented as symptomatic, then one can argue that if one desires to enhance the lives of many of the poorest people in the world, then strong public policy actions are needed.

Actually I see two different themes here. The gap is undesirable because it indicates that women are poor. It is also undesirable because the lack of resources controlled by women harms the larger society. The latter point is well illustrated in chapter two. It might be worth making the distinction more explicit.

2. The issue of gender and development as opposed to women in development can strike the uninitiated as one of the periodic changes in terminology that academic journals thrive on. I appreciate the attempt to give the nuance policy content by stressing that GAD includes a focus on the interaction of gender roles. However, much of the presentation of the paper is as much in keeping with a women in [comparative] isolation framework. Some examples:

- Female headship is mentioned as a contributor to poverty without any acknowledgement of the fact that implications of headship differs if a women is linked to a migrant worker or if she is abandoned or widowed. The latter status is far more serious if she has no adult male children than otherwise. The former point is made in many studies from Southern Africa as well as LSMS #96 on Jamaica, the latter is documented in work in progress by Marty Chen (HIID) in Bangladesh and India.

- Tenure and title is often mentioned. Similarly, the paper discusses the existence of unique women's crops. These may be more relevant to Africa where family structure recognizes distinct households even within a marriage as well as specific gender economic activities more so than in Asia and Latin America where activities are often joint, often over generations. (For this reason, I distrust any estimates that contend that women produce half the food in the developing world; can relative shares really be quantified for South Asian cropping systems?) There is little direct acknowledgement that prescriptions likely matter depending on the how the entire household is structured. Even within the context of West African compounds where women's crops and holdings are fairly distinct, a well known project in Gambia found that giving title to rice land to women was subverted both by indifference of administrators and adaption of social roles within the community in question; a good caveat about failing to look at the complete social picture.

- The importance of inter-generational obligations is indicated as one explanation of inadequate investment in girls (in many cultures they are less likely to remain in their natal household and support parents). This can be developed as a market failure to explain why the gains indicated in para 69 are ignored by families.

I suggest that the paper be reviewed once more with an eye towards highlighting illustration of where a GAD approach will give policy prescriptions that differ from a WID focus.

3. Table 2 is not informative. Indeed, it is hard to reconcile with the rest of the paper. Firstly, it doesn't leave one with a impression that there are strong gender patterns - meta-analysis might show that the number of pro-male cases do not offset the no difference or pro-female cases. Much more important, it seems to conflict with table 6. I assume that mortality rates are higher among one year olds compared to 5 years old. If so, how are, for example, rates of 12-15 deaths per 1000 in age 1-4 in Pakistan reconciled with 37-55 for the 2-5 year bracket? Without some clarification one can get the impression that the data are unreliable.

4. Para 43 gives a narrower perspective than para 86. K. Saito's work indicates that often tailoring the message or having male extension officers visit women is as effective as hiring more women. If, as is often the case in rural areas, there is a shortage of educated women, the strategy in para 43 may divert personnel from other tasks (teaching girls, promoting women's health) that can not be adequately met by retraining men. The important thing is that the message is appropriate and delivered to women, not that it is necessarily delivered by women.

5. Table 8 seems unbalanced or incomplete. An attempt is made to put a dollar value on adult deaths averted, but not on child deaths. The table has a slot for the alternative cost of achieving a comparable reduction in deaths (less controversial than putting a value) but no numbers are given.

6. Para 120 deserves more prominence. Many people may feel that it is important to address gender discrimination but also feel that there is a vicious circle in which the legal environment reenforces social attitudes which in turn make change from outside hard to implement. Case studies which indicate what policies have impacts might dispel the notion that reinforcing discrimination is impermeable.

7. Jimenez and Lockheed in the references should be Jamison and Lockheed.

cc: E. Jimenez, L. Squire

Int. Chron

The World Bank

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

Mr. T. T. Thahane

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

April 14, 1995

Tim,

Herewith the office space requirements for DEC as requested.

Regards,

Michael

Att./-

Please return this form by April 14, 1995 to
Bank/Fund Conferences Office, Room M-8000

MICHAEL BRUNO
Name of Vice President

I will require 5 rooms for my Department at the Sheraton Washington Hotel during the 1995 Annual Meetings.

The contact person for my Department is: Kate Oram,
Telephone No.: 473 1107.

April 11, 1995
Date

Signature

Please return this form by April 14, 1995 to
Bank/Fund Conferences Office, Room M-8000

MICHAEL BRUNO
Name of Vice President

I will require 5 rooms for my Department at the Sheraton Washington Hotel during the 1995 Annual Meetings.

The contact person for my Department is: Kate Oram,
Telephone No.: 473 1107.

4/11

Mark--for signature pls.

As discussed the rooms req.are as follows:

1--------M Bruno
1--------M Bruno: Conf. Rm.
1--------M Bruno: secretaries
2--------Between 6 Dirs.

5

April 11, 1995
Date

Signature

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

OFFICE MEMORANDUM

DATE: April 13, 1995

TO: Distribution

FROM: Michael Bruno (DECVP) and Johannes Linn (FPRVP)

EXTENSION: 33774/80602

SUBJECT: **Debt Sustainability Analysis for Country Assistance Strategies and PFPs**

1. **The need for debt sustainability analysis.** As you know, the Board discussed the paper entitled *"The World Bank and the Debt of the Heavily Indebted Poor Countries"* (SecM95-215) together with the Joint Bank/Fund paper entitled "*Multilateral Debt of the Heavily Indebted Poor Countries*" on Monday, March 13, 1995. At that meeting, there was broad-based agreement among the Executive Directors that "the World Bank should assess and monitor the long term financial prospects and debt sustainability, including multilateral debt of heavily indebted countries in the context of future country economic and sector work, Country Assistance Strategies and PFPs...". This has become an increasingly important issue for donor governments in their decisions about the type and terms of financing they would provide to the highly-indebted poor countries. Therefore, from now on, any CAS or PFP going to the Board for a heavily indebted country will be expected to reflect careful consideration of debt sustainability issues. This should be discussed in the External Environment section of the document.

2. **The approach**. The background work needed for CASs and PFPs to deal adequately with debt sustainability would include a comprehensive treatment of the size and composition of the debt, export outlook, factors that will affect its external financing situation (such as aid flows, among others) and the fiscal aspects of debt servicing. Specifically, this will at the very least, entail an evaluation of (i) the *debt overhang* implied by the existing stock of debt (measured in present value terms, in relation to exports or GDP) with a notion of a sustainable level, (ii) a description and assessment of the country's debt strategy, (iii) the *liquidity situation* in terms of projected future debt service obligations, external financing (especially aid) and exports over the next 10 years and judging the sustainability of such flows, (iv) the sustainability of the *level and sources of new lending* that are being envisaged in the external financing gap filling exercise, and (v) the implications of the debt situation of the country for the Bank's strategy and assistance. This analysis should be fully reflected in the Technical Annex of the document. Three samples of this analysis are attached, for your information. The extent of coverage of these issues in the main body of the CAS and PFPs will, of course, vary from country to country. This will depend on the degree to which the outcome of macroeconomic scenarios being assumed in the CAS/PFP hinges on the resolution of the external debt situation of the country.

3. **Managing the transition.** In principle, we have to cover all severely indebted countries. However, during the process of transition, our initial focus will be on the severely-indebted low income countries (SILICs) as defined in the *World Debt Tables 1994-95*. We will also cover any country where exceptional debt relief is envisaged. For the PFPs, an analysis of debt sustainability should be included for all SILICs that have not yet completed a PFP Negotiation mission. We are in the process of having discussions with Fund staff to arrive at a mechanism for coordinating this effort with them in the PFP process. We will report back to you in this regard. A list of severely indebted countries is attached for your convenience.

4. The International Finance Division (IECIF) in IEC stands ready to support regional Country Departments in these assessments, in coordination with FRM. It would be most efficient if you could ensure that both IEC and FRM become involved at the earliest possible stage of the CAS/PFP process.

Attachment

Distribution:

Messrs./Mmes. Jaycox (AFRVP); Cheetham (EAPVP) Wood (SASVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Burki (LACVP); Adams (OPRDR)

CC: Messrs./Mmes. Baird (DECVP), Ahmed, Brigish (IECDR), Donovan, Rueda-Sabatar (FRMRO), Bhattacharya (FRSFP), Kamel (IECIF)

Severely indebted low-income countries (SILICS)

Burundi
Central African Republic
Côte d'Ivoire
Equatorial Guinea
Ethiopia
Ghana
Guinea
Guinea-Bissau
Guyana
Honduras
Kenya
Lao People's Democratic Republic
Liberia
Madagascar
Mali
Mauritania
Mozambique
Myanmar
Nicaragua
Niger
Nigeria
Rwanda
São Tomé and Principe
Sierra Leone
Somalia
Sudan
Tanzania
Viet Nam
Uganda
Yemen, Republic of
Zaire
Zambia

Severely indebted middle-income countries (SIMICS)

Angola
Argentina
Bolivia
Brazil
Bulgaria
Cameroon
Congo
Ecuador
Jamaica
Jordan
Morocco
Panama
Peru
Poland
Syrian Arab Republic
Uruguay

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

DATE: 14-Apr-1995 09:41am

TO: Anwar Shah (ANWAR SHAH)

FROM: Kate Oram, DECVP (KATE ORAM)

EXT.: 31107

SUBJECT: **Fiscal Seminar**

Hello Anwar!

I spoke to Michael Bruno a short while ago. Unfortunately he said he must regret your invitation to him to talk at the seminar. He said to tell you he's very sorry but he's already overcommitted.

I hope it goes well Anwar.

Best wishes,

Kate.

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

DATE: 12-Apr-1995 03:24pm

TO: Kate Oram (KATE ORAM)

FROM: Anwar Shah, PRDPE (ANWAR SHAH)

EXT.: 37687

SUBJECT: **RE: Course Announcement: Fiscal Decentralization in Developing**

Kate,

No that would not be a problem. We could delay the lunch to 1:00 p.m. if need be. Thanks.

With best regards,

Anwar

Regret

ALL-IN-1 NOTE

DATE: 12-Apr-1995 02:56pm

TO: Anwar Shah (ANWAR SHAH)

FROM: Kate Oram, DECVP (KATE ORAM)

EXT.: 31107

SUBJECT: **RE: Course Announcement: Fiscal Decentralization in Developing**

Anwar, thanks for the program. I notice the lunch starts at 12.40 pm. Mr. Bruno has to block off from 11.00 a.m.-1.00 pm each Wed. in case there's a Loan Committee. Usually the LCs finish by 12.30 but it could last until 1. Would that be a problem? Of course, we could be lucky and there may not be a Loan C. that day! Kate.

Fax to
M.B ?

ALL-IN-1 NOTE

DATE: 12-Apr-1995 01:19pm

TO: Kate Oram (KATE ORAM)

FROM: Anwar Shah, PRDPE (ANWAR SHAH)

EXT.: 37687

SUBJECT: **Course Announcement: Fiscal Decentralization in Developing**

Kate,

Enclosed please find a tentative agenda for the training course on fiscal decentralization to be held in Washington on May 3-4.

We would be greatly honoured if it would be possible for Mr. Bruno to speak to this group on "Central Bank Independence" or more broadly on "macro-federalism" issues i.e. macroeconomic management and division of powers in federal countries. The proposed session for his address would be the luncheon session on May 3 (from 12:45 to 2:00 p.m.).

Please advise if this request can be accommodated in his busy schedule. Thanks.

With best regards,
Anwar

CC: Michael Bruno (MICHAEL BRUNO)

FISCAL DECENTRALIZATION IN DEVELOPING COUNTRIES

May 3-4, 1995
ANA Hotel

Tentative Agenda

Wednesday, May 3, 1995

PRINCIPLES AND LESSONS

9:00 a.m.	**Introduction and Seminar Overview** Chair: Mark Baird, DECVP Speaker: Shanta Devarajan, PRDPE
9:15 a.m.	**Session 1: Design of Economic Constitutions** This session will present an overview of principles and best practices in designing and allocating spending, taxing and regulatory responsibilities. Chair: Mark Baird, DECVP Speaker: Robin Boadway, Queen's University
10:45 a.m.	**Coffee Break**
11:00 a.m.	**Session 2: Design of Intergovernmental Transfers** This session will present an overview of economic rationale of intergovernmental transfers and reflect upon design options consistent with this rationale. Chair: Marcelo Selowsky* Speaker: Anwar Shah, PRDPE
12:40 p.m.- 2:00	Luncheon Sesion Speaker: Michael Bruno, DECVP*
2:15-3:15 **p.m.**	**Session 3: Local Government Finance: Lessons From Industrialized Countries** Chair : David Wildasin Speakers: Melville McMillan, University of Alberta
3:**15 p.m.**	Coffee Break
3:30-5:00	Session 4: Comparative Federalism China and Russia Chair: Speakers: Christine Wallich* Shahid Yusuf*

Thursday, May 4, 1995

SECTORAL DECENTRALIZATION ISSUES

9:00 a.m.	**Session 5: Managing Rural Services** Chair: John Page Jr.* Speaker: Hans Binswanger, AGRDR
10:00 **a.m.**	**Session 6: Managing Health and Education Services** Chair: John Page Jr.* Speaker: Don Winkler, LATAD
11:00 **a.m.**	**Coffee Break**
11:15 a.m.	**Session 7: Managing Infrastructure** Chair: R. Pablo Guerrero O.* Speaker:Gregory Ingram, RAD
12:45 p.m.	**Luncheon Session** Speakers: Wallace Oates Heng-fu Zou
2:00 p.m.	**Session** 8:Administrative Decentraliztion Chair: Alberto de Capitani* Speaker: Jerry Silverman
3:15 p.m.	**Coffee Break**
3:30 p.m.	**Session** 9: Comparative Federalism Brazil, Nigeria, India, Pakistan and Indonesia Chair: Joanne Salop* Speaker: Anwar Shah
4:45 p.m.	**Course Evaluation**
5:00 p.m.	**Close of Seminar**

Note: * indicates that participation is yet to be confirmed.

MB - file copy

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

OFFICE MEMORANDUM

DATE: April 10, 1995

TO: Mr. Sven Sandstrom

FROM: Mark Baird, Acting VP, DEC

EXTENSION: 33774

SUBJECT: **Policy Review Committee Meeting on *Sustainable Transport: A Sectoral Policy Review***

This is a rich, well argued, yet succinct report which provides a good analytic foundation and a firm sense of direction for future Bank action in the sector. DEC has commented on earlier drafts and the authors have been very responsive in taking our comments into account. We agree with and support the report's main recommendations and we are comfortable with its presentation. The Committee may wish to focus on three areas where, in our reading, the report may be strengthened:

1. *Cost-benefit analysis.* Transport facilities create localized market power and generate externalities. Government action can, therefore, contribute to the efficient use of public *and private* resources. The document correctly points to competition and the pursuit of a paying clientele as critical means to greater financial discipline and operational efficiency, even when markets are not "perfectly" competitive. It discusses how the design of the regulatory framework, the use of franchising, etc. can help widen the scope for competition, commercialization and participation. But the paper is shy to recommend cost-benefit analysis as a tool for the analysis of investment decisions when there is a discrepancy between private/financial and social/economic rates of return. As is well known, this analysis can provide useful insights and quantitative parameters for examining what should be an appropriate framework for private investors/operators. It is also useful in the analysis of public investments proposals and pricing. The report's aversion to the traditions of technocratic planning is welcome. But this does not call for abandoning the tools which may be useful to guide public choice, in a properly bounded role for government intervention.

2. *Can you (should you) isolate sectors in the budget?* Given its focus, the report makes recommendations for a specific area of public expenditure. However, some problems are best approached by dealing with all of public spending (and even taxation). Alternatively, some improvements in sectoral performance are only captured (internalized) when measuring the performance of the entire public sector. The document recognizes this in as much as it recommends Bank interventions that "finance a time slice of a sector investment program" (which, of course, implicitly assumes an agreement on the entire budget) and/or SECALs (para 6.15). We support these instruments and related ones such as lending for work-outs and restructuring of government agencies, funding restructuring costs of public utilities/agencies and, judiciously, severance pay for public/parastatal employees. But the document could emphasize two aspects:

- that a proper analysis of the costs and benefits of earmarking can only be done in the context of the entire public sector (why not use gasoline taxes to finance basic education?);
- that the fundamental objective is to improve the performance of the entire public sector (as the means to the objectives of better services, sustainability, etc.). In this regard, the document could be clearer in insisting on the goal that all investment expenditures should be economically justified, whether in transport or elsewhere and whether or not financed by the public sector. Because of the usual externalities associated with much of the investment in infrastructure, unbundling, competition and commercialization, though very desirable, will not insure efficient project selection. An appropriate regulatory framework is essential, as is the use of clear criteria for choosing projects; hence the importance of the proper use of tools such as cost/benefit analysis.

3. *Non-lending services.* The document correctly emphasizes the "need for more structured learning by the Bank." It also notes that "institutional and policy reform should be the primary focus of the Bank's effort to make transport more sustainable." Granted that a "strong lending program ... is essential" because "a lending operation is the best way to identify locally critical institutional and technical issues," why not explicitly recognize/advocate that in some instances the Bank's best assistance will be as an advisor/consultant, not as a provider of finance? If the Bank can indeed develop a well structured set of "best practices" which can be flexibly applied to specific circumstances, why not provide the advisory service (possibly for a charge) with or without financial packages.

cc: Mme/Messrs: Kalantzopoulos, Mas, Bruno (o/r), Squire, Eskeland, Vieira da Cunha.

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

DATE: 05-Apr-1995 12:42pm

TO: Gregory Ingram (GREGORY INGRAM)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Attachedy

Greg, re attached, is he referring to MB's article in the Research Bulletin (May/June 1994?), based on last year's ABCDE? If so, I'd be grateful if you could arrange to have a copy sent to him. I'd also be grateful if you could send me a copy as I don't seem to have one left. Thanks.Kate.

CC: Jean Gray Ponchamni (JEAN GRAY PONCHAMNI)

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

DATE: 04-Apr-1995 12:09pm EST

TO: Michael Bruno (MICHAEL BRUNO)

FROM: Katya Gutierrez, PHN (KATYA GUTIERREZ)

EXT.: 89018

SUBJECT: "Will growth last--will it spread?"

Mr. Bruno,

Would you happen to have an extra copy of the above-captioned article? Mr. Jacques van der Gaag would like a copy.

K

Int. Chron

THE WORLD BANK GROUP
Office of the Vice President and Chief Economist
Development Economics Department
1818 H Street, Room S-9-035
Washington, D.C. 20433 U.S.A.
Tel. No. (202) 473-3774 • Fax (202) 477-0549•

FACSIMILE COVER SHEET AND MESSAGE

DATE: April 4, 1995

NO. OF PAGES: 3 (including cover sheet)

TO: Michael Walton

FAX: 60652

FROM: Kate Oram

EXTENSION: 31107

FAX: 70549

SUBJECT: Attached

MESSAGE: FYI.

Transmission authorized by: authorization

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

Development News – Daily Summary

Monday, April 3, 1995

WORLD BANK SHIFT IN DOCTRINE FOR POORER NATIONS. The World Bank is planning to temper its long-standing commitment to economic liberalism and deregulation by highlighting the developing world's need for strong trade unions and greater equality, reports the Guardian (p.9). In its World Development Report, due out later in the summer, the Bank will register a distinct shift away from the laissez-faire doctrine that has marked its pronouncements over the past two decades, says the article. The report, being finalized at present in Washington, will stress that improving living standards in the developing world depends on better work standards and practices. It will argue that the size of the informal sector in the developing world makes it a great deal harder for governments to lay down the rules about working conditions than it is in the West, it says. As a result, it supports the idea that employers and trade unions should be

encouraged to work together in an attempt to improve standards and set a yardstick for the rest of the economy. The article says that the report marks a significant development for the Bank, which in recent years has been gradually deviating from the strict free-market approach favored in the 1980s.

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

DATE: April 4, 1995 05:14pm

TO: Paulo Vieira Da Cunha (PAULO VIEIRA DA CUNHA)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Attached

Paulo,

Can you help? Thanks.

Kate

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

DATE: 04-Apr-1995 12:09pm EST

TO: Michael Bruno (MICHAEL BRUNO)

FROM: Katya Gutierrez, PHN (KATYA GUTIERREZ)

EXT.: 89018

SUBJECT: "Will growth last--will it spread?"

Mr. Bruno,

Would you happen to have an extra copy of the above-captioned article? Mr. Jacques van der Gaag would like a copy.

K

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Sven Sandstrom

April 4, 1995

Sven,

I feel I owe you an explanation, if not an apology, about the hasty form of my intervention on what in substance is a matter of great concern to me. This topic had better been discussed face to face in a leisurely conversation , but since this cannot materialize until after my return to the office on April 25, I at least wanted to send you a brief note.

The first time I heard about the blurb that was to be introduced into all our publications was last week, from a note that a colleague showed me that was sent by someone from EXT to various people around the Bank dealing with the colors and font of the said statement. I was surprised, to say the least, both by the idea as well as by the very indirect way I got to hear about it but tried to deal with it quietly. I talked to Mark Malloch Brown to try and dissuade him from instituting the idea prior to an orderly discussion of the so-called new mission statement (which to the best of my knowledge had only been mentioned briefly in a slide show around some VPUs). The main issue in my view is that Bank strategy should not be made subservient to the way its messages are packaged, but rather the other way round.

More specifically, as someone who is responsible for a sizable number of the Bank's publications and cares both for their content as well as their form, I thought I would be entitled to prior consultation before such matters get decided. The upshot is that I suggested to Mark that such an important matter (at least in my view) wait until the new President comes in. Unfortunately, the train was already in motion and I next got a modified blurb and, upon protest, found yet another blurb (this time with the word poverty appearing in it), all of this while I was already on my way out. Since I could not see myself signing on to the forthcoming GEP with that blurb on it, the only way I had to intervene, while still wanting to avoid confrontation, was by calling up Gautam on Friday when I arrived in Jerusalem and making my view clear in this way. Obviously, I had no intention of getting into an open conflict and least of all with you personally. So I do apologize for any inconvenience or bad feeling that this may have caused you.

I very much hope to get a chance to talk about the matter in a more relaxed manner when I get back.

Yours,

Michael

(dictated from Jerusalem)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 3, 1995

TO: Mr. Gautam S. Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Your Inauguration of the Seventh Conference on Development Economics

I am writing to thank you for agreeing to inaugurate this year's Conference on Development Economics at 9:00 a.m. on Monday, May 1, 1995. You are also invited to stay for the keynote address by Domingo F. Cavallo, Minister of Economy and Public Works, Argentina.

The conference will be held on May 1 and 2; a draft copy of the agenda is attached. Gregory Ingram or I would be happy to provide further details about the conference and work with your office to prepare your inaugural comments.

cc: Gregory Ingram RAD

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 3, 1995

TO: Mr. Wilfried Thalwitz

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Annual Bank Conference on Development Economics, May 1 and 2, 1995

1. I am writing to thank you for agreeing to participate in the Annual Conference on Development Economics, and to chair the presentation and discussion of the paper, *Fiscal Federalism and Decentralization* by Vito Tanzi. This session will begin at 3:15pm on Tuesday, May 2, as shown on the attached draft agenda.

2. The conference is run on a fairly tight schedule, and the responsibilities of chairpersons are critical to its smooth functioning. The enclosed sheet describes the specific duties of chairpersons. In mid-April we will send you the conference papers and background information on the authors and discussants in your session to enable you to introduce them.

3. Jean Gray Ponchamni and Mani Jandu (extension 31264) will handle the logistics of the conference.

4. I hope you will be able to attend the cocktail party I will be hosting on Monday, May 1 at 6:00pm in E Gallery, 12th floor.

5. Again we appreciate your willingness to participate in the ABCDE. Please let me know if you have any questions.

Attachments(2)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 3, 1995

TO: Mr. Sven Sandstrom

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Annual Bank Conference on Development Economics, May 1 and 2, 1995

1. I am writing to thank you for agreeing to participate in the Annual Conference on Development Economics, and to chair the presentation and discussion of the paper, *From Redistribution to Sustainable Development* by Albert Fishlow. This session will begin at 9:45am on Monday, May 1, as shown on the attached draft agenda.

2. The conference is run on a fairly tight schedule, and the responsibilities of chairpersons are critical to its smooth functioning. The enclosed sheet describes the specific duties of chairpersons. In mid-April we will send you the conference papers and background information on the authors and discussants in your session to enable you to introduce them.

3. Jean Gray Ponchamni and Mani Jandu (extension 31264) will handle the logistics of the conference.

4. I hope you will be able to attend the cocktail party I will be hosting on Monday, May 1 at 6:00pm in E Gallery, 12th floor.

5. Again we appreciate your willingness to participate in the ABCDE. Please let me know if you have any questions.

Attachments(2)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 3, 1995

TO: Mr. M. Ismail Serageldin

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Annual Bank Conference on Development Economics, May 1 and 2, 1995

1. I am writing to thank you for agreeing to participate in the Annual Conference on Development Economics, and to chair the presentation and discussion of the paper, *Poverty and Development* by Pranab Bardhan. This session will begin at 11:30am on Monday, May 1, as shown on the attached draft agenda.

2. The conference is run on a fairly tight schedule, and the responsibilities of chairpersons are critical to its smooth functioning. The enclosed sheet describes the specific duties of chairpersons. In mid-April we will send you the conference papers and background information on the authors and discussants in your session to enable you to introduce them.

3. Jean Gray Ponchamni and Mani Jandu (extension 31264) will handle the logistics of the conference.

4. I hope you will be able to attend the cocktail party I will be hosting on Monday, May 1 at 6:00pm in E Gallery, 12th floor.

5. Again we appreciate your willingness to participate in the ABCDE. Please let me know if you have any questions.

Attachments(2)

April 3, 1995

Sven,

I feel I owe you an explanation, if not an apology, about the hasty form of my intervention on what in substance is a matter of great concern to me. This topic had better been discussed face to face in a leisurely conversation , but since this cannot materialize until after my return to the office on April 25, I at least wanted to send you a brief note.

The first time I heard about the blurb that was to be introduced into all our publications was last week, from a note that a colleague showed me that was sent by someone from EXT to various people around the Bank dealing with the colors and font of the said statement. I was surprised, to say the least, both by the idea as well as by the very indirect way I got to hear about it but tried to deal with it quietly. I talked to Mark Malloch Brown to try and dissuade him from instituting the idea prior to an orderly discussion of the so-called new mission statement (which to the best of my knowledge had only been mentioned briefly in a slide show around some VPUs). The main issue in my view is that Bank strategy should not be made subservient to the way its messages are packaged, but rather the other way round.

More specifically, as someone who is responsible to a sizable number of the Bank's publications and cares both for their contents as well as their form, I thought I would be entitled to prior consultation before such matters get decided. The upshot is that I suggested to Mark that such an important matter (at least in my view) wait until the new President comes in. Unfortunately, the train was already in motion and I next got a modified blurb and, upon protest, found yet another blurb (this time with the word poverty appearing in it), all of this while I was already on my way out. Since I could not see myself signing on to the forthcoming GEP with that blurb on it, the only way I had to intervene, while still wanting to avoid confrontation, was by calling up Gautam on Friday when I arrived in Jerusalem and making my view clear in this way. Obviously, I had no intention of getting into an open conflict and least of all with your personally. So I do apologize for any inconvenience or bad feeling that this may have caused you.

I very much hope to get a chance to talk about the matter in a more relaxed manner when I get back.

Yours,

Michael

TRANSMISSION RESULT REPORT (MAR 31 '95 10:58AM)

WB DPG

(AUTO)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
031	MEMORY TX		90119722611868	02/02	OK

Chron

Also distributed to Masood U

ERRORS

1) HANG UP OR LINE FAIL 2) BUSY 3) NO ANSWER 4) NO FACSIMILE CONNECTION

THE WORLD BANK GROUP
Office of the Vice President and Chief Economist
Development Economics Department
1818 H Street, Room S-9-035
Washington, D.C. 20433 U.S.A.
Tel. No. (202) 473-3774 • Fax (202) 477-0549•

FACSIMILE COVER SHEET AND MESSAGE

DATE: March 31, 1995

NO. OF PAGES: 2
(including cover sheet)

TO: Michael Bruno

FAX: 011-9722-611-868

FROM: Mark Baird

FAX: 202-477-1569

SUBJECT: Attached

MESSAGE:

Michael

THE WORLD BANK GROUP
Office of the Vice President and Chief Economist
Development Economics Department
1818 H Street, Room S-9-035
Washington, D.C. 20433 U.S.A.
Tel. No. (202) 473-3774 • Fax (202) 477-0549•

FACSIMILE COVER SHEET AND MESSAGE

DATE: March 31, 1995 **NO. OF PAGES: 2** (including cover sheet)

TO: Michael Bruno

FAX: 011-9722-611-868

FROM: Mark Baird

FAX: 202-477-1569

SUBJECT: Attached

MESSAGE:

Michael,

We lost this one. I sent the attached message and talked to Gautam. He was sympathetic and took up the issue with Sven (acting President). But it turns out that Sven had already used the (old) blurb at the Social Summit and has now approved it (as revised) for all Bank documents. He subsequently authorized printing of GEP with the blurb included on the cover.

There's not a lot more we can do at this stage. However, I have sent Mark's note (with a brief cover note) on to Armeane, Ismail, and Johannes in the hope that it might generate a groundswell of protest.

MB

Mark

cc: Masood Ahmed

Transmission authorized by: authorization

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

DATE: March 30, 1995 05:23pm

TO: MARK MALLOCH BROWN (MARK MALLOCH BROWN @A

FROM: Mark Baird, DECVP (MARK BAIRD)

EXT.: 31666

SUBJECT: Message Statement

Mark:

Michael has left on mission but he called from the airport to reiterate his strong objections to the imposition of a new mission statement, without due consultation and discussion. He feels particularly strongly given that this comes only a few months after a completely different statement was used in the vision document and a few months before a new President comes on board. The issue is not finding wording to meet his particular concerns. But rather to make this decision as part of a corporate process of commitment to what the statement conveys. The presentations on the communication strategy, in which this statement appeared along with many others, is not that process. He was adamant in our discussion that no DEC document should go out with the mission statement on, until these issues are properly discussed and resolved.

Mark

CC: Gautam S. Kaji (GAUTAM KAJI)
CC: RICHARD FRANK (RICHARD FRANK @A1@WBW
CC: SVEN SANDSTROM (SVEN SANDSTROM @A1@WB
CC: JESSICA EINHORN (JESSICA EINHORN @A1@W
CC: Michael Bruno (o/r) (MICHAEL BRUNO)
CC: JIM FEATHER (JIM FEATHER @A1@WBWAS

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 29, 1995

To: Messrs. Ross Levine, Delfin Go, Lant Pritchett

Gentlemen:

PRD Research Fair

I thought the Research Fair was a great success. I personally enjoyed seeing the posters and talking to the researchers. Clearly, a lot of work went into this and I understand from Lyn that you were the prime movers in getting this idea off the ground. I hope we can make more use of this approach in the future. Please convey my congratulations to your PRD colleagues. Well done!

Michael Bruno

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 29, 1995

To: Messrs. Ross Levine, Delfin Go, Lant Pritchett

Gentlemen:

PRD Research Fair

I thought the Research Fair was a great success. I personally enjoyed seeing the posters and talking to the researchers. Clearly, a lot of work went into this and I understand from Lyn that you were the prime movers in getting this idea off the ground. I hope we can make more use of this approach in the future. Please convey my congratulations to your PRD colleagues. Well done!

Michael Bruno

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 29, 1995

To: Messrs. Ross Levine, Delfin Go, Lant Pritchett

Gentlemen:

PRD Research Fair

I thought the Research Fair was a great success. I personally enjoyed seeing the posters and talking to the researchers. Clearly, a lot of work went into this and I understand from Lyn that you were the prime movers in getting this idea off the ground. I hope we can make more use of this approach in the future. Please convey my congratulations to your PRD colleagues. Well done!

Michael Bruno

Gautam Kaji

Gautam,

A general letter goes from the President to the Board of Executive Directors in front of the WDR. I attach a draft for your approval, that incorporates some comments from Gerry Rice. (Gerry will take another look at it over the weekend and come with any comments Monday morning). Would it be possible to get your feedback and approval by Monday, since an approved/initialed version would need to go with the WDR to the Secretary's Department in order to authorize printing on Monday evening? While this would be signed by you as acting President, the final letter that goes inside the published version of the WDR would be signed by Mr. Wolfensohn since the publication date is in June. Mike Walton will work with Gerry Rice in April and May on a sharper and punchier version for that purpose.

Thank you,

Mark Baird
Acting VPDEC

Attachment

cc: Ignacio Mas, Orsalia Kalantzopoulos, Gerry Rice

31 March, 1995

Draft letter to Executive Directors for Gray Cover of the WDR

The 1995 World Development Report, the eighteenth in this annual series, is devoted to the relationship between policy, development and the welfare of workers--the incomes they receive, the risks they face, and the conditions under which they work. Labor conditions are central to the livelihoods of working men and women. And they have powerful indirect effects on the welfare of children, of the old, and of those unable to work.

The world is in the midst of two systemic changes: the rising importance of international interactions and the decline of state interventionism. Both have profound effects on workers. National labor markets are increasingly linked to international events via trade, capital flows and migration. Models of state-led development and provision of jobs have failed. Some see these changes as opportunities, others as sources of heightened insecurity, as workers become increasingly vulnerable to the vicissitudes of domestic and international markets. However, the issue now is not one of choosing between state direction and unregulated markets, but of the best role for governments in developing strategies that encourage job growth, raise labor productivity and provide protection for workers that complement market solutions.

The fundamental reason for concern with labor lies with poverty. The bulk of the billion-odd people living in absolute poverty in the world depend mainly on incomes from labor. Increases in their labor incomes are critical to lift them out of poverty. The 1990 World Development Report on Poverty emphasized the need for a strategy that both invested in people, to expand the capabilities of the poor, and supported labor-demanding growth, to increase their opportunities. This Report is, in part, a sequel to the 1990 Report.

There are two new departures in the Report:

First, it assesses the consequences of domestic development strategy and international developments from the perspective of workers. It concludes that development strategies that rely heavily on markets, emphasize investing in all the people, and support family farms in agriculture are also good for workers, including the poorest workers who are more commonly self-employed in agriculture and outside the wage sector. It finds that international interactions expand the opportunities for nations and, on average, help workers in both rich and poor countries. But some workers can get left out, or hurt, by developments in domestic and international markets. And many can suffer during the difficult transitions that follow shocks or major reforms to new growth paths. Governments have a special role to play in reaching those left out and in designing transitions to reduce costs to workers.

Second, the Report assesses the role for labor policy and trade unions in an increasingly market-driven and integrated world. It finds that there is an important role for public policy in supporting some basic standards, providing the framework for individual and collective labor contracts, and reducing income insecurity for workers. But labor policy must be designed to complement market conditions in rural and urban, informal and formal settings,

and avoid protecting relatively privileged groups of workers, to the neglect of the poorest. Unions can contribute to sound development paths in the right economic and political environment.

As in the past, World Development Report 1995 will include the World Development Indicators (that are being sent to the Executive Directors separately) that provide selected social and economic statistics for over 200 countries. The Report is a study by the Bank's staff, and its conclusions do not necessarily reflect the views of the Board of Directors or of the governments they represent.

Gautam Kaji
Acting President

Record Removal Notice

The World Bank Group Archives & Records Management

File Title		Barcode No.
Michael Bruno - Internal Chronological - March to April 1995		30486493
Document Date	**Document Type**	
March 29, 1995	Memorandum	

Correspondents / Participants
To: Mr. Huw Evans, EDS03
From: Michael Bruno, DECVP

Subject / Title
EDs Colloquium

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.

Withdrawn by	Date
K. Brenner-Delp	June 25, 2025

0144

cc. M.A

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

To: Mr. Michael Bruno March 20, 1995

From: Huw Evans HAE

Tel: 623 4560

Subject: GLOBALISATION: THE DIRECTORS' RETREAT

A few comments on the retreat:

- I didn't think the written material circulated before hand was much good.
- The first two of the speakers in the first session were poor, almost designed to turn Directors away from the advantages of private capital markets.
- The other speakers were much better, especially Aninat.
- The session on implications for the Bank, and your introductory remarks, was extremely helpful.
- Many of us at the end felt that there was more to be said about many of these issues, particularly the implications for the Bank. You might wish to circulate to all Directors and Management a short summary of that session, together with points to follow up by the Board.

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

OFFICE MEMORANDUM

MB's Chron.

DATE: March 29, 1995

TO: Distribution

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **Operational Implications of the WDR on Labor**

I attach a revised version of the above note, that incorporates comments received from the Regions, HRO and Legal. It is planned to send a version of such a note to the Board, but has not yet been decided by EXC when to do this or precisely in what form. When it goes to the Board it will be made explicit that these are conclusions of the WDR that are relevant to the design and implementation of country strategy, but should not be interpreted as central mandates or enshrined in an operational directive. The judgment of applicability in particular country circumstances would be a regional matter, with the normal process of advice, commentary and support from the center.

Attachment

Distribution:

Messrs./Mss. Gautam Kaji, Richard Frank, Sven Sandstrom, Ignacio Mas, and Orsalia Kalantzopoulos, EXC; Shahid Javed Burki, LACVP; Russell J. Cheetham, EAPVP; Armeane M. Choksi, HROVP; Jessica P. Einhorn, TREVP; Hiroo Fukui, CFSVP; S. Shahid Husain, MPSVP; Edward V. K. Jaycox, AFRVP; Caio K. Koch-Weser, MNAVP; Jannik Lindbaek (CEXVP); Johannes F. Linn, FPRVP; Jules Muis, CTRVP; Robert Picciotto, DGO; Jean-Françoise Rischard, FPDVP; Ismail Serageldin, EDSVP; Ibrahim F. I. Shihata, LEGVP; Timothy Thahane, SECVP; Wilfried Thalwitz, ECAVP; D. Joseph Wood, SASVP; Sebastian Edwards, LACCE; Ishrat Husain, EAPVP; Ravi Kanbur, AFRCE; John Page, MNAVP; Marcelo Selowsky, ECAVP; Joanne Salop, SASVP; Masood Ahmed, Mark Baird, Gregory Ingram, Lyn Squire, Vinod Thomas, Paulo Vieira da Cunha, DEC; K. Y. Amoako, Jane Armitage; Peter Fallon, ESP; Hans Binswanger, AGRDR

Operational Implications of the WDR on Labor

1. This note summarizes the operational implications of the WDR.

2. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates, including the priority of: investment in capital and human resources; openness in trade; prudent macroeconomic management (*inter alia* to reduce volatility of capital flows); the elimination of urban and anti-poor biases in the allocations of public spending in economic infrastructure and the social sectors; and effective reform strategies in both market oriented developing and former centrally planning economies. These parts of the report do not have new implications for Bank policy, but they do widen the scope of analysis to explicitly look at outcomes for labor. These are often hot issues in a country context and will warrant attention in the analysis and country dialogue.

3. The main areas with relatively new material relate to labor policy. In analyzing the role of labor policies, the report emphasizes that these have to be assessed within the context of the overall functioning of an economy. Labor policies directly influence wages and conditions of work of formal sector workers, which form a small fraction of the labor force in low income countries. Labor policies do influence the size and dynamism of the formal sector via the influence on formal sector hiring and firing, the size and formality of firms. Often, however, the priority in a policy dialogue over how to improve the conditions of workers will lie in other areas than labor policy, such as macroeconomic, trade, agricultural and education policy. Such a judgment should be made by the Country Department.

4. The main areas where there are new conclusions with operational impact are as follows. As discussed in the WDR, the motivation for many of these flows, in varying degrees, from efficiency or welfare motivations, or both:

- *Labor regulations* can be important to the policy dialogue in particular circumstances, for example where restrictive labor policy is an impediment to restructuring (as with excessively onerous job security regulations in Latin America or South Asia) or have large distributional or incentive effects (as with formal social security schemes in middle income countries, not least in former centrally planned economies). It is also possible that *de jure* labor regulations that now have little impact become important as a consequence of becoming linked to bilateral trade relations (as under NAFTA). In cases such as these, it is recommended that explicit analysis of the effects of labor regulations and reform options be undertaken with the aim of regulatory reform to increase labor mobility, setting of standards at reasonable levels to broaden the formal sector, and legislative reform to provide the underpinnings

for collective bargaining, individual labor contracts and dispute resolution procedures in the formal sector.

- *Collective bargaining* can be an effective way of determining wages and conditions, and monitoring health and safety standards for the formal sector, and is important wherever there are independent unions. In general, decentralized collective bargaining within competitive product and factor markets can make sense in generating efficient outcomes and avoiding excessive powers to particular worker groups. When the functioning of the formal sector labor market is important and the conditions for a dialogue on the role of unions exist, it is recommended that issues of collective bargaining be incorporated in country analysis.

- *Compensatory measures to deal with job loss* can play an important role in reducing risks faced by workers. Severance pay will often form part of private contracts (and should generally not be mandated), and unemployment insurance makes sense when administrative capabilities are high. Large-scale downsizing of public sectors will frequently necessitate additional publicly financed compensation for those laid off, where these are essentially once-off measures (and so do not have adverse incentives effects). It is recommended that the Bank continue to support such compensation schemes, when there is a material impact on development, i.e. when they support restructuring judged necessary for further economic growth. Under current guidelines this can be done via counterpart funds under adjustment lending. Such compensation schemes will have to be devised to trade off acceptability, fairness, and low cost.

- *Public works* can have strong beneficial effects for labor and should be supported by the Bank in two areas. First, public works schemes that provide temporary employment when demand is slack (especially in cases of drought and severe macroeconomic shocks) are often a good instrument for providing income security to the working poor, in rural or urban informal sectors. Second, for some categories of infrastructural investment (rural roads is the key example), labor-intensive techniques can be superior, even in terms of private rates of return, on both efficiency and equity grounds, at least over the range of wages prevailing in low income countries. They are sometimes not used now either due to procurement practices or failure to consider labor-intensive alternatives. This should generally be done by private contractors, under local competitive bidding, with, in some countries, initial start-up public supervision. For both categories of public works, the local market wage should be paid, that may be below the urban minimum wage.

- *Child labor* is a complex problem that requires a multi-faceted approach, including legislation against hazardous and dangerous work, health and educational facilities for those children who are working, and transfers to poor

families who may be forced to put their children to work. Country policies to deal with this problem will generally work best with strong local community or NGO involvement. The Bank should make special efforts in assisting countries in providing access to schooling for young girls.

- *The productivity of public employment* remains one of the key issues to be tackled in many economies undergoing reform. Restructuring and downsizing as well as improved public pay structures are necessary parts of the solution. Additional reforms will be necessary to restore productivity. While these have often proved politically and practically difficult, it is recommended that the Bank continue to support civil service reform, incorporating carefully designed and evaluated experiments into this work.

- *Agricultural and land policy distortions* can reduce labor incomes for small farmers and landless laborers through restrictions on tenancy and sales markets and subsidies that are biased toward large farmers and capital-intensive techniques. It is recommended that the Bank push for the elimination of these distortions and be willing to support market-based land reform (perhaps with grants for land purchase for small farmers) where inequalities of landholdings are severe.

- *Active labor market policies such as retraining, job search assistance and business start-up allowances,* that are used extensively in industrial countries, are generally not relevant for most developing economies, and are of limited use in the former centrally planned economies of Europe and Central Asia. Few countries have the necessary preconditions of high administrative capabilities and growing labor demand. The small number of empirical evaluations show poor results. It is recommended that the Bank only supports retraining, job search assistance and business start-up allowances on a limited scale with built-in evaluations.

- *Labor market information* is a public good that has benefits for the analysis of labor market and macroeconomic developments. It is recommended that the Bank encourage and advise labor ministries and statistical offices to provide timely information from market sources on general labor market developments, and incorporate labor-related information into household and enterprise based statistical work.

- *Labor standards and international trade* should not be linked. Advocates of such a link (that include the US and French governments and the union movement) propose that multilateral trade should be linked to a core set of basic standards, usually including freedom of association, collective bargaining and avoidance of forced labor, exploitative forms of child labor and discrimination. These are legitimate areas for domestic policy and may make

sense for foreign policy. However a link to international trade policy would be inappropriate. The effectiveness of trade negotiations in improving labor standards is unproven, while the dangers of abuse for protectionist purposes are great.

5. The preparation of the WDR has involved substantive interactions with both the ILO and the union movement. This revealed a high degree of interest, expertise and commitment by our counterparts, as well as a recognition of some differences in outlook. It is recommended that efforts be made at a country level to share views with the union movement in the process of country dialogue. Local circumstances will determine modalities, and this would generally have to be undertaken with the knowledge and approval of the government. It is also recommended that some interactions at a central level be instituted, as with NGOs. Consultation with the ILO is encouraged in areas where their specialized knowledge and expertise on labor issues can enhance the quality of the analysis and the effectiveness of the country dialogue.

6. The WDR will be disseminated with intensive press consultations in June, followed by a series of seminars in the remainder of the year. EDI and HRO will be involved in the design of seminars and the overall dissemination strategy. It is planned to develop materials that would provide Bank staff and developing country officials with tools and examples for the analysis of country-wide developments of labor outcomes and the analysis of the range of specific labor policy interventions.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 30, 1995

TO: Distribution

DEC Policy Review Notes

Please find attached the first three policy review notes prepared by DEC staff. This set covers three key financial sector issues: directed credit, bank recapitalization and interest rate deregulation.

These informal notes have been prepared to help guide DEC's review and advice on financial sector issues. They draw on the technical expertise available in DEC as well as valuable comments from other Bank staff. I personally chaired a series of seminars to discuss these notes, and was impressed by the degree of interest and debate they generated. I am therefore distributing them more widely for your information. I hope you find them useful in your work.

Please feel free to contact Anandarup Ray (31443) on the directed credit note and Gerry Caprio (37658) on the other two notes if you have any comments, questions or suggestions for improvement. Additional copies of the notes are available from Eunice Gibson (33719).

Michael Bruno

Attachments

chron copy

March 30, 1995

Mr Michael Bruno

IDB Seminar (Annual Meeting)
"International Capital Flows: Prospects and Policy Issues"

Michael,

You have received a brief from Leonardo Hernandez (IECIF) which covers the main issues. Of particular import is Leonardo's last observation; Gavin/Leiderman's paper seems to argue that "you can have the cake and eat too," using the exchange rate for two policy objectives: price stability and coping with capital flows. Arguably, a flexible exchange rate is preferable for managing capital inflows and a fixed exchange rate is better to sustain low inflation–and to disinflate in the wake of a strong fiscal adjustment. But, obviously, one cannot change regimes willy-nilly and, except when forced (e.g.: Mexico), it may not be desirable to change the regime in *response* to short-term volatility in capital flows. Peter Montiel also noted this issue. His point is that, if the capital inflows are thought of as a nominal shock to money demand, then they *should be* accomodated, and this would strenghen the argument in favor of a *fixed* exchange rate regime. In fact, his view of the literature is that it supports the case for a fixed exchange regime in the face of volatile portfolio movements.

Though he didn't mention in his note, Leonardo agrees that the trade regime continues to be an important instrument in most Latin American, which are not fully liberalized. In particular, as you argued during your last visit to India, an influx of capital flows may be an appropriate moment to produce a permanent reduction in average tariffs. Similarly, it may be an opportune moment to effect an increase in *public* savings. Gavin/Leiderman correctly argue (p 14) that "[n]ational budgets are more than just levers of macroeconomic policy" and that "there is good theoretical and some empirical support for the idea that private savings may adjust to partly offset changes in taxes, particularly if these are perceived to be transitory." But these are arguments for the *quality* of fiscal adjustment. In most Latin American countries the state continues to do things it should not do and misspends on the things it should do. Again, the issue is that the optimal response may be an increase in public savings based on a permanent and selective reduction in public expenditures. Peter notes, correctly, that this is a once-and-for-all adjustment. There is an issue of what to do, once you've got the fiscal policy right. But the short answer is that much depends on the state of the economy and the avilability of policy instruments. It is difficult to make a general case.

Section III of the paper raises issues for the discussions. The question posed are good and concern issues that you are familiar with (e.g.: can you and should you sterilize, etc.). A couple of observations:

- *World interest rates and capital flows.* The paper argues (Issue 1) that real interest rates will remain high (rise?) and capital remain scarce (fall?). GEP argues otherwise: Table 1-2 (p3)

shows forecasts with the Libor rising in 1995-96 but falling thereafter to a rate not much above the 1994 average. To be sure, this is a higher rate than in 1991-93, but still very considerably bellow the 1980s. The story seems to be that, as the credibility of policy in the G3 remains high, the rise in short rates has come with a fall in long rates, flattening the yield curve. Thus, the rate in US 30-year bonds has fallen by more than 100 basis points and is expected to fluctuate around this level (nominal 8.3% with very low anticipated US inflation). Box 1-1 in the GEP (p 9) presents the story why, in our view, there is no global "capital shortage." Essentially, over the long-run, demographic changes in the US should lead to an increase in US savings rate. Thus, the GEP is bullish on the resumption of capital flows to the developing countries (p 12). In fact, given expected trends, it concludes that: "the stock of developing country equity held by foreigners could increase fivefold over the next decade, with gross flows rising on average again by 10 to 15 percent annually in nominal terms." The same argument is made in the paper by Morris Goldstein that Masood just esnt you.

- *Sterilization, capital controls and inflation.* In the discussion of Issue 2 (Policy regimes) you may which to recall the discussion of the Brazilian regime pre-Real plan (based, for example, in the Sachs-Zini paper). The issue is the transmission mechanism and the quickness of the response from reserve money to inflation. In an economy where nearly all money bears market-driven interest (and where interest rate policy is the instrument of choice of the monetary authorities, having to roll-over almost the entire national domestic debt every week) sterilization may have the effect of reducing output while increasing the rate of inflation. Nevertheless, there is a change in perception regarding the effectiveness of capital controls: they seem to work in the short run (e.g.: Chile, Colombia, Malaysia) when supported by pre-existing and ongoing macroeconomic stability.

- *Banking system.* You may wish to stress, yet another time, one of the lessons "post-Mexico." In a world of integrated financial markets with strong information asymmetries it is critical to have adequate incentives, regulations and supervision of the banking system, including state banks. It is now clear that there was a failure in the Mexican banking system; loans were made which should not have been made even if one assigns very low ex-ante probability for a currency crisis. And the issue is that a good banking system and regulatory framework may take a lot longer to establish than an open capital account regime. What do you do then?

- *What's the story on private consumption.* Peter was especially intrigued by this side of the argument: Why is it that foreign investors are attracted to the country when domestic investors are using the additional resources to increase consumption? What explains the different perceptions of two well informed groups of agents? Note that the paper points out (p 13) that "[s]etting Brazil aside, investment rose ... dramatically, from roughly 18.5% in 1989-1990 to nearly 25 percent of GDP in 1994." What explains the fall in private savings?

- *International Monetary Cooperation.* This is likely to be a hot issue but, as Peter noted, not one where you are likely to feel free to make many comments in public. I don't think there is an agreed position within the Bank (or, I gather, the IMF) on whether "the scale of capital mobility creates the need for temporary balance of payments support on much larger scale than is currently provided by bilateral arrangements and IFIs."

I hope this is useful. Have a good trip!

Paulo

Paulo

cc: Messrs Ahmed, Baird, Hernandez, Montiel, Qureshi.

MB - chron

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

OFFICE MEMORANDUM

DATE: March 29, 1995

TO: Mr. Armeane Choksi

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **The World Development Report**

1. Faced with budget cuts over the next three years, I have been examining the costs and benefits of the World Development Report, either to confirm that continuing to publish the WDR in its current form, with its current resource requirements, is the right thing to do, or to find ways of doing it differently and/or less expensively.

2. The attached note summarizes the findings from our investigations. It appears that there are considerable savings to be made from the WDR production processes while still maintaining the high quality that is required of the WDR. The largest savings would come from:

- moving from four colors to two,
- finding co-publishers for the language editions other than English, French, and Spanish.

3. On the other hand, it is clear that considerably more could and should be done in the area of dissemination, including spin-off products from the WDR. Production savings may therefore not be net savings.

4. Because of the high profile nature of the WDR, it is vital that we not risk devaluing it in the eyes of its audience. I would therefore value your comments, as Chairman of the Publications Task Force, on the recommendations contained in the attached note, and advice as to how we should proceed from here.

Attachment

cc: DEC Senior Managers, Mr. Gelb

File Copy

March 29, 1995

Mr Michael Bruno

Russia: Budget Policy

Michael,

Per your request, a brief note on some issues you may wish to raise in your discussions. Given the recent trend in monetary expansion, the budgetary agreement with Parliament and substantial IMF funding of the fiscal deficit, there is considerable optimism regarding the path of inflation in 1995. These expectations are confirmed by the simulations with Bill's macro model. However, as you have noted, it is important to keep the focus on the medium term process of adjustment and disinflation. The key issue is the sustainability and the weakest point is the fiscal deficit. The essential support for durable stabilization is a significant reduction in the structural fiscal deficit, including the operations of local governments, state enterprises and extra-budgetary funds. How much of a reduction is necessary is difficult to estimate:

- Though much has been said about privatization, and much has been accomplished, it is clear that the "optimal" boundary of the state has not been established. The very large enterprises in manufacturing, oil and gas extraction, refining and distribution have not been privatized; state farms have not been restructured, and agricultural procurement and distribution is still dominated by (increasingly local) public channels. While relations between banks and enterprises are increasingly based on commercial principles, no one has a clear idea of the contingent liabilities of the various levels of public administration.
- It is very difficult to assess the buoyancy of the public revenue system and it is equally difficult to estimate the path of output and income growth. With stabilization, revenues from the profit tax should fall but, in Russia, there are countervening trends. Compliance is poor and could increase (but privatization reduces compliance). I don't know what happened to the "excess wage tax" which is, essentially, an add-on to the profits tax. If the limits have not changed, with a lagging minimum wage (which is the relevant *numeraire*) the effective tax rate increases. Real revenue from the VAT should rise with a fall in inflation. And the same thing should happen to excise taxes which will grow in importance if the change in energy taxation is implemented as planned. All taxes should grow with increases in real income and output but real growth may be off for some time. Despite the anticipated fall in inflation, real output is expected to fall in 1995 (by 9%) and continue to decline in 1996 (by 2%).
- The pattern of financing may feed back on the deficit. As Bill has shown, if the authorities rely on bond financing, the interest cost on the domestic debt may increase to several percentage points of GDP–requiring additional fiscal adjustment to stabilize the debt/GDP ratio.

These uncertainties notwithstanding, most observers would agree that fiscal adjustment should not rely on revenue increases, alone. By some indications, the tax regime is already punitive. It is a major impediment to private sector development. The issue is one of distribution: making the large resource-based state enterprises pay adequate taxes. But low taxation comes with implicit subsidies which the government may find difficult to remove. The most vexing issues are on expenditures. First, though actual expenditures for the last two years have been below budgeted expenditures, the mechanism for expenditure containment has been higher than forecasted inflation. In real terms, since 1993 there has been no adjustment on the expenditure side of the budget. The table below shows the projected budgets for 1995-98 as prepared by the Ministry of Economy (MoE) and approved unanimously by the Chernomyrdin Cabinet on March 24, 1995.

Table 1. Indicators of the Federal budget, 1995-1998

Percentages of GDP

	1995	1995	1996	1997	1998
	IMF	*MoE*	*MoE*	*MoE*	*MoE*
Revenue	13.5	14.5	16.0	17.0	18.0
Expenditure	19.6	21.0	21.0	21.0	22.0
Other*	-0.4				
Balance	-6.5	-6.5	-5.0	-4.0	-4.0
Financing	6.5	6.5	5.0	4.0	4.0
Net domestic	4.1	3.2	5.5	4.5	4.5
Banking system	3.1	3.0	4.0	3.0	2.5
CBR	0.7				
Borrowing (TBs)	2.4				
Other**	1.0	0.2	1.5	1.5	2.0
Net foreign	2.4	3.3	-0.5	-0.5	-0.5
IMF	2.0				

Source: Kommersant Daily (03/25/95) as reported in the Russian Press Digest.

* Balance from extrabudgetary funds and local governmentS

** Revenue from divestiture and sale of governemnt papers to non-banks.

The forecast does not envisage a fall in the share of expenditures in GDP. The entire fiscal effort (to bring the *Federal* budget deficit to 4% of GDP) is on the revenue side. There are three major problems with this trend:

- It is almost certain that local governments will soon invert their fiscal position from surplus to deficit. Devolution of social services will call for increased expenditures and privatization will accelerate the transfer of responsibilities from enterprises to municipalities. It is true that user fees could and should be adjusted to cover at least operating costs (and maintenance cost in the case of housing). But it would be difficult (and unjust) not to implement a system of subsidies for the most vulnerable

groups. In many instances, it will not be feasible to increase local taxation to meet the additional costs.

- It is also certain that the Pension Fund will begin to show deficits. It is a PAYG system burdened with an aging population and unrealistically generous criteria for retirement. There is of course the option of continuing to reduce the replacement rate but, again, this will be a major political liability and grossly unfair to those who are truly dependent on state pensions.
- The interest cost on post-cut-off-date external debt will increase significantly. Though Russia has enjoyed very special terms in the Paris Club it is unrealistic to expect another redefinition of the cut-off date or continual rescheduling of interest arrears on post-cut-off-date debt. Admittedly, stabilization could lead to an appreciation of the exchange rate, but that alone is unlikely to offset the increase in interest due. And, of course, to the extent that current deficits are financed by borrowing (as in 1995-98) the interest charge will escalate.

These reasons argue for an enlarged head-room to accommodate *additional* expenditures. But it is not the case that all existing expenditures are desirable. Relatively little is known about the pattern and effectiveness of public spending in Russia–and this is an area that merits urgent attention. If stabilization does take hold, the pressures for public investment will increase (and justifiably so in the provision of infrastructure, etc.) as will the demand for subsidies for laggard sectors (e.g.: agriculture, coal, the "Northern Territories"). Public expenditure reform and consolidation should be a priority in the first year of the program, to buttress the chances of success in the outer years. The political calendar (the likelihood of Presidential elections in 1996) underscores the urgency of reform *in 1995-96*.

I hope this is helpful.

Paulo

cc: Messrs Easterly, Wolf; Baird.

Chron.

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

OFFICE MEMORANDUM

DATE: March 29, 1995

TO: Distribution

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **Operational Implications of the WDR on Labor**

I attach a revised version of the above note, that incorporates comments received from the Regions, HRO and Legal. It is planned to send a version of such a note to the Board, but has not yet been decided by EXC when to do this or precisely in what form. When it goes to the Board it will be made explicit that these are conclusions of the WDR that are relevant to the design and implementation of country strategy, but should not be interpreted as central mandates or enshrined in an operational directive. The judgment of applicability in particular country circumstances would be a regional matter, with the normal process of advice, commentary and support from the center.

Attachment

Distribution:

Messrs./Mss. Gautam Kaji, Richard Frank, Sven Sandstrom, Ignacio Mas, and Orsalia Kalantzopoulos, EXC; Shahid Javed Burki, LACVP; Russell J. Cheetham, EAPVP; Armeane M. Choksi, HROVP; Jessica P. Einhorn, TREVP; Hiroo Fukui, CFSVP; S. Shahid Husain, MPSVP; Edward V. K. Jaycox, AFRVP; Caio K. Koch-Weser, MNAVP; Jannik Lindbaek (CEXVP); Johannes F. Linn, FPRVP; Jules Muis, CTRVP; Robert Picciotto, DGO; Jean-Françoise Rischard, FPDVP; Ismail Serageldin, EDSVP; Ibrahim F. I. Shihata, LEGVP; Timothy Thahane, SECVP; Wilfried Thalwitz, ECAVP; D. Joseph Wood, SASVP; Sebastian Edwards, LACCE; Ishrat Husain, EAPVP; Ravi Kanbur, AFRCE; John Page, MNAVP; Marcelo Selowsky, ECAVP; Joanne Salop, SASVP; Masood Ahmed, Mark Baird, Gregory Ingram, Lyn Squire, Vinod Thomas, Paulo Vieira da Cunha, DEC; K. Y. Amoako, Jane Armitage; Peter Fallon, ESP; Hans Binswanger, AGRDR

Operational Implications of the WDR on Labor

1. This note summarizes the operational implications of the WDR.

2. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates, including the priority of: investment in capital and human resources; openness in trade; prudent macroeconomic management (*inter alia* to reduce volatility of capital flows); the elimination of urban and anti-poor biases in the allocations of public spending in economic infrastructure and the social sectors; and effective reform strategies in both market oriented developing and former centrally planning economies. These parts of the report do not have new implications for Bank policy, but they do widen the scope of analysis to explicitly look at outcomes for labor. These are often hot issues in a country context and will warrant attention in the analysis and country dialogue.

3. The main areas with relatively new material relate to labor policy. In analyzing the role of labor policies, the report emphasizes that these have to be assessed within the context of the overall functioning of an economy. Labor policies directly influence wages and conditions of work of formal sector workers, which form a small fraction of the labor force in low income countries. Labor policies do influence the size and dynamism of the formal sector via the influence on formal sector hiring and firing, the size and formality of firms. Often, however, the priority in a policy dialogue over how to improve the conditions of workers will lie in other areas than labor policy, such as macroeconomic, trade, agricultural and education policy. Such a judgment should be made by the Country Department.

4. The main areas where there are new conclusions with operational impact are as follows. As discussed in the WDR, the motivation for many of these flows, in varying degrees, from efficiency or welfare motivations, or both:

- *Labor regulations* can be important to the policy dialogue in particular circumstances, for example where restrictive labor policy is an impediment to restructuring (as with excessively onerous job security regulations in Latin America or South Asia) or have large distributional or incentive effects (as with formal social security schemes in middle income countries, not least in former centrally planned economies). It is also possible that *de jure* labor regulations that now have little impact become important as a consequence of becoming linked to bilateral trade relations (as under NAFTA). In cases such as these, it is recommended that explicit analysis of the effects of labor regulations and reform options be undertaken with the aim of regulatory reform to increase labor mobility, setting of standards at reasonable levels to broaden the formal sector, and legislative reform to provide the underpinnings

for collective bargaining, individual labor contracts and dispute resolution procedures in the formal sector.

- *Collective bargaining* can be an effective way of determining wages and conditions, and monitoring health and safety standards for the formal sector, and is important wherever there are independent unions. In general, decentralized collective bargaining within competitive product and factor markets can make sense in generating efficient outcomes and avoiding excessive powers to particular worker groups. When the functioning of the formal sector labor market is important and the conditions for a dialogue on the role of unions exist, it is recommended that issues of collective bargaining be incorporated in country analysis.

- *Compensatory measures to deal with job loss* can play an important role in reducing risks faced by workers. Severance pay will often form part of private contracts (and should generally not be mandated), and unemployment insurance makes sense when administrative capabilities are high. Large-scale downsizing of public sectors will frequently necessitate additional publicly financed compensation for those laid off, where these are essentially once-off measures (and so do not have adverse incentives effects). It is recommended that the Bank continue to support such compensation schemes, when there is a material impact on development, i.e. when they support restructuring judged necessary for further economic growth. Under current guidelines this can be done via counterpart funds under adjustment lending. Such compensation schemes will have to be devised to trade off acceptability, fairness, and low cost.

- *Public works* can have strong beneficial effects for labor and should be supported by the Bank in two areas. First, public works schemes that provide temporary employment when demand is slack (especially in cases of drought and severe macroeconomic shocks) are often a good instrument for providing income security to the working poor, in rural or urban informal sectors. Second, for some categories of infrastructural investment (rural roads is the key example), labor-intensive techniques can be superior, even in terms of private rates of return, on both efficiency and equity grounds, at least over the range of wages prevailing in low income countries. They are sometimes not used now either due to procurement practices or failure to consider labor-intensive alternatives. This should generally be done by private contractors, under local competitive bidding, with, in some countries, initial start-up public supervision. For both categories of public works, the local market wage should be paid, that may be below the urban minimum wage.

- *Child labor* is a complex problem that requires a multi-faceted approach, including legislation against hazardous and dangerous work, health and educational facilities for those children who are working, and transfers to poor

families who may be forced to put their children to work. Country policies to deal with this problem will generally work best with strong local community or NGO involvement. The Bank should make special efforts in assisting countries in providing access to schooling for young girls.

- *The productivity of public employment* remains one of the key issues to be tackled in many economies undergoing reform. Restructuring and downsizing as well as improved public pay structures are necessary parts of the solution. Additional reforms will be necessary to restore productivity. While these have often proved politically and practically difficult, it is recommended that the Bank continue to support civil service reform, incorporating carefully designed and evaluated experiments into this work.

- *Agricultural and land policy distortions* can reduce labor incomes for small farmers and landless laborers through restrictions on tenancy and sales markets and subsidies that are biased toward large farmers and capital-intensive techniques. It is recommended that the Bank push for the elimination of these distortions and be willing to support market-based land reform (perhaps with grants for land purchase for small farmers) where inequalities of landholdings are severe.

- *Active labor market policies such as retraining, job search assistance and business start-up allowances,* that are used extensively in industrial countries, are generally not relevant for most developing economies, and are of limited use in the former centrally planned economies of Europe and Central Asia. Few countries have the necessary preconditions of high administrative capabilities and growing labor demand. The small number of empirical evaluations show poor results. It is recommended that the Bank only supports retraining, job search assistance and business start-up allowances on a limited scale with built-in evaluations.

- *Labor market information* is a public good that has benefits for the analysis of labor market and macroeconomic developments. It is recommended that the Bank encourage and advise labor ministries and statistical offices to provide timely information from market sources on general labor market developments, and incorporate labor-related information into household and enterprise based statistical work.

- *Labor standards and international trade* should not be linked. Advocates of such a link (that include the US and French governments and the union movement) propose that multilateral trade should be linked to a core set of basic standards, usually including freedom of association, collective bargaining and avoidance of forced labor, exploitative forms of child labor and discrimination. These are legitimate areas for domestic policy and may make

sense for foreign policy. However a link to international trade policy would be inappropriate. The effectiveness of trade negotiations in improving labor standards is unproven, while the dangers of abuse for protectionist purposes are great.

5. The preparation of the WDR has involved substantive interactions with both the ILO and the union movement. This revealed a high degree of interest, expertise and commitment by our counterparts, as well as a recognition of some differences in outlook. It is recommended that efforts be made at a country level to share views with the union movement in the process of country dialogue. Local circumstances will determine modalities, and this would generally have to be undertaken with the knowledge and approval of the government. It is also recommended that some interactions at a central level be instituted, as with NGOs. Consultation with the ILO is encouraged in areas where their specialized knowledge and expertise on labor issues can enhance the quality of the analysis and the effectiveness of the country dialogue.

6. The WDR will be disseminated with intensive press consultations in June, followed by a series of seminars in the remainder of the year. EDI and HRO will be involved in the design of seminars and the overall dissemination strategy. It is planned to develop materials that would provide Bank staff and developing country officials with tools and examples for the analysis of country-wide developments of labor outcomes and the analysis of the range of specific labor policy interventions.

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

DATE: March 28, 1995 02:13pm

TO: Remote Addressee (alivni@glas.apc.org@INTERNET)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Message for Zvi from Bruno

Zvi,

Good to hear from you. Would very much like to meet and talk. Will arrive Thursday, April 6 at 00:55, and from 9:30 a.m. until sometime in the afternoon, I will be with Maxim Boycko. I know Gur is setting up a dinner -- we could meet before that and/or chat more after dinner. Leave me a message at the Hotel or at Boycko's office (956-1982). I am staying at the Baltschug Kempinski Hotel Ki, tel. 7-95-2306500.

Best,

Michael

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

DATE: 26-Mar-1995 01:42am EDT

TO: bpleskovic@worldbank.org (bpleskovic@worldbank.org@INTERN

FROM: alivni@glas.apc.org, (alivni@glas.apc.org@INTERNET)

EXT.:

SUBJECT: **Message for Bruno from Zvi**

Michael,
What is your schedule in Moscow? Do you want to meet briefly seperately some time? I am teaching on Thursday until 1pm but am free afterwards and we could go for a walk sometime in the mid afternoon. When are you leaving? Lhit, Zvi

Boris,
Is anything happening wit our efforts? I feel "out of the loop". Keep me posted a bit, Thanks. I'll be here until April 12, then back home. Regards, Zvi

Zvi,

Good to hear from you. Would very much like to meet and talk. Will arrive ~~early~~ ~~[illegible]~~ Wednesday maxim after midnight and from 9.30 until sometime in the afternoon I will be with maxim Boyco.
I know Gour is setting up a dinner - we could meet before that and at least more after dinner. Leave me a message at the Hotel (name and phone number) or at Boyko's office. I am staying at the (~~phone number~~ ...)

Best,
Michael.

J

The World Bank/IFC/MIGA
(FICE MEMORANDUM

DATE: March 27, 1995 12:06pm EDT

TO: Remote Addressee (alivni@glas.apc.org@internet)

FROM: Boris Pleskovic, RAD (BORIS PLESKOVIC)

EXT.: 31062

SUBJECT: **Messaga for Zvi from Pleskovic**

Zvi,

Our report is now being sent out by Eurasia to all potential donors for review. Then representatives of Eurasia and the Bank will meet with each donor agency separately. You will get the final copy of the report from Bill Bader. In the last issue of Transition Newsletter there is an interview with Bill Bader where he also mentions the New School. We will inform you about further developments on the FSU project when they happen.

Regards Boris

CC: Gregory Ingram (GREGORY INGRAM)

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

OFFICE MEMORANDUM

DATE: March 28, 1995

TO: Mr. Jannik Lindbaek, CEXVP

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Investing in Emerging Markets**

I thought you might be interested in the attached book entitled, "Investing in Emerging Markets," a joint World Bank/Euromoney publication, and one of the products of our ongoing research agenda on private capital flows.

The first part of this book contains selected papers from the proceedings of the World Bank Symposium on Portfolio Investment in Developing Countries that was organized by our International Economics Department in September 1993 in Washington, D.C. Part II provides information on twenty-six emerging stock markets which is of interest to portfolio investors who are transacting in emerging market securities.

attachment

Foreword

Global Economic Prospects and the Developing Countries is an annual series of World Bank staff reports prepared in the International Economics Department that analyze the global economic prospects and their implications for developing countries. This year's report, the fifth in this series, derives its main theme from a fundamental change that is taking place in the world economy today—globalization. This change is being driven both by widespread adoption of market liberalization policies and by technological change that is fast eroding physical barriers to international transactions. Markets for merchandise trade are expanding, more and more services are becoming internationally tradable, and capital is flowing in quicker and increasingly diverse ways across countries and regions.

Invigorated by outward-oriented reforms and a more favorable external environment, developing countries are a major driving force in this process of change. The report reviews the prospects for these countries in the context of their increasing integration into world markets for goods, services, and capital, highlighting the new opportunities and challenges that arise from closer international economic integration.

The report's central message is that the increasing integration of developing countries into the global economy constitutes perhaps the most important opportunity for raising the welfare of both developing and industrial countries over the long term. But the process of integration will not be without frictions that give rise to protectionist pressures. And, as recent events in Mexico have shown, it will increase the complexity of economic management for developing country policymakers. Globalization comes with liberalization, deregulation, and more mobile and potentially volatile cross-border capital flows, which means that sound macroeconomic management commands an increasingly high premium. Penalties for policy errors rise. Globalization thus requires closer monitoring and quicker policy responses at the country, regional, and global levels.

The process of integration will affect countries unevenly and could increase international disparities. For example, even under relatively optimistic assumptions, real per capita income in Sub-Saharan Africa is likely to grow at about 1 percent annually over the next ten years, compared with more than 6 percent in East Asia. The global outlook is in general bright, but masks wide differences across regions and countries—for many, global optimism coexists with local pessimism. Accelerating outward-oriented growth in the poorest countries will be a special challenge.

Through its impact on developing countries, globalization will also affect the work of the Bank. It raises a number of policy and research issues in international aspects of development. It also raises the demand for high-quality information and analysis on global economic linkages. These aspects will figure increasingly in the work of the International Economics Department.

Michael Bruno
Vice President Development Economics
and Chief Economist
The World Bank

March 28, 1995

Note to Michael Bruno

GEP Foreword: Original Copy for Signature

Michael:

Attached for your signature is the GEP Foreword. It has been revised in the light of comments received from Paulo, who has reviewed this revised draft.

Masood Ahmed

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

OFFICE MEMORANDUM

DATE: March 28, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Investing in Emerging Markets**

I thought you might be interested in the attached book entitled, "Investing in Emerging Markets," a joint World Bank/Euromoney publication, and one of the products of our ongoing research agenda on private capital flows.

The first part of this book contains selected papers from the proceedings of the World Bank Symposium on Portfolio Investment in Developing Countries that was organized by our International Economics Department in September 1993 in Washington, D.C. Part II provides information on twenty-six emerging stock markets which is of interest to portfolio investors who are transacting in emerging market securities.

attachment

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

OFFICE MEMORANDUM

DATE: March 28, 1995

TO: Mr. Richard Frank, EXC

FROM: Michael Bruno, DECVP

EXTENSION: 33774

SUBJECT: **Investing in Emerging Markets**

I thought you might be interested in the attached book entitled, "Investing in Emerging Markets," a joint World Bank/Euromoney publication, and one of the products of our ongoing research agenda on private capital flows.

The first part of this book contains selected papers from the proceedings of the World Bank Symposium on Portfolio Investment in Developing Countries that was organized by our International Economics Department in September 1993 in Washington, D.C. Part II provides information on twenty-six emerging stock markets which is of interest to portfolio investors who are transacting in emerging market securities.

attachment

Chron

THE WORLD BANK GROUP

ROUTING SLIP	DATE: March 28, 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

REMARKS:

If possible, please let me have your response by c. o. b. Wednesday, March 29.
Thanks.

Michael

FROM	ROOM NO.	EXTENSION
Michael Bruno	S9-035	33774

0214

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

OFFICE MEMORANDUM

DATE: March 28, 1995

TO: Distribution

FROM: Mark Malloch Brown, EXTDR Mark MB

EXTENSION: 85914

SUBJECT: **Critical Questions Facing the Bank Today**

As part of our efforts to implement a strengthened communications strategy, we plan to refocus the spring edition of "Current Questions and Answers" by moving beyond the reference material contained in previous editions and including answers to the more topical and strategic issues facing the Bank.

To help us shape a more meaningful text, I would be grateful if you would send the three or so most critical questions that you are confronted with when you meet the press and public. We will then prepare the responses. If you would like to suggest the outlines of a response, that would be helpful; but we are not asking you to take the time to do this. It would also be helpful if you would indicate if you use this document and which parts are of use to you.

Kindly respond by Friday, March 31 to Ann C. Walsh, Unit Chief, Writers' Group, EXT, Room T-8045 by EM or memo.

Thank you.

Distribution

Messrs./Mme. Sandstrom (EXC), Frank (EXC), Kaji (EXC), Shihata (LEGVP), Einhorn (TREVP), Linn (FPRVP), Jaycox (AFRVP), Thalwitz (ECAVP), Wood (SASVP), Koch-Weser (MNAVP), Burki (LACVP), Bruno (DECVP), Serageldin (ESDVP), Rischard (FPDVP), Choksi (HROVP), Husain (MPSVP), Thahane (SECVP), Muis (CTRVP), Cheetham (EAPVP), Fukui (CFSVP), Picciotto (DGO)

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

OFFICE MEMORANDUM

DATE: March 28, 1995

TO: Mr. Richard Frank, EXC

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: INDIA: 1995 Country Assistance Strategy

1. We do not have any objections to the proposal to expand the dialogue to state-level issues, but our assistance strategy should continue to stress the reform agenda that is still outstanding. This CAS does not bring out with sufficient force and clarity that the original momentum of reform has slowed considerably over the past two years. It is also written in a tone that is highly complimentary to India's past policies, even those which have by now been fully discredited (such as the suppression of domestic grain prices by export restrictions, effects of industrial protection on overvaluation of the currency, etc.). Indeed there is often not enough distinction between what our analysis suggests and what Indian officials would like us to say.

2. Dialogue with the central authorities would continue to be crucial in many areas, especially in the areas of agricultural import and export restrictions, imports of consumer goods, reduction in directed lending in the financial sector, parastatal reforms and privatization. The agriculture sector as a whole has barely been touched by the reforms. If the reform momentum in these important areas gets further weakened during the run-up to the general elections a year from now, then it might seriously jeopardize the gains that have been made since 1991. Our suggestions for the agenda are as follows.

3. Macroeconomic management. The CAS suggests that the current mix of policies, which have led to domestic inflation above tolerable levels and a significant appreciation of the real exchange rate, is not sustainable. While there is little reason to expect a Mexico-type crisis, the credibility of the fixed-exchange rate policy is eroding and domestic inflation rates of 10% or so are very costly for the poor. Faster trade liberalization is an obvious way of preventing large real exchange rate appreciations, but it is not being taken. Even after the tariff reductions announced in the March 15 budget, some 60% of tradable production would still be protected by import licensing, government import monopolies, or outright import bans. Thus:

- Would the Region elaborate upon its judgment that the current mix of macroeconomic policies is "not sustainable" (para. 30). What recommendation has

- the Region made to the government regarding exchange rate policy and controls of capital movements?

- Why is the Region reluctant to recommend an acceleration of trade reforms ahead of the Chelliah schedule? What about reducing NTBs on imports? What has been the experience regarding the costs of adjustment suffered by industry in response to the liberalization thus far?

4. Policy reforms in agriculture. Practically all agricultural imports and exports are still subject to quantitative controls, and there is a variety of domestic controls affecting every aspect of the sector. Most of the key reforms required (policies on trade, fertilizers, grains procurement and price support, marketing boards, the public distribution system) are the responsibility of the central government, not of the states. If the Bank is to influence agricultural policy reform, its dialogue will have to remain at the central level. Yet very little is said in the CAS on all this. Would the Region explain why agricultural policy reforms are being kept out of the policy dialogue even though we are planning large agriculture sector lending?

5. Finally, India's financial sector continues to be heavily controlled. While there has been many reforms on a piece-meal basis, directed or mandatory lending is still the dominant mode. We need therefore to keep our focus on economy-wide reforms, and use reductions in directed credit as a key indicator of progress. Yet the CAS does not spell out the reform priorities, and suggests a continuation of the project-by-project approach currently being taken with the Financial Sector Development Project (FSDP). Does the Committee agree with the proposed approach to financial sector reforms?

cc: Messrs./Mlle. M. Baird, A. Ray, G. Pursell, I. Mas, O. Kalantzopoulos

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Gautam Kaji

March 27, 1995

Gautam:

Relaunching the EDI

The attached memo contains our proposals for implementing EDI's strategy. This version incorporates the comments you made on an earlier draft. The proposals benefitted from the inputs of the Advisory Committee, an EDI Participant's Workshop and wide ranging comments from the Bank's managers and staff.

You asked how we might disseminate more widely the contents of this memo. One possibility is to make available a revised paper (without some of the internal details) to the Board, cofinanciers and country policymakers.

We very much look forward to your continued inputs into the process of relaunching EDI.

Michael Bruno

Attachments

file copy

March 27, 1995

Mr Michael Bruno

Bureaucrats in Business

Michael,

Holger and I have reviewed the manuscript (each focused in different parts but both of us read at least quickly the entire product). It tackles a set of very interesting, topical yet complex issues. The messages are clear and the there is a wealth of information; nevertheless, on balance, the key arguments are not convincing. The section on contracts is potentially of greatest operational relevance, and it should be developed further.

A. General points

- The case in favor of PEs is not given fair shakes. While it is easy to agree with the report's conclusions, in many cases, the evidence presented is not sufficient to justify the claims made.

- The empirics are unsatisfactory. Perhaps there is detail in the quantitative appendix (we did not receive it) but, in the main text, the reader is not given sufficient detail to assess the strength of empirical support for the conclusions given. Moreover, in some instances the results appear to flow from subjective classifications.

An example of the former are the growth results. The study notes that PE variables exerted a negative significant effect on growth and goes on to talk about impressive potential gains from PE reform. Yet significance tells us little about the potential, what we need to know is the size of the coefficient, which is not provided. Indeed, in Chapter 1 (p 25) the report notes that; "[t]he partial correlation between the size of the PE sector and growth thus remains an area for further inquiry." Contrast that with the unambiguous statement that "large public enterprise sectors hinder economic growth" (p 5) in the overview. Similarly, given the difficulties with TFP measurement, even in countries spending considerable resources on data collection, one would have to see details on the TFP calculations to assess the strength of the conclusion that private ownership is preferable to public ownership. In fact, in Chapter 1, the qualifier is added that "where non-competitive markets are concerned, the microeconomic evidence about the effect of public ownership versus private ownership is ambiguous." The most convincing examples are those found in Galal, et. al. 1994, regarding only the "successful" examples of Britain, Malaysia, Mexico and Chile. Meanwhile, the case for rapid divestiture in transition economies (where the incentive problems are acute and the political need is great) is not made. Poland is one of the case studies: do we have a refutation of Pinto, et.al. conclusion that, when there is a combination of free trade (and pricing), competition (small-open-economy with low and uniform tariffs) and hard budgets (macro stability with effective limits on overall monetary expansion) the ownership regime is less relevant an issue? Did the authors attempt to rework Pinto et. al.'s rich data set to buttress their conclusion?

An example for subjective classification is the definition of political desirability, depending on an exogenous event. What is the objective measure here? Any country in any year is subject to exogenous shocks. For Korea, for example, the report states that "slowing per capita GDP growth and increasing PE losses that might not have been considered serious problems in other countries were sufficient to make PE reform desirable". This looks suspiciously like labeling PE reform as desirable in Korea because it in fact took place.

These are not the only instances in which incomplete reporting and subjective classification render an assessment of the conclusions difficult. For the revised version, it would be highly desirable to have clear data definitions and full reporting of results on which conclusions are based.

B. Specific comments

A. *What is a PE*? Box 1.3 provides the report's definition. Given the crucial importance of this question, surprisingly little emphasis is devoted to it. One might question, for example, whether a privately owned Japanese company under intense MITI influence is truly less of a PE than a Volkswagen in Germany, publicly owned but largely privately run. Public ownership is admittedly a sufficient condition for PE, but is it necessary?

B. *How is the value of transactions assessed?* In Table 1.1 and in the text (p 10) it is noted that "just five countries (Argentina, Brazil, Mexico, Hungary and Poland) accounted for about 30% of developing country transactions and 60% of the value of enterprises sold." In the first three countries, debt-equity swaps were common, often using "rotten money" i.e.: currencies which effectively traded at prices well below their value for purchasing equity shares in PEs. Note also that in Brazil and in Mexico many sales were to publicly owned pension funds, and also in Argentina to provincial and/or local governments.

C. *PE's and the poorest countries.* What accounts for the strikingly even share of PE's in African GDP, as shown in Figure 1.2? An "eye-ball" curve-fitting in Figure 1.3 would suggest a U-shaped relationship, unless one removes Taiwan. In fact what is astonishing is the wide dispersion in the share of PE investment in the low income countries. In Figures 1.4-1.6 it would be interesting to have the same aggregation of countries in all graphs.

D. *Are PE's harmful for growth?* One suspects yes, but the report fails to make this point convincingly. A permanent growth increase in per capita growth of 1 % obtainable from divesting 5% of GDP worth of public sector enterprises is unbelievable - it implies a trend growth rate of the privatized enterprises. Microsoft can barely do that. The reported results from the growth regressions are hard to assess without seeing the actual regressions. In particular, was allowance for endogeneity of policies made? And, most importantly, what was the magnitude on the PE variables?

E. *The Budgetary Impact.* The report notes that PEs objective function includes elements other than profit maximization, yet this is not taken into account in the analysis. For example, in many countries PEs serve as quasi-unemployment insurance/social net. They also may serve as instruments to subsidize the private sector (e.g.: Brazilian petrochemicals or the Turkish fertilizer industry). We tend to agree that there may be better ways of organizing a social security net and that indirect subsidies to private producers are inefficient. But we need to take into account that these expenditures may substitute for narrow fiscal outlays. Divestiture is thus unlikely to result in a reduction in the PSBR equal to the budget gap of the PE sector. The government may assume many of the functions (and expenditures) undertaken by the PEs.

F. *PE's and inflation.* The indirect link through deficits to inflation is also weak. First of all, a deficit only translates into inflation to the degree that it is money financed. Secondly, inflation only exerts a significant negative effect beyond a quite significant threshold. This is too qualified a link to justify a general argument. Note further that there have been several rounds of public bail-outs of private enterprises, quite commonly in the wake of debt crises. An example appears to be underway in Mexico right now.

G. *PE performance.* On p 21, the report argues that it is important to distinguish "a temporary savings-investment gap" from a long-run structural deficit. Empirically, how can you distinguish investment financing from financing to cover deficits? Note that in Figure 1.8 the diminishing deficit is, in all groups, linked to the 1982-85 debt crisis. Is that an indication that, without access to world capital markets, PE's can operate without deficits (perhaps with lower investments)? It would be interesting to have some graphs for actual countries, in addition to the averages. In Figure 1.9, 1983 appears to be a turning point; has there been a regime-shift in external funding of PE's?

H. *What do we mean by PE reform?* The report inadequately discriminates between PE reforms proper and liberalization in general. This is of some importance for assessing results. Trade liberalization will increase the efficiency of most enterprises, probably including also PEs. Trade liberalization may well be simultaneous with some PE reform. In assessing the effect of the latter, the effect of the former must be controlled for. In like vein, public sector enterprises unable to access world capital/goods markets due to trade barriers will have low productivity, yet the cause could be partially trade policy, not the legal status of the enterprise. The prime example here are the transition economies, viewed by the report as a prime proof of the deleterious effects of PEs. These enterprises operated in autarkic regimes with non-existing price adjustments and dysfunctional monetary systems. Arguably these factors exerted an independent negative effects on enterprise performance. The challenge is to separate the effects of the legal property structure from the effects of other policies. With few exceptions, this is not done adequately in the report. The issue is of some importance since the three successful reformers–Mexico, Chile, Korea–have all reformed not only the PE sector but have broadly liberalized. The report, as written, appears to attribute the growth effects of this broad liberalization to PE reform. PE reform proper should be limited to measures directly affecting only the PE sector, such as imposing hard budget constraints and divestiture. Competition policy already moves beyond PE reform proper and trade reform is even further removed.

I. *Contracts.* The methodology used in this chapter is unclear. There are two issues, one normative and another positive. What is the optimal type of contract? What in fact was the performance under the contract? The report does not distinguish sufficiently between the two. In assessing performance contracts it is important to know whether or not firms fulfilled these contracts satisfactorily. A separate question is whether the conditions in these contracts were sensible. The report mixes the two questions by looking at whether PE's under performance contracts fulfilled criteria that were NOT in their contracts, notably labor productivity and TFP growth. Based on the observation that these measures didn't improve, performance contracts are given a bad rating. This may well be justified. Yet, in a revealing side comment, the report acknowledges that India Electricity achieved 88 percent of the targets written into its contract. THIS is the relevant information. Once it has been established whether performance contracts led to a fulfillment of the conditions stated in them, one can then move on to assessing the best shape these conditions can take. The evidence presented in the report allows us to reject the hypothesis that the conditions de facto led to productivity gains. It is NOT sufficient to reject the hypothesis that performance contracts improve the chances of meeting contractual obligations.

J. *Predicting political outcomes?* Chapter IV is a major effort at distilling political forces into a measurable set of variables influencing political outcomes. Nevertheless, one is left wondering whether the measures are equally valid *ex-ante* as they undoubtedly are *ex-post*. The report's attempt to quantify the political constraints is a step in the right direction. But the effort has some drawbacks. For example, the report focuses on the political allegiance of PE workers as a major determinant of whether reform takes place. Yet allegiance is often forward looking: PE workers concerned about their employment status tend to vote conservatively. This does not imply that their allegiance is permanently with the government that just lost the election. Incoming governments have the option to (a) weaken perceived political opposition by dismantling existing PEs (b) replace the PE labor force by marginal supporters, thereby buttressing their political base or (c) continue the status quo in the hope of winning the allegiance of PE workers. Which of these is chosen depends on the cost-benefit calculus of the government. It is not simply an issue of labeling the PE sector as either in or out of the ruling coalition; "insidership" is an endogenous result. Note further, that in many instances the critical shift is in the attitude of organized labor toward privatization. In Mexico, for example, it is well known that a key support for privatization came from the "independent" unions which rebelled against the Fidel Velasquez hegemony over the PRI sponsored CTM. Moreover, the "pacto," in assuring a predictable path for the wage/exchange rate ratio, played an important part in solidifying labor support for the Salinas administration.

K. *Measuring credibility.* Box 4.6 is a valiant effort at measuring credibility. However, reputation, as measured by the ICRG is really a measure of creditworthiness. The two are close but not substitutes. Uganda, after several years of the Musseveni administration remain a bad country risk (given the debt burden and reliance on coffee exports) yet arguably the credibility of government was relatively high. The measure of "domestic restraints" is also confusing. Chile implemented the most successful reform program under a ruthless dictatorship. How does that fit in? Going back to Table 4.1 ("political desirability") one could argue that in Turkey PE reform losers (if they are identified as the workers) were outside the government's support base (recall that real devaluations were achieved by controlling nominal wages) and the Ozal government was

generally thought off as "credible." Yet, as the report observes, it had a dismal performance in reforming PE's.

L. *When to support reform?* This is a tough question. It is indisputable that political constraints play a major role in determining success. Yet the constraints should not be overemphasized. The report argues that the Bank should not prod countries that are not ready into PE reforms. This recommendation is based on past outcomes. A cynical outsider might alternatively take the view that this failure is simply another reflection of the Bank's unwillingness to devote sufficient effort to follow-up on loan agreements. It is clear that PE reform is formulated in the context of opposing forces, and that ownership matters. The report, however, goes further. It suggests that the Bank should only step in if the balance is already on the side of the reforming forces. This seems to be overly restrictive: Bank assistance conditional on reform may tilt the balance in favor of reform; it may provide the push that makes reform possible. What matters, then, is a political judgment on the composition of forces *once the reform process has started–and the Bank's willingness to follow up.*

We hope these comments are useful.

Paulo

cc: Ms Shirley; Messrs Baird, Squire, Galal.

M Bruno

March 27, 1995

Mr Masood Ahmed

GEP-95 Foreword

Masood,

Thank you for sending us the draft Foreword. Per Michael's request I have introduced some changes in the third paragraph, which would read as follows:

> The report's central message is that the increasing integration of developing countries into the global economy constitutes perhaps the most important opportunity for raising the welfare of both developing and industrial countries in the long term. But the process of integration will affect countries unevenly and could lead to widening disparities among countries. For example, even under optimistic assumptions, the forecast of average annual growth in real per-capita GDP over the next 20 years is less than one percent in Sub-Saharan Africa but more than 6 percent in East Asia. It will be a difficult and at times turbulent process, a mix of global optimism and local pessimism. As recent events in Mexico have shown, deeper integration increases the complexity of economic management for developing countries partly because open and volatile movements in the capital account reduce the effectiveness of traditional instruments for macroeconomic policy. Globalization comes with liberalization, deregulation and sound macroeconomic management. Thus, it increases the penalty for lack of macroeconomic discipline. It requires close monitoring and quick responses at the country, regional and global levels.

I hope this is helpful. The intent is to add some more nuance into the text; please feel free to make any corrections/alterations.

Thank you,

Paulo

Paulo

cc and cleared with: Mr Bruno.

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

OFFICE MEMORANDUM

Chron

DATE: March 23, 1995

TO: Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **Ghana - Country Assistance Strategy**

Overall we feel that this is a well-prepared and well-presented CAS. We have four points that you may wish to consider for the agenda of the Loan Committee:

- Macroeconomic stability. The CAS is very candid in setting out the setbacks in macroeconomic stabilization that have occurred in recent years and we are pleased to note that macro-policy issues are highlighted in the Bank's CAS objectives (para. 34). Para. 53 mentions that a joint Bank/IMF mission has recently been in the field. Can the Region elaborate on the current macroeconomic situation and the prospects for achieving macroeconomic stability in 1995?

- Triggers. Several of the triggers are set out as "satisfactory performance." While in the case of macroeconomic performance , the specific trigger is attaining fiscal balance in FY95, no such indicators are provided for poverty reduction or for privatization. Is it possible for the Region to be more precise? Is it really realistic to expect that poverty indicators can be monitored with sufficient currency and precision to act as triggers?

- Education. Page 9 mentions that, despite significant efforts to improve education and an increase in enrollment, poor learning outcomes persist. The CAS also mentions that we will be undertaking a Basic Education Sector Investment Credit. However, there does not appear to be any ESW programmed for education. Do we have a sufficient understanding of why our efforts in the past have not led to improved outcomes in order to support the sector investment credit or might we need to carry out some ESW to determine how to improve the effectiveness of our resources in this important area?

- Debt Sustainability. Following the recent Board discussion, we are now requiring debt sustainability analysis in all SILIC CASs. IECDF and the Region are now discussing what can be done at this late stage for the Ghana CAS. These changes should be incorporated before the CAS goes to the Board.

cc: Messrs./Mmes. Kalantzopoulos, Mas, Pieters, Baird, Wetzel, Kamel

Michael Bruno
Vice President and Chief Economist

March 23, 1995

Mr. Edward V. K. Jaycox
Mr. Stephen Denning

Out of Africa

Kim, Steve,

I am enclosing brief reports on the three countries that I visited. The countries are obviously different and so are the problems that they and the Bank are facing.

Of the three countries South Africa ranks best on commitment and potentially is the most promising for the Bank's involvement. Our non-lending contribution has already been impressive and there is a potential out there for lending, once they set their mind on wanting to borrow externally (their external debt to GDP ratio is remarkably low). However, the note highlights a central strategic problem of "redistribution without growth" and under present policies and forecasts there is a major social and economic problem looming ahead. Further dialogue with the political leadership on the growth and employment issue is most urgently called for.

Senegal has recently turned around and in terms of commitment for reform is just about on the borderline. The Bank's present CAS and lending program are warranted and will require close follow-up as slippage is not unlikely to take place.

Of the three countries Kenya looks to me the least committed to reform. The Minister of Finance and the Governor of the Bank may be committed. The Kenyan government, by various measures, is not. This poses a difficult problem for the Bank, a problem that I know you have been struggling with for some time: how to keep engaged in a productive dialogue conducive to reform without committing new lending with a high probability of misuse. My own judgment is that, in Kenya, we should shift much more radically in the direction of non-lending services. Unless there is a significant improvement in both content and governance, I am not convinced that the Bank should maintain an active lending presence.

In all three countries there is definite scope for active policy dialogue in the public domain, inter alia illustrating best practice from successful development experience elsewhere. In this EDI activities could be of help.

As I note in each report, I am very thankful for the very valuable assistance that was given to me during these visits. I hope these comments are helpful.

Michael Bruno

cc: Messrs: Lewis Preston, Gautam Kaji, EXC; Ms. Katherine Marshall, AF1DR; Francis Colaco, AF2DR; Jean Louis Sarbib, AF5DR; Ravi Kanbur, AFRCE; Isaac Sam, South Africa; David Jones, Senegal; Stephen O'Brien, Kenya.

Report on a Visit to Senegal: February 12-14, 1995

I was well briefed prior to the trip by Jean-Louis Sarbib, Director of AF5, and his colleagues, particularly by Bruno Boccara who, together with David Jones, Resident Representative, participated in my meetings in Dakar. The trip included two very interesting trips to AGETIP-run projects in Pikine and Medina, a whole morning with the Rector and his staff at the Cheikh Anta Diop University of Dakar, two lengthy and very lively dinner discussions with groups of business leaders, a brief meeting with the Vice-Governor (Haji Boukary) and senior staff of the BCEAO and last not least substantial meetings with the Minister of Finance (H.E. Papa Ousmane Sakho) and the President (H.E. Abdou Diouf). Much of the short visit consisted of extensive and very open dialogues with a wide spectrum of people, from the men, women (and parents of children) in low income urban neighborhoods to members of the intellectual and political elite. Given that the visit was extremely well prepared by David Jones and the Department, the 48 hours of my stay gave me an invaluable opportunity to learn the myriad shades of realities behind the CAS and the PSAC (presented at the Board on February 16) .

General

For a first-time visitor to Senegal one is struck by the colors and liveliness of the place, by the deep contrasts *within* the elite, between its Parisian haute couture and its patronage politics, as well as the schism, in what claims to be a political democracy, *between* this elite and the uneducated urban layers of a society that paradoxically looks non-violent. In my two days in Dakar I had no time to visit the country side. But as far as the contents of most urban people's dialogues were concerned, that rural 60 percent of the population outside greater Dakar were never mentioned, as if they were living in a very remote foreign country.

Views from the top

The government seems committed to the reform process in the sense that it will follow Bank recommendations without backtracking (at least a priori) but it does not seem to have articulated its own vision for the future. At best, the Government's stance seems to be characterized by "following" the Bank- and Fund-induced reform process rather than leading it. Ownership seems only half-hearted.

The conversations with both the Minister and the President were extremely cordial and quite open. I started in both cases with praise on the bold steps taken and the signs of change that is obviously taking place, stressing that I have mainly come to learn. I then raised questions based on the two possible scenarios that could be read into the answers that I was getting from my various dialogues (muddling through at 0 or 1 percent per capita growth, say, compared to a considerably rosier 3-4 percent rate with all that it entails in terms of growth and macro fundamentals).

The Minister of Finance was basically unable to explain his own program in very clear terms. As an ex-Central Banker who is a fiscal and monetary conservative he viewed openness as a way of limiting the increase in prices, due to a reluctantly accepted devaluation, and not as a way of boosting the country's external competitiveness. Likewise he mentioned growth mainly as a way to increase the tax base, so as to address the revenue mobilization problem and, notwithstanding my mentioning the problem explicitly, totally ignored the ability to widen the tax base by removing special privileges.

The President's response on the latter was more forthright - he was instructing the MOF (who was present at our conversation) to fight exemptions. When confronted with a two-equilibria scenario that I had distilled from my conversations, the President was clearly intent on an even loftier growth objective but did not articulate a clear strategy to achieve it (in answer to a question "of course primary education is important, but we cannot finance the teachers"). Upon my mentioning a news item that had appeared that morning on the ability of the sugar monopoly to import cheap sugar under the previous prices (thus enabling it to reap large rents) the evasive response was that I had to understand the details of the agreements reached . At the same time the President seemed strongly behind the reform process, in the sense defined above, an example being the commitment to privatization of the electricity board (this came in response to my query which in turn was provoked by his claim that to compete businesses should be allowed to obtain reduced prices for purchased utilities) . I would not be surprised, however, if serious slippage would occur in the process of further decision making in the cabinet, on all of these issues, or their implementation by the civil service.

Views from the business community

The 100 percent devaluation of a year ago has obviously been a watershed to some, in particular to exporters in tourism, the fisheries, or African clothing. The series of liberalization and decontrol steps are interpreted by some leaders of the business community as the beginnings of a bright new era of private sector growth. They would like to be "left alone" and let economic opportunities--in a non-distorted world-- guide their behavior. Others see these steps as not much more than lip-service to satisfy us donors, by a government which does not understand its role vis a viz the private sector and whose ways cannot be changed in a fundamental way, or who will sooner or later renege on its commitments. There were also those whose past dependence on massive public subsidies or favors obviously tilted the conversation towards the need for a "slower pace of change", or clear state intervention to "pick the winners".

As an example of the disappointing g supply response, I was struck by the story of a single relatively small flower grower who does very well and there is apparently no one around to emulate his success or compete.

A serious problem that pervaded much of the discussion is the dual formal and informal economy especially as it relates to large wage gap between the union controlled insiders of the formal sector and the rest of the labor force. In response to a question as to

why more exporting firms could be set up in the informal sector I was told that for shipping or any other use of public services there is no escape from `going formal'.

Views from the lower reaches

The men and women of the Pikine (very poor neighborhood) `streets' to whom I could talk struck me as fundamentally indifferent to the general situation even though not immune to small step micro incentives if they could see them. In answer to questions they did not sense a change from a year or two ago, there was no urge to give their children primary education ("because it would not change their (un-) employment status anyway") and they did not have any vision of their own future ("inshalla" is a favorite reply). On the other hand one meets with minute scale craftsmanship, bustling bazaars (including second-hand clothing whose imports from Europe are allegedly monopolized by the President's sister) or fairly active work among the lucky few who are employed . I even met with an interesting case of endogenous public service provision where there is a government failure -- part voluntary part commercial private security services for a poor neighborhood. The entrepreneurship of Senegalese when faced with a different environment abroad is mentioned as a saving feature.

Low-level traps

When asked about the reason for the low rate of savings a common interesting argument was given to us by several people (notably by Babakar Toure, independent media leader and one of the most perceptive people I met on this trip) -- the role of the individual vis-a-vis his kinship and the imposition to share one's earnings which has become binding after many years of deep recession. Instead of everyone working on his own plot of land they have had a slump in which "sharing" not only provided a social insurance scheme but made it acceptable to shirk. Linked to that is absence of a clear conceptualization of the future.

The combination of unclear government signals, an apparent inability of the private sector to enter niches in an aggressive way and cultural aspects like the above may hamper escape from the low-level equilibrium trap in which an economy like Senegal seems to be. Only a critical mass of reforms will enable such escape and it is not at all clear that this is anywhere near happening.

The Role of the Bank

In light of the above the education and communication aspects of the CAS seem particularly important. "Lack of Bank communication with wider audiences" was mentioned in our conversations both with businessmen and at the University as a major problem. There is obviously room for a lot more dialogues to take place.

Although the prospects remain bleak, this does not imply that the Bank should not intervene and the adjustment operations proposed in the CAS could, in principle, help further. Important changes are definitely taking place and it is a matter of bolstering ownership and consensus building for these to give further pay-offs.

Report on a Visit to Kenya February 19-22, 1995

My visit to Kenya included meetings with the Minister of Finance (Hon. Musalia Mudavadi), the Minister for Commerce and Industry (Hon. Kirugi M' Mkundia), Governor of the Central Bank (Mr. Micah Cheserem) and the Director of Research (Mr. J. K. Kinyua). I spent one full day on a field trip, joining a Bank mission headed by Ms Christine Cornelius, on a regular visit to the coffee plantation cooperatives-operatives, where the Bank is involved in the reform of the payments and credit schemes as well as in the construction of new coffee processing factories. In all of these visits I was accompanied by Steve O'Brien, Resident Representative, who together with Yaw Ansu, the economist on the mission, were extremely helpful both in terms of the substance of my visit as well as in unusually generous hospitality to my wife and myself. In the course of the visit I also met at length with the staff of the African Economic Research Consortium (led by Profs. Ndulu and Elbadawi), which is an extremely successful Africa-wide operation, and gave a public seminar on lessons of development and reform with special reference to Africa.

General Evaluation

The Kenyan economy has recently come out of a severe macroeconomic crisis. Inflation has come down from 100 percent to negative numbers (amidst unusual exchange rate gyrations), GDP growth is up, and a number of reform steps have been undertaken such as in trade liberalization. The country, however, seems to me to be at a very problematic juncture both economically and politically. The Minister of Finance and the relatively new Governor of the Bank seem committed to the reform process, but operating in a government environment that is far from conducive to further reform measures. The Minister for Commerce and Industry, for example, seems ambivalent on trade reform, despite considerable assistance and pressure from the Bank. The President appears to occupy his mind and energies with the political and economic strengthening of his own small tribe and the other small indigenous tribes in the rift valley who constitute the bastion of his support. The serious ethnic clashes in the rift valley province are believed to be fomented by powerful politicians with the aim of driving the Kikuyu and other tribes who are not indigenous to the rift valley out of the province. The press all along was full of news about police harassment of the opposition members of Parliament (under the aegis of the President's fight with "guerrilla" elements), with news about falsification of primary school exam results by officials of the Ministry of Education (in favor of the President's affiliated districts). Likewise I was told that population census statistics are falsified with the same purpose in mind. Under investigation at the moment is an international airport project (costing $80 million) planned for the President's home town at Eldoret.

On measures of governance, conflict of interest and clean government I would rate Kenya on the lowest scale that I have ever witnessed so far. Ministers and top civil servants more often than not operate private businesses on the side, often in areas that

lie directly within their own Ministerial area of responsibility (e.g., the Minister of Agriculture is active in the farming and milling of maize). Kenya is considered by the international business community as one of the highest "cost of doing business" economies (a prominent businessman told me that on Bank-financed projects, however, the "cost" is generally considered to be lower).

A hot subject that was being debated while I was there (with the Fund mission in which Robert Blake from Bank headquarters participated) was the so-called "maize maze". Exorbitant prices had been paid by the Maize Board to the maize growers at a time of a bumper harvest (with serious fiscal slippage implications). Tariffs were imposed on maize imports on an "anti-dumping" pretext (while world prices of maize have been more or less stable).

Privatization of parastatals is at a standstill. There is a serious dilemma for the Bank here. Excessive push on speed of privatization is likely to lead to worse distribution outcomes (in favor of political allies).

Openness of communication is a serious issue. The US Ambassador (to whom I also had a chance to talk at dinner) has been involved in a serious public debate with the Minister of Information on the subject of allowing for a private independent radio channel. The rural areas have no access to the press (which is relatively open, especially in economic matters) and rely entirely on the radio which is completely monopolized by government-directed news. Alternative TV channels have been farmed out to political favorites.

There is no lack of business enterprise and entrepreneurial "animal spirits." Talking to the men and women in the coffee plantations or to urban business interests one quickly realizes that the response to the right price and credit incentives can be immediate. It is the governance and well functioning institutions of civil society that are most seriously lacking. Crime in Nairobi is particularly rampant.

Role of the Bank

I have serious doubts about the wisdom of continued injection of lending into Kenya at this stage. I do not sense a serious commitment to reform at the aggregate government level. Even the Bank's coffee project which is the one I have seen and is in itself very impressively run leaves one with questions. The best coffee cooperatives, run by able and educated retired civil servants, I found out, have not been audited for at least two years. When I asked why Bank credit is given to a non-audited entity I was told that this is not the cooperatives' fault but is the responsibility of the relevant Ministry. (I understand that we are having problems receiving timely audits on our Kenya projects and Special Accounts set up with the Central Bank. The Department has been following up this problem vigorously and disbursements to a number of projects and replenishment of all special accounts have been suspended starting late last year. Thus, the on-the-ground impact of our assistance is greatly diminished.) The

farmers are evidently very happy with the transparency and efficiency with which the new credit mechanism, introduced by the World Bank mission (albeit at subsidized interest rates) is operated. But by the time the 100 million dollars or so are disbursed and the project comes to its completion (in two or three years) will the capacity building effort have left its permanent institutional mark or will it simply be hijacked and distorted by the government owned Cooperatives-operative Bank and its political partners in high places?

Kenya looks to me like a place where the Bank should now devote most of its efforts not to lending (which is very likely to be wasted in undesirable private rents) but to non-lending activities, in preparation for higher quality lending in the future. We should give priority to public training in economics and good governance, to a fruitful dialogue with major business, parliamentary, and open media interlocutors. EDI obviously has a bigger role to play. Such modes of operation may meet with government objections. So be it. We should not conclude or even signal that Kenyans are not worth talking to. On the contrary, we should concentrate our efforts in persuasion, education and policy dialogue–quite apart from the pressures of lending. My hunch is that in Kenya the Bank will otherwise soon have to go back to a non-activity mode.

Report on a visit to South Africa: February 25 - March 3, 1995

This trip was very well prepared by both Catherine Marshall's Department as well as Isaac Sam and his office. Luiz Pereira da Silva's presence in all of the meetings, in particular, was very helpful. I first met with a group of parliamentarians at a very successful EDI-organized weekend seminar; then had a long informal meeting with the key Ministers - the Minister of Finance (Chris Liebenberg) and his deputy (Alec Erwin), the Minister for RDP (Jay Naidoo), and the Minister of Labor (Tito Mboweni); a separate meeting with senior staff of the Ministry of Finance - Jan Dreyer, Franz Leroux and Elias Links; an extensive meeting with Senior Staff of the Reserve Bank headed by the Deputy Governor (Dr Meijer); several groups of business leaders and of NEDLAC; members of the Economics Faculty at both the University of Capetown and the University of Pretoria (where I gave a public talk on the Mexican, not the South African, crisis). Last not least, I spent two lengthy, privately arranged, visits to the townships and squatter camps around Capetown and Johannesburg, where I had occasion to observe and talk to men and women at the grassroots level. There was no time in this brief visit, to see the provinces or the rural areas although the problems did, of course, feature in discussions.

Key Strategic Issue: Redistribution without Growth

At the end of the first year of the new South Africa and the "political miracle" the country projects a complex mosaic to which this type of a note cannot do justice. I got the sense of a collectively shared pride over the initial political and economic consensus as is reflected in the maintenance of political stability as well as in the hitherto highly responsible macroeconomic policy stance. I was impressed by the cohesion and energy I found in the local communities I visited, a now well-recognized pre-condition for economic success.

The one message that I would like to bring out at this point is a fundamental inconsistency in the strategy that is presently being pursued. It is a strategy of redistribution with zero projected per capita growth and rising unemployment (from what is already a socially and politically unbearable starting point). Put differently, *political* apartheid (between black and white) may have ended. The new political mechanism may also force a reduction in *economic* apartheid *between* the two groups (e.g., in terms of wage gaps). Black managers may even begin to earn higher wages than their white counterparts because they are in short supply and their presence in an enterprise enhances its social and political standing. But economic apartheid within the black community, between the insiders and outsiders, is most likely to deepen.

The leadership is naturally preoccupied with the redirection of government and its expenditures, as spelt out in detail in the RDP, with exclusive emphasis on redressing the glaring inherited ethnic and social gaps. This is done within the bounds of a genuine attempt to follow prudent fiscal and monetary policies. Maintaining a tight fiscal stance is the key to macroeconomic stability, without which confidence in the Government will erode. At the same time, however, there is no serious thought being given to the issue of growth driven employment strategies. The consensus forecast that both Ministers and their staff, as well as virtually all others give is that of a 3 percent growth rate for the coming 3-4 years, i.e., virtually zero per capita GDP growth. This is the estimate that present supply constraints yield, based on existing skill mixes and rigid real wage structures (some experts even suggest a negative growth rate).

Given present trade union leadership (which is new and has to assert itself), the likelihood is a further bolstering of real wages for the insiders in the formal sector, including an upward closing of the ethnic wage gaps, to the detriment of the mass of unemployed outsiders. Real labor costs for most relevant sectors are not internationally competitive and for that reason, as well as others, sizable foreign private investment is unlikely to be forthcoming soon. The argument that productivity growth (manna from heaven?) will somehow compensate for high real wages is unconvincing. The exchange rate is subordinated to the price stability objective and even if it were not it is hard to see how, in the absence of real wage flexibility, a real devaluation can be affected without a damaging inflation. Similar distortions on the capital and financial markets side seem to favor large capital intensive types of activities to the detriment of small and medium size labor intensive (or export-led) activities. Excessive land concentration causes similar employment distortions in agriculture (the black dream is to emulate the large white farm holding). In other words, neither the macro nor the micro structure supports a high growth scenario.

Thus under present assumptions even a limited redistribution strategy seems fragile at best, unsustainable at worst. It is very difficult to effectively redistribute a shrinking cake. The strategy is most likely to break down when the initial political grace period is over, at the provincial fiscal level, or among the disillusioned urban unemployed or in both. This is a conclusion that our previous work on South Africa had reached, and that I understand was discussed with policy-makers apparently to no great effect.

Obviously one can also envisage an alternative strategy, one that combines the clear advantages that the country has (in infrastructure, in financial and legal structures and, in particular, an initial condition of "extraordinary politics") with an employment and export led growth strategy. With a rising cake both gradual reduction in unemployment as well as required social expenditures could be implemented. Moreover the total discounted real wage over the planning horizon could be higher for all, since it will be a positive sum, rather than a zero sum, game. But it takes a clear shift of emphasis. NEDLAC maybe a vehicle through which some of the rigidities could be loosened up. But I have also heard the argument that with the unemployed not properly represented NEDLAC may actually solidify the corporatist status quo.

A major concern at the moment seems to me to be the need to get this fundamental inconsistency as well as alternative scenarios, based on comparative country experience, into the consciousness of the top leadership which comes across as intelligent and very highly motivated. The fact that on an important issue such as fiscal responsibility previous mindsets could be changed makes one hope that on the present issue inroads can be made before a deep crisis makes it happen in much more painful ways.

Dialogue with Parliamentarians (EDI seminar)

The two-day seminar with parliamentarians organized by EDI which was a great success is separately discussed in a note by Vinod Thomas. The seminar included an impressive group of MP's mainly from the ANC (one person from the Inkata Freedom party) who are involved with budget and economic policy matters. Their knowledge of economics was very limited but the level of

comprehension quite high. Their thirst for knowledge and the level of motivation was quite unusual. Particularly impressive was the way they all bought into the need for fiscal responsibility. High interest rates were a different matter. They viewed the Central Bank as the bastion of old regime (which it undoubtedly is).

The seminar was also an occasion for private conversations such as with Chris Dhalami, former Deputy Secretary of COSATU and now a parliamentarian who also sees the other side of labor issues. He does not dispute the need for labor restraint. But he is concerned with the reaction of others, namely, what would management give in return? Interestingly, he would never have talked to the World Bank in the past, but has changed his mind seeing how the Bank can be of help. The use of local facilitators in this seminar, very able faculty members from Capetown and other universities, proved very effective. There is no doubt that this type of EDI activity should be employed more widely in other African countries (this has already been done once in the past).

Self-help and the building of social capital in the townships

Among the most impressive encounters on our trip were the two visits to the townships and squatter camps. Through a common acquaintance in Capetown a visit was arranged with Mrs Helen Lieberman to some of her educational and welfare projects in Khayelitsha, Gugulethu, Langa and Crossroads. This remarkable lady has been running her umbrella organization named Ikamva Labantu (the future of our nation and people) almost entirely by herself. It is based entirely on local volunteers (mostly mothers) and works on the principle of 'help to those that help themselves'. The projects involve some 400 children daycare centers that are often run from shacks, self-reconstructed community schools, started from makeshift buildings, several clubs for the elderly and the blind as well as projects for disabled children. Running on a budget equivalent to half a million dollars, she has neither the time nor the means to raise a permanent flow of funds. Mrs Lieberman told me that there were attempts which she resisted, by local politicians, to take hold of her organization which she feels should be kept free of politics.

I had the occasion to discuss the issue with Minister Jay Naidoo who told me in response that there are many such NGO's, that he is waiting to get the government ministries organized to handle these activities (which seemed to me the sure way to either do nothing or kill the grassroots initiatives). In answer to a question he said yes, there is a tiny budget set aside to which people like Mrs Lieberman could apply through the respective official in the Capetown region. (Maybe the Bank, through an urban renewal project, could work to help such NGO's which are obviously doing a highly valuable social service job, especially since it successfully involves the local communities.) Other evidence of very successful local voluntary activity was provided in a visit to Soweto and neighboring townships. We visited a housing project, schools and finally attend rehearsals of local choir groups in the Kwathema township. These highly motivated groups, and in particular a boys choir, numbering some 80 boys, excel in the quality of their music. They meet regularly on Thursday afternoons and evenings in a local church, are based on a purely voluntary basis, perform to local audiences and participate in annual competitions. Kwathema which is particularly known for this type of activity, is also marked by a relatively low level of crime. One wonders which way causality goes but one is also strongly reminded of what Robert Putnam's study told us about the determinants of differential social capital in the regions of Italy (proxied by membership in choral societies and sports clubs).

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 23, 1995

Mr. Gautam Kaji
Managing Director

Dear Gautam:

The Policy Research Department is holding a Research Fair to provide a quick and easy way of learning about their research. In the space of half an hour or less, it will be possible to examine twenty posters covering the main activities of the Department. Researchers will be present to answer questions.

The Fair will be held in the H-Building Lobby on Monday and Tuesday, March 27-28, 1995, from 12:00 noon to 2:00 p.m. If you can spare the time and plan to drop by, please let me know. We may be able to coordinate.

Michael Bruno

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 23, 1995

Mr. Richard Frank
Managing Director

Dear Richard:

The Policy Research Department is holding a Research Fair to provide a quick and easy way of learning about their research. In the space of half an hour or less, it will be possible to examine twenty posters covering the main activities of the Department. Researchers will be present to answer questions.

The Fair will be held in the H-Building Lobby on Monday and Tuesday, March 27-28, 1995, from 12:00 noon to 2:00 p.m. If you can spare the time and plan to drop by, please let me know. We may be able to coordinate.

Michael Bruno

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 23, 1995

Mr. Sven Sandstrom
Managing Director

Dear Sven:

The Policy Research Department is holding a Research Fair to provide a quick and easy way of learning about their research. In the space of half an hour or less, it will be possible to examine twenty posters covering the main activities of the Department. Researchers will be present to answer questions.

The Fair will be held in the H-Building Lobby on Monday and Tuesday, March 27-28, 1995, from 12:00 noon to 2:00 p.m. If you can spare the time and plan to drop by, please let me know. We may be able to coordinate.

Michael Bruno

chron file

March 23, 1995

Mr Michael Bruno

Kenya: Comments from Michael Carter & Response

Michael,

We have received good comments from Michael Carter (COD, Chief). Carter stresses that "that, while I have no difficulty with the concept of disengagement from Kenya, I believe that the way we proceed is of paramount importance." He maintains that we should continue the dialogue and attempt to reach agreement on policies. That much is in accordance with your point of view, as Carter recognizes. What is left unsaid is the link to lending. Given his observation, I've a couple of sentences to the last paragraph which now reads,

> Kenya looks to me like a place where the Bank should now devote most of its efforts not to lending (which is very likely to be wasted in undesirable private rents) but to non-lending activities, in preparation for higher quality lending in the future. We should give priority to public training in economics and good governance, to a fruitful dialogue with major business, parliamentary, and open media interlocutors. EDI obviously has a bigger role to play. Such modes of operation may meet with government objections. So be it. We should not conclude or even signal that Kenyans are not worth talking to. On the contrary, we should concentrate our efforts in persuasion, education and policy dialogue–quite apart from the pressures of lending. My hunch is that in Kenya the Bank will otherwise soon have to go back to a non-activity mode.

Carter also points out that the PS in Ministry of Commerce, far from being a pro-reform and unfairly criticized woman, is rather incompetent and not immune from the tribal favoritism's; she "was involved in negotiating what we thought was a lousy deal for Kenya on the US textile quota..." I have drooped the reference to her in the note.

We are now ready to issue the notes. I also have talked to Luiz and communicated your decision to go ahead with the letter. He is sending us the proper titles and addresses.

Thank you,

Paulo

Paulo

cc: Mr Baird, Ms Wetzel.

Report on a Visit to Kenya February 19-22, 1995

My visit to Kenya included meetings with the Minister of Finance (Hon. Musalia Mudavadi), the Minister for Commerce and Industry (Hon. Kirugi M' Mkundia), Governor of the Central Bank (Mr. Micah Cheserem) and the Director of Research (Mr. J. K. Kinyua). I spent one full day on a field trip, joining a Bank mission headed by Ms Christine Cornelius, on a regular visit to the coffee plantation cooperatives-operatives, where the Bank is involved in the reform of the payments and credit schemes as well as in the construction of new coffee processing factories. In all of these visits I was accompanied by Steve O'Brien, Resident Representative, who together with Yaw Ansu, the economist on the mission, were extremely helpful both in terms of the substance of my visit as well as in unusually generous hospitality to my wife and myself. In the course of the visit I also met at length with the staff of the African Economic Research Consortium (led by Profs. Ndulu and Elbadawi), which is an extremely successful Africa-wide operation, and gave a public seminar on lessons of development and reform with special reference to Africa.

General Evaluation

The Kenyan economy has recently come out of a severe macroeconomic crisis. Inflation has come down from 100 percent to negative numbers (amidst unusual exchange rate gyrations), GDP growth is up, and a number of reform steps have been undertaken such as in trade liberalization. The country, however, seems to me to be at a very problematic juncture both economically and politically. The Minister of Finance and the relatively new Governor of the Bank seem committed to the reform process, but operating in a government environment that is far from conducive to further reform measures. The Minister for Commerce and Industry, for example, seems ambivalent on trade reform, despite considerable assistance and pressure from the Bank. The President appears to occupy his mind and energies with the political and economic strengthening of his own small tribe and the other small indigenous tribes in the rift valley who constitute the bastion of his support. The serious ethnic clashes in the rift valley province are believed to be fomented by powerful politicians with the aim of driving the Kikuyu and other tribes who are not indigenous to the rift valley out of the province. The press all along was full of news about police harassment of the opposition members of Parliament (under the aegis of the President's fight with "guerrilla" elements), with news about falsification of primary school exam results by officials of the Ministry of Education (in favor of the President's affiliated districts). Likewise I was told that population census statistics are falsified with the same purpose in mind. Under investigation at the moment is an international airport project (costing $80 million) planned for the President's home town at Eldoret.

On measures of governance, conflict of interest and clean government I would rate Kenya on the lowest scale that I have ever witnessed so far. Ministers and top civil servants more often than not operate private businesses on the side, often in areas that lie directly within their own Ministerial area of responsibility (e.g., the Minister of

Agriculture is active in the farming and milling of maize). Kenya is considered by the international business community as one of the highest "cost of doing business" economies (a prominent businessman told me that on Bank-financed projects, however, the "cost" is generally considered to be lower).

A hot subject that was being debated while I was there (with the Fund mission in which Robert Blake from Bank headquarters participated) was the so-called "maize maze". Exorbitant prices had been paid by the Maize Board to the maize growers at a time of a bumper harvest (with serious fiscal slippage implications). Tariffs were imposed on maize imports on an "anti-dumping" pretext (while world prices of maize have been more or less stable).

Privatization of parastatals is at a standstill. There is a serious dilemma for the Bank here. Excessive push on speed of privatization is likely to lead to worse distribution outcomes (in favor of political allies).

Openness of communication is a serious issue. The US Ambassador (to whom I also had a chance to talk at dinner) has been involved in a serious public debate with the Minister of Information on the subject of allowing for a private independent radio channel. The rural areas have no access to the press (which is relatively open, especially in economic matters) and rely entirely on the radio which is completely monopolized by government-directed news. Alternative TV channels have been farmed out to political favorites.

There is no lack of business enterprise and entrepreneurial "animal spirits." Talking to the men and women in the coffee plantations or to urban business interests one quickly realizes that the response to the right price and credit incentives can be immediate. It is the governance and well functioning institutions of civil society that are most seriously lacking. Crime in Nairobi is particularly rampant.

Role of the Bank

I have serious doubts about the wisdom of continued injection of lending into Kenya at this stage. I do not sense a serious commitment to reform at the aggregate government level. Even the Bank's coffee project which is the one I have seen and is in itself very impressively run leaves one with questions. The best coffee cooperatives, run by able and educated retired civil servants, I found out, have not been audited for at least two years. When I asked why Bank credit is given to a non-audited entity I was told that this is not the cooperatives' fault but is the responsibility of the relevant Ministry. (I understand that we are having problems receiving timely audits on our Kenya projects and Special Accounts set up with the Central Bank. The Department has been following up this problem vigorously and disbursements to a number of projects and replenishment of all special accounts have been suspended starting late last year. Thus, the on-the-ground impact of our assistance is greatly diminished.) The farmers are evidently very happy with the transparency and efficiency with which the

new credit mechanism, introduced by the World Bank mission (albeit at subsidized interest rates) is operated. But by the time the 100 million dollars or so are disbursed and the project comes to its completion (in two or three years) will the capacity building effort have left its permanent institutional mark or will it simply be hijacked and distorted by the government owned Cooperatives-operative Bank and its political partners in high places?

Kenya looks to me like a place where the Bank should now devote most of its efforts not to lending (which is very likely to be wasted in undesirable private rents) but to non-lending activities, in preparation for higher quality lending in the future. We should give priority to public training in economics and good governance, to a fruitful dialogue with major business, parliamentary, and open media interlocutors. EDI obviously has a bigger role to play. Such modes of operation may meet with government objections. So be it. We should not conclude or even signal that Kenyans are not worth talking to. On the contrary, we should concentrate our efforts in persuasion, education and policy dialogue–quite apart from the pressures of lending. My hunch is that in Kenya the Bank will otherwise soon have to go back to a non-activity mode.

Chron

A L-IN-1 NOTE

DATE: 23-Mar-1995 02:38pm

TO: RICHARD FRANK (RICHARD FRANK @A1@WBWASH)
TO: Gautam S. Kaji (GAUTAM KAJI)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Mexico

I strongly support the issues raised in the attached note. It's essential that we get a handle on the potential fiscal costs of the banking crisis, the consistency with the macro program, and the implications for the policy response required.

Michael

CC: Mark Baird (MARK BAIRD)

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

DATE: March 22, 1995 04:01pm EDT

TO: Sri-ram Aiyer (SRI-RAM AIYER)

FROM: Mark Baird, DECVP (MARK BAIRD)

EXT.: 31666

SUBJECT: **MEXICO - Financial Sector Restructuring Loan**

Thank you for sending us a copy of the IEPS on the Financial Sector Restructuring Loan for Mexico. We have the following comments and questions:

1. Problem-Size: What Do We Know?

It is quite remarkable how little we actually know about the crisis even three months after its onset, be it the actual exposures, the relative importance of liquidity versus solvency problems, the private sector foreign debt exposure etc. Of course careful auditing takes time and should not be rushed, but we do need some guesstimates of the ballpark range. Otherwise, discussing the likely effects of the program is a bit akin to evaluating the effectiveness of a single fire-engine not knowing whether it has to deal with a Christmas tree fire or a chemical plant blaze.

Specifically, the total cost remains quite uncertain, with estimates ranging between $5-33 billion. What is regarded as realistic? It may be useful here to remember the lessons of past bailouts reviewed in Easterly, Rodriguez and Schmidt-Hebbel: the depth of the crisis was typically initially severely underestimated, as were the costs to the government, in the end amounting to 55 percent of GDP in Argentina and 41 percent in Chile. Applying these figures to Mexico yields a figure several times larger than the highest estimate in the IEPS.

2. Macro-Linkages

As the paper emphasizes, the financial sector adjustment is closely linked with the macroeconomy. This link goes both ways. Macro-stability will reduce interest rates and hence alleviate the stress on the financial sector. Yet the bailout itself will worsen the fiscal situation.

A. Macro-Stability

While not immediately pertinent to the financial

sector, the view taken on the risk of the program appears quite optimistic on two accounts. First, while the latest package is stringent vis-a-vis its Mexican predecessors, it is soft vis-a-vis international standards, notably in Argentina, and may thus fail to restore confidence (and capital inflows). Second, the projected budget surplus rests on very rosy revenue assumptions (based on the government's projected GDP decline of only 2% rather than the 6-10% deemed possible by outsiders, and on a rather low 40% average Cetes rate).

It is also not quite clear what is meant by the statement in para. 28 that the "overall macroeconomic stabilization program should permit sufficient room for the Mexican government to act aggressively to resolve problems of troubled banks". Presumably, even if the rather optimistic revenue targets were to be realized, the need to maintain a significant fiscal surplus for signalling reasons will sharply limit expenditure. In Mexico's current situation, fiscal overkill is the low risk strategy.

B. Fiscal Impact Of Bailout

Given the need to maintain a sizable surplus for confidence reasons, if the costs of a complete bailout exceed the lower bound of estimates - as we have every reason to expect - the government will likely find itself between a rock and a hard place, having to choose between the mutually inconsistent objectives of covering the extensive liabilities presently discussed and coming even close to its inflation target.

3. Limited Deposit Insurance

Complete deposit insurance is inappropriate for Mexico. First, as discussed above, the fiscal impact would endanger macro-stability and hence have a negative feedback effect through higher interest rates. Secondly, Mexico has played this game before, hence there are severe incentive problems. As the proposal (under-)states: "The explicit GOM commitment to guarantee all liabilities ... may have intensified the moral hazard problem".

Hence a partial deposit insurance seems more appropriate. For social reasons, deposits below a (low) threshold should be completely covered. Beyond this threshold, one might consider covering a fraction of excess deposits and converting the remainder into claims on the bad loan portfolio, to be paid off to the degree that actual recovery exceeds expectations.

4. Structural Reform

While efforts to improve supervision are certainly very desirable, we should recognize that the fundamental problem resides in the incentive for excessive risk taking in an environment of limited downside risk but unlimited upside potential, an incentive particularly pronounced for banks with inadequate capital reserves. Going forward, the Bank might thus wish to also insist on reforms ensuring that the incentives of owners and managers are changed by imposing a share of the downside risk on them, be it through double liability or sharply higher capital requirements.

5. Disbursement

Clearly, the most important thing is to get the policy framework right. However, we also have to make sure that our own disburseement procedures are consistent with that framework. In particular: (a) our disbursement procedures should not provide an incentive for the GOM to incur excessive expenditures in the resolution and restructuring of banks; and, (b) the amount and timing of our assistance should reinforce the GOM's commitment to find a permanent solution to troubled banks rather than bail out existing owners. One option would be to hold back our disbursements until liquidation or ownership changes have actually been made.

CC:	Michael Bruno	(MICHAEL BRUNO)
CC:	Shahid Javed Burki	(SHAHID JAVED BURKI)
CC:	Sebastian Edwards	(SEBASTIAN EDWARDS)
CC:	Edilberto L. Segura	(EDILBERTO L. SEGURA)
CC:	Holger Wolff	(HOLGER WOLFF)
CC:	Gerard Caprio	(GERARD CAPRIO)
CC:	Ross Levine	(ROSS LEVINE)
CC:	Klaus Schmidt-Hebbel	(KLAUS SCHMIDT-HEBBEL
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FIL

Mbi Chron

Michael Bruno
Vice President and Chief Economist

March 21, 1995

Mr Armeane Choksi

Senior Manager's Oversight Committee on Participation

Armeane,

Thank you for the minutes of our last meeting (on January 17). Given other commitments, only now have I turned my attention to them and sought the advice of my colleagues in DEC, notably Lant Pritchett. We are concerned the Oversight Committee has not stressed enough the importance of participation as means not an end. It should be emphasized, for example, that much of the work on privatization and introducing competition in the provision of public services is essentially about participation in the sense of increasing individuals' voice. It makes explicit the implicit public demand and enhances participation by providing an "exit" option for public services. Similarly the use of rigorous economic analysis (in curative health projects for instance) is about participation in that it reduces the weight of technocratic decisions based on "norms" and "standards" which rarely reflect the true underlying demand function.

It is true that, as Pranab Bardhan observes in his upcoming paper for this year's ABCDE, "decentralization or devolution of power to a closely interactive and face-to-face local community shares with the institution of private markets the incentive advantages of placing decision-making in the hands of those who have information which others lack." The literature on this outcome is convincing. Yet, as Bardhan also points out one should not "romanticize the value of local community." When the effects are more broadly felt than at the community level (e.g.: air pollution or macroeconomic policy) "local" communities can be as aggressive in ignoring the interests of others as will an individual. One should establish the link between the effectiveness of the participatory/community-based approach and the initial conditions of inequality, power, administrative capacity etc. This is an important and neglected link where more research is needed.

For these and other reasons, our Committee should avoid an aggressive and universalistic stance towards participation and encourage, as you correctly emphasize, "learning while mainstreaming." Indeed, the very idea of mainstreaming ought to be selective to those instances where we understand clearly why participation is a means to desirable goals. I am looking forward to our next meeting.

Michael Bruno

cc: Mesrrs Adams, Baird, Squire, Jimenez, Pritchett, Ravallion, Vieira da Cunha

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 21, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Relations with the WTO**

1. We have now received comments on our distribution to the Board from Ms. Herfkens, Mr. Good, Mr. Evans and Mr. Nogués. We have replied individually to them and are incorporating their comments into a revised version of the paper where appropriate. Our intention is, after clearance from you, to circulate the revised note to staff and also to the Board for information. In the cover note to the Board we will observe that we are continuing discussions with the WTO and also with the Fund; that the WTO's comments on this and the previous draft were only informal; and that we will inform the Board of progress as appropriate. Mr. Evans requested that the Board have a chance to discuss the matter at an appropriate time, and, indeed, this is likely to be necessary since WTO observership at the Board is an issue. It does not seem desirable, however, to say what "an appropriate time" will be at this stage.

2. I met Mr. Seade, one of the Deputy Directors General of the WTO, for a frank discussion on March 7. He suggested that the WTO should have the rights of observership and address at every Bank Board meeting and that means should be found whereby the WTO could comment on all the Bank's trade policy programs. I advised him that while the Bank's management and Board would consider any proposal which he made, the present one was extremely unlikely to find any favor. In particular, I noted that it suggested more favorable treatment for the WTO than the IMF currently receives.

3. Last week the WTO Contracting Parties met to discuss relations with the Bank and received and endorsed a note from their Chairman--Ambassador Kesavapany from Singapore--suggesting WTO Secretariat observership at the Board "in meetings dealing with matters of direct concern to the WTO." This seems a more sensible proposal and would pose no difficulties from a staff perspective. It would probably entail attendance at no more than six Boards per year. Moreover, it is broadly similar to what the Fund has proposed [will propose], so far as their main Board is concerned. (They will also offer selective attendance at their CGATT--the Committee which handles GATT matters.) Parallelism between the Fund and the Bank seems desirable wherever appropriate.

4. Kesavapany's note also suggests early consultation between the WTO and the Bank on Bank programs "of relevance to WTO members." It would be quite impossible for the WTO Secretariat to process all Bank and Fund documents, and so unless we are to reject this proposal out of hand, we shall need to devise some means of selectivity. By a large margin, the best approach would be an informal one, whereby issues of principle are dealt with in an annual tripartite senior-level meeting and specific country aspects dealt with ad hoc when Bank staff identify a major trade component or a particularly difficult trade issue. It seems best for the first tripartite meeting to work out how to operationalize this consultation process.

5. Messrs. Ahmed and Winters will visit Geneva on April 12 and will meet (at his suggestion) Ambassador Kesavapany. I suggest that they indicate informally that the staff would support proposals along the lines above and that there was a good chance that the Board would concur. Do you agree?

b.c.c. M. Ahmed, IECDR; L.A. Winters, IECIT

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Chro

DATE: March 21, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Relations with the WTO**

1. We have now received comments on our distribution to the Board from Ms. Herfkens, Mr. Good, Mr. Evans and Mr. Nogués. We have replied individually to them and are incorporating their comments into a revised version of the paper where appropriate. Our intention is, after clearance from you, to circulate the revised note to staff and also to the Board for information. In the cover note to the Board we will observe that we are continuing discussions with the WTO and also with the Fund; that the WTO's comments on this and the previous draft were only informal; and that we will inform the Board of progress as appropriate. Mr. Evans requested that the Board have a chance to discuss the matter at an appropriate time, and, indeed, this is likely to be necessary since WTO observership at the Board is an issue. It does not seem desirable, however, to say what "an appropriate time" will be at this stage.

2. I met Mr. Seade, one of the Deputy Directors General of the WTO, for a frank discussion on March 7. He suggested that the WTO should have the rights of observership and address at every Bank Board meeting and that means should be found whereby the WTO could comment on all the Bank's trade policy programs. I advised him that while the Bank's management and Board would consider any proposal which he made, the present one was extremely unlikely to find any favor. In particular, I noted that it suggested more favorable treatment for the WTO than the IMF currently receives.

3. Last week the WTO Contracting Parties met to discuss relations with the Bank and received and endorsed a note from their Chairman--Ambassador Kesavapany from Singapore--suggesting WTO Secretariat observership at the Board "in meetings dealing with matters of direct concern to the WTO." This seems a more sensible proposal and would pose no difficulties from a staff perspective. It would probably entail attendance at no more than six Boards per year. Moreover, it is broadly similar to what the Fund has proposed [will propose], so far as their main Board is concerned. (They will also offer selective attendance at their CGATT--the Committee which handles GATT matters.) Parallelism between the Fund and the Bank seems desirable wherever appropriate.

4. Kesavapany's note also suggests early consultation between the WTO and the Bank on Bank programs "of relevance to WTO members." It would be quite impossible for the WTO Secretariat to process all Bank and Fund documents, and so unless we are to reject this proposal out of hand, we shall need to devise some means of selectivity. By a large margin, the best approach would be an informal one, whereby issues of principle are dealt with in an annual tripartite senior-level meeting and specific country aspects dealt with ad hoc when Bank staff identify a major trade component or a particularly difficult trade issue. It seems best for the first tripartite meeting to work out how to operationalize this consultation process.

5. Messrs. Ahmed and Winters will visit Geneva on April 12 and will meet (at his suggestion) Ambassador Kesavapany. I suggest that they indicate informally that the staff would support proposals along the lines above and that there was a good chance that the Board would concur. Do you agree?

b.c.c. M. Ahmed, IECDR; L.A. Winters, IECIT

Chron

Michael Bruno
Vice President and Chief Economist

March 21, 1995

Mr Gautam Kaji

Documents

Gautam,

As we discussed, I am enclosing three documents that I would consider giving the new President in connection with three respective topics that I am planning to raise in our first meeting:

1. My (and DEC's) perspective on the future of the Bank;
2. The substance and range of DEC's activities;
3. My thoughts on the role of the Chief Economist.

My inclination would be to send these notes after the meeting, with a one-page cover note highlighting DEC's contributions and raising the basic issue of the role of the Chief Economist. I would also recommend the new President to look at our recent notes on non-lending services (Lyn Squire's and Mark Baird's notes); and I would add a sample of the most recent or ongoing "flagship" publications: *Averting the Old Age Crisis*, the new WDR on labor and the new GEP on globalization. All of them have or promise to become highly visible publications.

I would very much welcome your reactions. Thank you,

Michael Bruno

cc: DEC Directors, PVC

Thoughts on The Role of the Chief Economist

This note highlights some structural issues that seriously affect the ability of the Chief Economist to enhance the quality of the Bank's decisions. It proposes several options for strengthening the substantive role of the Chief Economist, while reducing some of his/her management responsibilities.

Background

Since the late 1960s, the World Bank has appointed an eminent outside economist to serve as the institution's Chief Economist. This has been seen as a valuable way of bringing in expertise and experience and strengthening the Bank's credibility. The first Chief Economist, the late Hollis Chenery, was appointed by Robert McNamara to establish the Bank's research capability and to act as economic adviser to the President. The nature of the job and the length of tenure have subsequently evolved depending on the inclinations of the institution and the individual. Chenery, who served for twelve years, was succeeded by Anne Krueger who served for seven. My two predecessors Stanley Fischer and Larry Summers, each served for about two years on average.

Still with the perspective of a quasi-outsider (having now been in the position for 18 months) I am convinced that the current functions of the Chief Economist in the Bank do not work well. Some of this depends on personalities, and it could well be different with a new President or another Chief Economist. But the problems have also been shared by my recent predecessors under different Presidents.

The Chief Economist's Functions

2. Four basic roles correspond to the title *Vice President Development Economics and Chief Economist*:

- Chief Economist: the Bank's principal economic adviser
- Manager of the Development Economics Vice Presidency
- Chief of research Bankwide
- Professional oversight of the Bank's economists and economic work.

Providing economic advice to the Bank and to our client countries is potentially the most important function, but the least efficiently utilized. In practice, much of the time is taken up with management functions (e.g., manager of DEC, employing close to 400 people, Chairman of the Research Committee which allocates all of the Bank's research budget, Chairman of the Economist Panel which is responsible for Bankwide economist job promotions). This tension

between managerial overburden and the inefficient utilization of the advisory function is at the core of the problem.

The Chief Economist's role as the Bank's principal economic adviser is carried out in principle in three ways: (a) formal participation in Bankwide committees, such as the Loan Committee, the Policy Review Committee and Country Assistance Strategy Reviews; (b) advice to the President and Senior Management on specific economic and policy issues (presently minor); and (c) informal advice to Bank staff and country governments (increasingly substantial).

How Things Have or Have Not Been Working

Each of these channels has severe limitations. The Chief Economist, while taking much of the quality control work load, only acts as an adviser on the Bankwide committees. Decisions at the Loan Committee are taken by the Chairman and do not necessarily reflect the views of the Chief Economist, sometimes not even the majority views of the Committee members. In some cases (as in lending to Russia), operations have gone ahead over the written objections of the Chief Economist. And many important operations (such as the recent large Financial Sector Loan to India) don't even come to the Loan Committee.

Despite these limitations, DEC does have an influence on the Bank's policy and operations through other more informal means. Indeed there are many examples of positive contributions over the past year (e.g., the Population Policy paper, the Senegal CAS and even the India Financial Sector Loan). But this influence comes more from DEC's upstream interaction with Bank staff and alliances with Regional economists and managers, than from the formal interventions of the Chief Economist.

The Chief Economist has been clearly in demand for policy advice. Over the past year, there have been frequent requests for personal country visits and meetings, often initiated by the economic leaders, for example, of India, Russia, Ukraine, Brazil and Argentina. There have also been strong internal demands to chair Economic and Sector Work reviews, especially from the Africa Region, and provide policy advice, as with the Central European Department. The response to these efforts has been uniformly positive, with very tangible influence on both Bank actions and country policies. But these latter initiatives have all come from individual Bank staff and managers, rather than from Senior Management in response to broader institutional concerns. Moreover, efforts by DEC to raise broader strategic issues have, at least until recently, been brushed aside by Senior Management.

The poorly defined role of the Chief Economist - which has been a source of frustration to all recent incumbents - reflects two key elements of the Bank's culture. The first is the focus on country programs, especially since the reorganization of 1987. As a result, basic responsibility for operational decisions lies with the Country Departments and Regional Management. The Central Vice Presidencies are seen as providing support: advising but not deciding. The second element is the case-by-case approach to decision making. This is seen as a

major strength in allowing the Bank to adapt to different and changing circumstances, without having to go through major policy reviews. However, the weakness is a lack of attention to strategic and policy consistency across countries and over time. Both of these elements tend to weaken the Bank's use of one of its primary sources of strength: its broad cross-country experience over many years of development work.

Like in any other institution the Bank's culture also depends on personalities. Ernie Stern has had a pervasive influence on the Bank in recent years. As someone who had come from an economic background, and served as head of research in the Bank, he was *de facto* his own "Chief Economist." He played a strong role as Chairman of the Loan Committee, and rarely felt the need to consult with others on major operational issues (Russia and Mexico for instance). The former relevant Managing Director, Attila Karaosmanoglu, also came from an economist background, and was sympathetic to many of DEC's views, but was not a major force within Senior Management. There has been a noticeable change in consultation and involvement since the latter two retired. In particular, Gautam Kaji, the new Managing Director, has clearly signaled that he wants to draw on the Chief Economist for both Bank strategy work (for example in taking up DEC's initiative on non-lending services and the VP's task force on the Bank's "vision") as well as on country advice (Mexico and Argentina).

Options

What structural changes could make better use of the role of the Chief Economist in policy and operational decisions? There is a hierarchy of options: obviously the choice of options very much depends on personalities and chemistry.

The most logical and far-reaching would be to shift the Chief Economist into the President's Office. Both symbolically and substantively, this would signal his role as the President's principal economic adviser. The Chief Economist could be supported by a small executive office. Formal management of DEC would shift to a Vice President, who could report to the Chief Economist. This would leave the Chief Economist with more time for the economic advisor role. He or she would also be able to draw more widely on expertise from the CVPUs and the Regional Chief Economists. The relationship between the Chief Economist and the VP DEC would have to be carefully defined to avoid conflict and duplication.

The minimal, less far-reaching, option would be to establish a high-level decision-making committee, chaired by the President and including Senior Managers and the Chief Economist (similar to the President's Council under McNamara). This would provide a formal forum to decide on major unresolved issues emerging from the current committees looking at policy papers, country strategies and operations.

An intermediate alternative would be to establish a separate committee, chaired by the Chief Economist, to advise the President on economic matters arising from the Bank's policy and operational work.

DEVELOPMENT ECONOMICS AND OFFICE OF THE CHIEF ECONOMIST

Introduction

The lessons of experience combined with the rapidly evolving external environment suggest changes to the Bank's role in the development agenda. To meet some of the new and unresolved challenges, the Bank will no doubt need to enhance its comparative advantage as a knowledge-based institution so as to complement and supplement its traditional role as development financier.

The aim of the Development Economics vice-presidency (DEC) is to build and maintain the Bank's knowledge base; to share worldwide experiences and best practices among policy-makers and practitioners; to provide high quality economic information, analysis, research and training to Bank staff and management, to policy makers and practitioners in the field; and to have an impact on the Bank's operations and more broadly on the Bank's development efforts by improving the quality and relevance of the Bank's products. The Bank has been and should continue to be an intellectual leader in the development effort. DEC is the Bank's main player in this field, and it is in the vanguard of Bank thinking about the Bank's role in a changing world. The services DEC provides are rarely sold to clients and they often are not directly seen. But they are critical inputs into many of the products of the Bank. They include operational support, quality control and advisory activities. DEC and the Chief Economist in particular are the Bank's principal source of advice on economic policy. DEC also plays an important role in training, both within and outside of the Bank, which is an important means of listening to our clients and beneficiaries. The Annex to this note presents DEC's current administrative structure and resources.

Research

Investment in research is essential for the Bank to maintain its effectiveness in a world that is complex and changing. Nevertheless, the Bank-wide share of the administrative budget devoted to research has been declining in recent years and is now less than 3 percent of the total. In FY94, DEC was responsible for about 77 percent of the Bank's total own-funded research output. Bank-sponsored research has two aims: one, to find out what works and what doesn't in development and, two, to draw lessons from country and regional experience. DEC is in a unique position to do this. DEC's research has three defining characteristics:

- *Relevance*. Our research serves five audiences: operational staff, senior management, policy- makers in our client countries, the international development community, and the research community in developed and especially in developing countries.

- *Comparative Orientation.* Our research draws the lessons of experience through cross-country, quantitative analysis.

- *Independence*. While our work is geared to the demands of others, we strive to

maintain the highest professional standards, offering our findings as independent contributions that stand on their own merit. As a separate unit, DEC is able to obtain a degree of objectivity that is difficult to maintain in operations. At the same time, DEC's proximity to operational work gives it a comparative advantage over academic institutions in terms of the relevance of the work and the depth of information available.

Recent examples of DEC's research outputs include the *East Asia Miracle* study, the reports on *Adjustment in Africa* and *Old Age Security,* in addition to the 1994 WDR on *Infrastructure for Development*. DEC also produces many of the familiar Bank documents such as the *Global Economic Prospects* and the *World Debt Tables*. These and similar documents provide information on the global economic context and on specific trends that are fundamental inputs into operations, as well as into the Bank's borrowing activities in international capital markets.

DEC is pursuing a diverse portfolio of research activities; much of the current work addresses three key issues:

- *Redefining the Role of the State.* The transition from centrally-planned to market-based economies is the most visible manifestation of the changing role of the state, but in fact most economies are struggling with the redefinition of the public sector's role. Where should the public sector focus its efforts? How can it extract itself from areas where it has no comparative advantage? And how can it perform better in those areas where its role is clear? Several projects address aspects of these questions. One of them, *Bureaucrats in Business: The Economics and Politics of Government Ownership* will provide the most comprehensive compilation yet of evidence on world-wide efforts to privatize and reform public enterprises, drawing lessons for policy-makers, World Bank staff, and donors.

- *The Fundamentals of Long-Run Development.* While the issues of transition will play themselves out with the passage of time, the fundamentals of long-run development will remain a central challenge for research. What factors contributed to the high growth rates in East Asia and why is growth so slow in Africa? Can growth be relied on to benefit all members of society, especially the poor? How can poor countries protect the environment while also raising living standards through higher incomes, better health, and more education? The range of work addressing these issues is wide – from *The Economics of Industrial Pollution Control* to *The Dynamics of Poverty in India.* The best illustration of the overall approach is a department-wide effort to examine *The Social and Environmental Consequences of Growth.* The World Bank has been challenged to analyze better the poverty and environmental consequences of economy-wide policies designed to stimulate growth. Cross-country data, firm and household level information, and country case studies will be used to investigate in an innovative way the impact of growth policies on both the poor and the environment.

- *Globalization.* A driving force for change in the global economy has been the near-universal push toward trade and capital market liberalization, combined with increasing internationalization of corporate production and distribution strategies, and with technological change that is fast

dismantling barriers to the international tradability of goods and services and the mobility of capital. The integration of developing countries into the global economy represents a major – perhaps the most important – opportunity for raising welfare of both developing and industrial countries over the long term. The growth in private flows and Mexico's recent crisis suggest a whole range of issues: Should we revisit our conventional wisdom about controls on such flows? How does the presence of large and reversible foreign capital affect the way in which domestic financial systems should be regulated? Should we be finding ways of helping countries anticipate potential crises and deal with them? Are we doing enough to deal with their new vulnerability and to learn how to maximize their advantage from the new realities? The Uruguay Round and the spate of proposed regional trade agreements raise a series of related, complementary questions: What is the impact of the Round and what are the transitional costs of adjustment? Are the regional agreements a boon or a counter-force to rapid integration? What happens to the countries that get left behind, how can they catch-up?

In addition, research in DEC is also being undertaken to respond to institution-wide needs. Research on aid effectiveness will consider the circumstances under which aid is most likely to be effective and the factors that are associated with the effective use of external resources. It will also explore operational changes that will permit aid providers to deliver resources with greater efficiency. Research on institutions, the importance of which is increasingly recognized, focuses on empirical ways to apply the recent developments in institutional economics to issues important to the Bank's operational work. In this area, interdisciplinary approaches will be particularly relevant.

The *World Development Report* is another major DEC research product. WDRs have had a marked effect on development thinking and Bank policy. The 1995 WDR focuses on labor. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates and it widens the scope of analysis to look explicitly at outcomes for labor. It also addresses controversial but central issues of labor policy, including labor regulations, collective bargaining, child labor, and questions of labor standards and trade. The 1996 WDR will focus on the transition from plan to market. 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 role of government in the economy, the transition problem is extreme. It is also a unique example of the application of policy to reform, both successful and unsuccessful. While conclusions may 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.

Operational Support and Policy Advice

As outlined above, research plays a central role in setting the development agenda and general policy direction of the Bank. But DEC's knowledge and expertise also has a much more immediate and direct impact on Bank policies, country strategies and operations.

The Chief Economist is a member of the senior management committees which review all country strategies and adjustment operations. DEC staff work closely with the President's

Office in setting the agenda for these meetings. Country assistance strategies and adjustment loans that come to the Board are systematically reviewed by DEC. This provides one of the few Bank-wide checkpoints to ensure that the guiding principles - particularly results orientation and selectivity - are reflected in the Bank's operational work..

Perhaps of even more importance in terms of impact on what the Bank does, DEC staff participate upstream in the regional review process. Over the past year DEC has made a special effort to focus its expertise on important country programs and issues, such as aspects of financial sector reform, where we feel that our research findings provide genuine value added.

DEC staff are also in strong demand to provide support to the Regions and to act as peer reviewers on adjustment operations and economic and sector work. On average, about one-third of the *Policy Research Department* (PRD) staff time is absorbed by these activities. The *International Economics Department* (IEC) also provides support on issues related to the external environment, trade policy, international debt, commodity price prospects and statistics. Wherever possible, we try to develop synergies between our operational support and research priorities.

While most of the Bank's policy papers are prepared by the Central Vice Presidencies, they also benefit from extensive comments and inputs from DEC staff. For example, DEC staff played an important role in helping to shape the population policy paper prepared for the recent summit in Cairo, and the Bank's statement at the Social Summit in Copenhagen. DEC contributed to the regional paper on *Africa: A Continent in Transition* and prepared its own paper on *Lessons of Development Experience* for the recent meeting of IDA Deputies.

DEC staff are engaged in several Bankwide initiatives; for example, DEC has spearheaded and has been asked to chair the task-force on non-lending services. This group is reviewing the wide range of financial and advisory services being provided by the Bank. It is preparing recommendations for more effectively assessing them in terms of development impact, and subjecting them to more systematic quality control and evaluation. The group is also exploring the use of cost-sharing and charging for some non-lending services.

DEC staff are also actively involved in the Next Steps Program to implement the findings of the Wapenhans Report. Recent contributions include a note for Bank staff on performance indicators for adjustment operations and an assessment of adjustment lending for the Annual Review of Portfolio Performance.

Many of the Development Committee papers - such as last year's on aid effectiveness and the Uruguay Round, and this year's on financing infrastructure - are prepared by DEC staff. DEC staff also manage or contribute to a range of other functions, many of which are rarely seen first hand. For example, IEC staff represent the Bank at Paris Club and Berne Union meetings. The *Vice President's Office* (DECVP) staff prepare the country performance ratings for the annual IDA allocations exercise and provide the central point of liaison with the International Monetary Fund. DEC is currently managing the Bank's contribution to a joint working group with Fund staff on public expenditure issues.

Finally, the Chief Economist often joins staff from operations in a number of trips to our client countries. These trips help shape Bank policy and provide advice to Government authorities.

Training, Technical Assistance and Dissemination

In addition to DEC's research and operational support and advisory functions, DEC provides a range of training, technical assistance and dissemination activities. These activities not only encourage the transmission of our research findings, but also help to build capacity in the understanding, design and implementation of economic policies.

DEC works to strengthen development policy-making in member countries by sharing the knowledge and experience accumulated by the Bank and its member countries. This purpose is achieved through facilitating policy design and regulatory reform with people who make or influence development policy and decisions, promoting public dialogue on development options through dissemination of best practice, and skills training for those who must implement development policies and programs.

To this end, a specialized department in DEC, the *Economic Development Institute* (EDI) delivers courses and seminars, mostly in developing countries and normally in partnership with a local teaching institution. In addition, it reaches audiences through its publications and, increasingly, through electronic media.

Established in 1955, EDI has evolved from an institution offering one course a year in Washington for some 50 participants, to an organization that conducted 150 activities last year, 90 percent of them all around the globe, reaching about 4,400 participants. EDI pulls together the Bank's extensive experience in developing countries, with research into which measures have worked best and which have failed, and have disseminated these ideas and lessons to help Governments in both policy formulation and implementation

Three emerging changes in EDI's direction are noteworthy. The first is a gradual change in focus from basic skills for selected audiences to policy lessons that are increasingly being sought by a broader audience across the Regions. The second is an effort to forge closer interaction with the Bank to tap better into its knowledge base and to allow for a flow of information to and from countries. The third innovation involves new products to assure quicker responsiveness, and forge alliances with outside partners.

Current examples of reaching a wider audience through new products include a seminar on economic reforms for the Ukraine's Parliamentarians; a seminar on macroeconomic policies for South Africa; and a seminar on capital flows for policy makers. A number of products are developed collaboratively with other parts of the Bank; for example, investment decision-making and project management, management of education reforms, and water resource management.

There are also new regional initiatives. A senior policy seminar on management of development polices for the Arab States and involvement in the Central Asian Republics are cases in point. Finally, new thematic initiatives include work on environmental management, resettlement and rehabilitation, girls' education and regulatory frameworks.

DEC also provides important technical assistance and training. The management of the Debt Reporting System has afforded DEC the opportunity to develop debt management training packages and technical assistance services to help debt offices in developing countries to manage their external liabilities. A variety of modules have been formulated to

date covering 24 countries in Anglophone and Francophone Sub-Saharan African countries and 12 states of the Former Soviet Union. DEC has also been active in providing training and technical assistance in the area of commodity risk management.

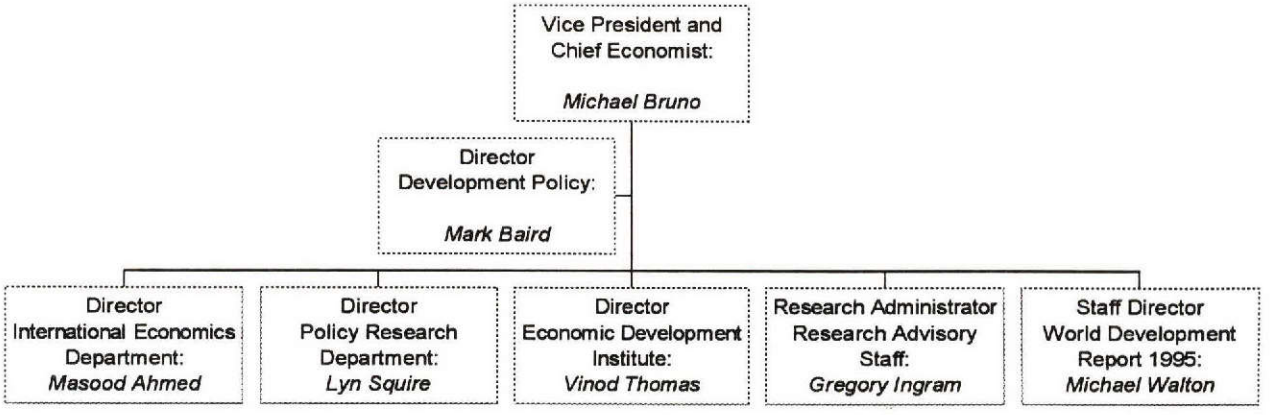
DEC staff are also involved in organizing and presenting training courses for economists within the Bank.

Conclusion

DEC's work and the dissemination of its results, are essential ingredients for the effective supply of development services by the World Bank. This link between knowledge and action is reinforced by current trends in the world's economy. The demand for the Bank's traditional product, money, is declining. At the same time, the Bank's role in facilitating private flows, providing "comfort" to private investors, and sound advice to governments is growing. This role is highly knowledge-intensive and draws on the Bank's comparative advantage in spanning its activities and its knowledge-base over all developing countries and across varying types of cumulative experience. As countries are becoming clearer on the *what* of development and want to know more about the *how* of development, both this cumulative knowledge base and DEC's capacities will have to be utilized and further enhanced.

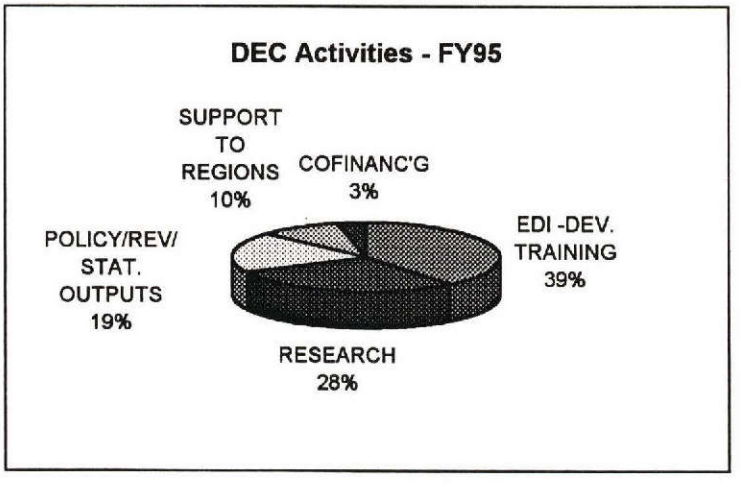
ANNEX: DEC'S STRUCTURE AND RESOURCES

Structure: DEC is comprised of three large departments and three small units, as shown in the organization chart, below, and summary of dimensions (Box 1).



Resources: Budget resources provided to DEC from Bank funds amount to $82.9 million in FY95, and have remained around seven percent of the total Bank budget (net of overheads and benefits) for the past five years. Included in this budget is the Research Support Budget (RSB), a fund of about $5.8 million allocated on a competitive basis to finance approved research projects throughout the Bank. In addition to Bank-provided funds, DEC uses external funds in support of its work program - about $17 million in FY95, about 75 percent of which is provided by donors in support of EDI's training programs.

The chart below illustrates how DEC's effective (non-overhead) resources are being applied in FY95. About 39 percent of DEC's resources are devoted to the development training activities of the Economic Development Institute. Twenty-eight percent are spent on research; 19 percent on policy, operational review, and IEC's statistical outputs; 10 percent on support to the Regions.



Box 1: Summary of DEC Dimensions

DEVELOPMENT ECONOMICS AND CHIEF ECONOMIST	*VP DIMENSIONS*	
	Staff on Board - H/L	245
	- S/L	125
	Long-Term Consultants	98
	Administrative Budget	$82.930m

INTERNATIONAL ECONOMICS DEPARTMENT	*DIMENSIONS*	
IEC focuses on global policy issues and trends in the world economy, supports and generates national and international data for research and Bank operations, and carries out research on international finance and trade issues.	Staff on Board - H/L	107
	- S/L	36
	Long-Term Consultants	21
	Administrative Budget	$22.115m
POLICY RESEARCH DEPARTMENT	*DIMENSIONS*	
PRD is the principal research arm of the Bank. Its primary function is to conduct research and disseminate key findings, but it also makes a large contribution through operational support, quality control, training, and advisory functions.	Staff on Board - H/L	58
	- S/L	25
	Long-Term Consultants	39
	Administrative Budget	$15.418m
ECONOMIC DEVELOPMENT INSTITUTE	*DIMENSIONS*	
EDI disseminates the ideas and findings of Bank research and operations, facilitates policy design and regulatory reform, and provides training to policy-makers around the globe.	Staff on Board - H/L	65
	- S/L	48
	Long-Term Consultants	28
	Administrative Budget	$30.180m
RESEARCH ADVISORY STAFF	*DIMENSIONS*	
RAD serves as the secretariat for the Research Committee, coordinates research initiatives throughout the Bank, and disseminates findings through the World Bank's journals, working paper series and publications.	Staff on Board - H/L	4
	- S/L	4
	Long-Term Consultants	3
	Administrative Budget	$1.592m
	Research Support Budget	$5.846m
WORLD DEVELOPMENT REPORT	*DIMENSIONS*	
The WDR team pulls together experts from within and outside the Bank to produce the annual World Development Report, the Bank's flagship publication.	Staff on Board - H/L	1 regular; 7 seconded
	- S/L	4
	Long-Term Consultants	5
	Administrative Budget	$3.439m
VP FRONT OFFICE	*DIMENSIONS*	
DECVP provides research support and policy advice to the VP, manages the operational review function within DEC, and coordinates DEC's work program, budget, and other administrative services.	Staff on Board - H/L	10
	- S/L	8
	Long-Term Consultants	2
	Administrative Budget (excl. contingency)	$3.514m

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

TE: June 1, 1994

TO: DISTRIBUTION

FROM: Michael Bruno

EXTENSION: 33774

SUBJECT: A Vision for the Future from DEC

Attached for your information is DEC's contribution to the Bank's vision and agenda for the 50th Anniversary. I would welcome any comments or reactions.

DISTRIBUTION

Messrs./Ms. Preston, Karaosmanoglu, Sandstrom, Stern, Shihata, Thahane, Linn, Einhorn, Eccles, Jaycox, Kaji, Wood, Thalwitz, Koch-Weser, Burki, Kashiwaya, Serageldin, Rischard, Choksi, Husain, Lindbaek

The Bank's 50th Anniversary
A Vision for the Future from DEC

The Bank's 50th Anniversary is an opportunity to reassess the role of the Bank in a rapidly changing world. Fifty years of development experience have provided valuable lessons for the future. These combined with changes in the Bank's external environment suggest that, in the future, the Bank's role in the development agenda will change. The economic rationale for Bank action continues to be valid, but increasingly the Bank will need to emphasize its comparative advantage as a knowledge-based institution to complement and supplement its traditional role as development financier. Building upon its unique reservoir of development experience, as well as its global scope, the Bank will need to deepen its knowledge and understanding of what works and what does not work in development. Indeed, the Bank's role as a generator, repository and disseminator of knowledge on development will be critical for meeting the existing as well as the emerging challenges in the development agenda, and for making a tangible contribution to its goal of facilitating sustainable economic growth and poverty alleviation.

The development record

Fifty years of development experience has resulted in tremendous achievements on a variety of fronts. Substantial economic growth has led to a significant increase in income and consumption per capita in the developing world as a whole. Broader measures of well-being as captured in key social indicators -- life expectancy, child mortality, and educational attainment -- have all improved markedly.

At the same time, daunting development challenges remain. Over a billion people in developing countries continue to live in poverty. More than 100 million children in the developing world lack access even to primary education. Absolute levels of mortality in developing countries remain unacceptably high, with child mortality rates about ten times higher and maternal mortality rates thirty times higher than high-income countries. Across developing countries, environmental problems are becoming increasingly apparent and pose formidable challenges for the future.

Moreover, the economic progress that has been achieved has been very uneven across regions and countries. While the East Asian countries have achieved impressive outcomes in terms of economic growth and poverty reduction, many low-income countries -- particularly in Sub-Saharan Africa -- have experienced negative growth and increasing poverty. At the same time, Eastern Europe and the FSU face unprecedented problems in their transition to market economies. Between these extremes, there is a broad range of countries who have had mixed results over the past decade.

Key changes in the global environment

The remaining and emerging development challenges need to be addressed in the context of a rapidly changing global environment. Of the many changes, a few features warrant special attention:

Surge in private capital flows. Recent years have seen a structural change in world wide financial markets consisting of increased globalization of capital markets and generally enhanced access to capital markets by developing countries. Over the last few years, there has been a surge in private capital flows to developing countries. Some 20 developing countries, mostly middle-income countries but also including some of the Bank's biggest low-income client countries with credible programs (e.g., China), get most of their inflows from private sources. While some of these flows may reflect temporary market conditions, there are good reasons to believe that a significant portion will be sustained over time (see attached note). Substantial private flows, however, are unlikely to spread across-the-board to all countries, even though increased financial innovations make it feasible to finance particular enclaves or packages in almost any country. Indeed, some forty countries are stagnating at low income levels with limited prospects for attracting private capital. These countries will continue to depend upon official aid.

Increased global integration. The world economy is characterized by increasing integration and interdependence, with the growth in trade outpacing the growth in GDP. Developing countries account for the fastest component of the growth in trade, which is likely to be enhanced even further by the successful completion of the Uruguay Round. In fact, even the establishment of regional trading blocs opens the opportunity for deepening integration in a trade-enhancing rather than trade-diverting manner. Global integration is extending beyond trade in goods to trade in services, regulatory frameworks and international labor mobility. Integration of international financial markets is one factor underlying the surge in private capital flows.

Changing aid priorities. A confluence of factors has led to changing aid priorities. Fiscal constraints in OECD countries have led to a tightening of aid budgets. Moreover, the end of the Cold War has taken away the national security rationale for much aid, and has introduced new, high priority aid recipients who may crowd out others. In addition,

the political support for multilateral aid has dwindled as bilateral donors increasingly attempt to link aid directly to their specific national interest and agenda. Finally, there is increased questioning of the effectiveness of aid in general and of multilateral institutions in particular. All of these imply that there will be an overall reduction in official development assistance, including through the World Bank, and at the same time, there will be a reallocation of aid among recipient countries.

Lessons of development experience and the emerging development agenda

Diverse outcomes and new challenges combine to underscore the complexity of the development agenda. There are some important lessons from experience: the demise of the Soviet Union and the successful performance of East Asian economies vindicate the benefits of a market-friendly approach to development. Early optimism about the role of the public sector, in regulating the economy and managing investments, was not borne out by results. Experience also confirms that macro stability and growth go hand in hand, and that growth and the provision of basic social services are essential to sustain poverty reduction. We have learned that policies matter more than projects and that the provision of project financing with technical input is insufficient for satisfactory outcomes. But we have also learned that the adjustment process involves deeper and more complex policy reforms, and that it takes longer than anticipated a decade ago. A broader policy framework is necessary for sustainable growth and poverty alleviation. Thus, the most critical component for successful outcomes is strong government commitment and broad-based "ownership" within the country.

Though well known, these lessons are exacting. They have not been fully absorbed. Many countries are still tackling macroeconomic problems, have failed to redress the balance between the public and private sectors, and have yet to put in place adequate regulatory and legal structures. In those countries that have performed poorly (e.g., in Sub-Saharan Africa) or that are in the process of transition (e.g., in the FSU), experience suggests that improved performance will require a deeper understanding of the institutional and social setting and how they may constrain the implementation of policy and projects. Experience has shown that growth is path dependent, and institutions are a significant determinant of the path taken. Future policy reform will need to be based on a much richer understanding of the constraining institutional features in different countries. These encompass factors such as governance and the civil service that may impinge upon the performance of the public sector on the one hand, and factors such as the regulatory and legal environment that influence the success of privatization and private sector development on the other. Indeed, even in countries where adjustment has progressed there are a

whole series of more complex, second generation issues (e.g., regulation, supporting private sector development, facing serious environmental problems such as pollution and natural resource degradation) which need to be addressed to secure sustainable growth and poverty reduction in the long-run.

The new challenges and the lessons of experience point to three critical elements in the emerging development agenda:

- *A more central and active role for the private sector.* Development strategies and assistance should facilitate and build upon this role. To sustain country competitiveness, the focus will need to shift to more sophisticated, second-generation policy packages that emphasize regulatory and legal reform, financial sector reforms, development of local capital markets, etc. Countries will need to address the transition from the public to the private sector not only in tradeables but also in sectors such as telecommunications and power and activities such as health care and old-age pensions which have long been in the hands of the state. There will be a premium on upgrading and adapting policies, skills and technologies in an increasingly competitive and rapidly changing international environment.

- *A more effective and efficient public sector.* Despite the growing importance of the private sector, the public sector will continue to play a critical role. It must ensure macroeconomic stability, foster human resource development and provide environmental protection. It will need to focus with greater attention and improved selectivity on the standard areas for public intervention: concern with income distribution, and recognition that markets work imperfectly and in some circumstances may not exist. Yet public sector performance has proven disappointing in many countries, and a deeper understanding of underlying problems and more comprehensive institutional reform will be required.

- *A more competitive and integrated global economy.* Increased global integration binds more closely the performance of developed and developing countries. Not only will trends and issues in the international economy have an increasingly important impact on developing countries, but also developing countries are going to be increasingly significant in the world economy through trade, capital flows and migration. Despite the success of the *Uruguay Round,* and the so far benign emergence of more deeply integrated regional trading blocs, new collaborative global policy strategies will have to be developed to avoid ever-more damaging barriers and/or distortions to trade and resource flows. This includes programs to encourage industrial countries to facilitate downsizing of sectors which will move progressively to developing countries.

Key implications for the World Bank

The rationale for Bank action rests on two conditions: one, in redistributing incomes between and within countries, and two, in addressing failures in international capital and information markets. This rationale continues to support Bank action in confronting the development agenda. The prevalence of poverty points to a continued role in transferring concessional resources from rich to poor countries, together with the necessary best-practice knowledge, in order to have an impact on poverty reduction. Though vibrant, international capital markets are selective and can be fickle. Many countries continue to lack sustained access to private capital flows and, for them, the Bank can be a critical catalyst. The Bank also has a vital role in disseminating information on what works and what does not work in order to meet the remaining and new development problems. By drawing on its cross-country experience and unparalleled, fifty-year association with development, the Bank can help countries with policy design, practice and implementation.

The rationale for the Bank also implies changes in its role over time. The Bank's traditional financial role diminishes in importance with the expansion and diversification of international flows of private capital. More importantly, the scope for efficient intervention diminishes with the expansion of competitive markets and of the private sector in the economies now in transition and throughout the developing world. Many of the arguments for Bank involvement are time bound. To the extent that there is progress, arguments for a continued role for the Bank based on failures in international capital or information markets will become weaker and weaker. The private sector will increasingly be able to fulfil the role currently played by the World Bank. Countries that eventually acquire access to markets for capital should graduate from World Bank financing. In such countries, the World Bank may continue to provide information, and undertake research and analysis to transfer their successful experience to other countries.

While the arguments for the Bank may grow weaker, they are likely to endure. The point, however, is that *even when applicable* (and they will be applicable for decades to come) these arguments delineate only a first set of criteria for justifiable action. The rationale is a necessary condition for having such an institution as the World Bank but not a sufficient one to guarantee developmental impact. Intervention should be effective or, better yet, the most effective possible. There are three important implications:

In order to maximize development impact, the Bank will need to be more selective in its country and sectoral focus. One of the Bank's great strengths is its global reach, bringing together a diverse range of country experience. By offering a

range of services and being responsive to country conditions and development outcomes, the Bank will continue to be a global institution. But in adhering to its rationale, there will be a natural shift in the country focus of the Bank, with a greater emphasis on low-income countries with poor outcomes and the transition countries. And these countries are precisely the ones where the plain transfer of money is likely to be least effective. Even within this set of countries, the Bank should be prepared to be more selective in where it puts its resources. To maximize development impact, the Bank (including IDA) should focus on countries with commitment to economic reform. And the nature of its interventions should follow from its rationale; i.e, they should be justified on redistributive grounds, increase the efficient supply of public goods, or help address market failures. This implies a sharper focus on human resource development, certain physical infrastructure such as roads, and the series of second generation issues concerning regulation, the environment and support for private sector development. In other sectors -- such as industry and telecommunications -- lending should diminish and then cease as the Bank moves to support rather than replace the private sector.

The Bank will also need to give more emphasis to the contribution of non-lending services (shifting the balance from money to ideas). Drawing on its global development experience, the Bank can play a critical role in disseminating the lessons of success, in working with clients to move from the *what* to the *how*, and in bridging the gap from policy formulation to institutional design. It can also help governments to "package" and "deliver" development services provided by others. By selecting and leveraging its own activities to "crowd in" other players, the Bank will indeed become a "knowledge-based" institution. Our non-lending services have a direct development impact which needs to be recognized and valued within the Bank. They also provide key ingredients -- in terms of building our country knowledge and helping governments with their policies and spending priorities -- for improving the quality of our own lending. Money and non-lending services often go together: the technical assistance inherent in projects and the policy advice in adjustment lending. But this need not always be the case. Flexibility will be needed to provide non-lending services in countries which want to draw on our knowledge but no longer need our money or cannot use it effectively. In some circumstances, the Bank might want to consider charging for its services, to avoid crowding out private information flows.

The Bank should take a more pro-active stance in analyzing and influencing international economic arrangements which affect developing country prospects. As developing countries become more integrated into the mainstream of the international economic system, they also acquire a greater stake in the rules and institutions governing the functioning of this system. Following the Uruguay Round, many

countries are turning to the Bank for information and advice on how best to take advantage of the more open but more competitive international trading environment. These prospects will be significantly affected by the manner and scope of future changes to the trading system, for example through the introduction of environmental, labor and competitiveness issues into the trading agenda. They will also be affected by the manner in which regional trading blocs develop, not only between developing and industrial countries but also amongst groups of developing countries. Similarly, the ability of developing countries to access the new private capital flows will depend on a better understanding both of the motivations and concerns of the investors behind these flows as well as of the movement of these flows. The Bank can play a role in responding to this demand for objective and credible analysis on key determinants of developing country prospects. Finally, a stronger analytical presence by the Bank is important to raise issues of market access in industrial countries and counter growing but fundamentally misplaced concern (especially in Europe) that greater integration of the developing countries into the international economy will exacerbate unemployment.

Conclusion

In sum, over the next decades, meeting the Bank's objective of raising incomes and reducing poverty will require selectivity in action and a commitment to provide competitive, best-practice advice. The Bank should welcome other players in the provision of development services and explore new ways of encouraging efficient private solutions to public sector problems. It should not try to compete in financial markets. Rather, it should be prepared to provide a broad range of services which rely heavily on information and technical advice, as well as financial transfer. The Bank's traditional financial role is likely to diminish as more with the expansion and diversification of private capital flows. Non-lending services (ideas) will become relatively more important. The Bank is the only institution with an enduring relationship with the gamut of developing countries, a wealth of cross-country development experience, and a product mix that combines finance, policy advice and in-depth research. The resulting operational experience of the Bank, combined with the accumulated information on developing economies it has acquired over the years, give it a substantial comparative advantage in determining "best practice" in different country contexts and disseminating this information to policy makers throughout the world. Unlike many institutions, however, the Bank not only determines what has worked, but tries to understand why some countries have had disappointing outcomes. The Bank is committed to resolving the key problems that remain in these countries, as well as the new challenges that may emerge.

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

OFFICE MEMORANDUM

DATE: March 20, 1995

TO: Mr. Uri Dadush, IECAP

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **EDs Colloquium**

I want to congratulate you and your colleagues--especially Robert King, Abdel Stambouli, Marc Uzan and Jackie Queen--for organizing a first rate colloquium for the Executive Directors last week. The choice of speakers and the program, as well as the logistics all went very well and we got excellent feedback from the participants. This is an important event in DEC's annual calendar and I appreciate the effort and imagination that you all put into making this a very successful event.

Good show! M.

cc: Masood Ahmed

THE WORLD BANK
Office of the Vice President and Chief Economist
Development Economics Department
1818 H Street, Room S-9-035
Washington, D.C. 20433 U.S.A.
Tel. No. (202) 473-3774 • Fax (202) 477-0549•

FACSIMILE COVER SHEET AND MESSAGE

DATE:	**March 20, 1995**	**NO. OF PAGES:** 1 (including cover sheet)	
TO:	**Mr. Stephen O'Brien** **Chief, Regional Mission**		
FAX:	**(254-2) 21 89 05**		
FROM:	**Michael Bruno**		
SUBJECT:	**Thank you**		

MESSAGE:

Dear Steve,

I am writing to thank you and Kate again for the unusually generous hospitality that Netta and I enjoyed with you in your beautiful house during our stay in Nairobi. Much appreciated!

Sincerely,

Michael Bruno

Best regards to Kate,
also from Netta who much enjoyed
her personal company.
M.

Transmission authorized by: authorization

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

THE WORLD BANK
Office of the Vice President and Chief Economist
Development Economics Department
1818 H Street, Room S-9-035
Washington, D.C. 20433 U.S.A.
Tel. No. (202) 473-3774 • Fax (202) 477-0549•

FACSIMILE COVER SHEET AND MESSAGE

DATE: March 20, 1995 **NO. OF PAGES:** 1 (including cover sheet)

TO: Mr. Yaw Anzu, Senior Economist
Regional Mission
Nairobi, Kenya

FAX: (254-2) 21 89 05

FROM: Michael Bruno

SUBJECT: My visit to Nairobi

MESSAGE:

Dear Yaw,

Just wanted to thank you and your wife again for the very kind hospitality that Netta and I enjoyed in your house and also for the very helpful briefing that you gave me before and during my stay.

Hope to see you in Washington soon.

All the best,

Michael

Transmission authorized by: authorization

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

Chron

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

MICHAEL BRUNO
Vice President and Chief Economist
Development Economics

March 20, 1995

Dear

The Redesign Team has now completed its important mandate, and I want to take this opportunity to express my appreciation for your contribution to that effort.

I recognize that at the outset of this process, the team faced the enormous challenge of breaking through tradition and charting a new and better course that will enable IEC to become a world leader in data and systems work -- an area which I believe is critical for the future of research and the success of this Vice-Presidency. Now, after several months of intensive work, your team has provided a solid framework for IEC to deliver higher quality and more timely data to our clients. Collectively, you are an example to your colleagues of how the "challenge of change" can be met by working hard, thinking creatively, and working together.

Thank you, not only for what you accomplished for IEC and the Bank, but for the way in which you embraced the challenge as a team.

Sincerely,

Michael Bruno

CC: Masood Ahmed, Cathy Cardona

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 20, 1995

TO: Mr. Richard Lynn

THROUGH: Michael Bruno MB

FROM: Gregory K. Ingram, Administrator, RAD

EXTENSION: 31052

SUBJECT: Research Support Budget--FY95 Status

Through long standing agreement between DEC and PBD, up to ten percent of the Research Support Budget can be carried forward or back between fiscal years. Notice of our plans must be given to you by March 20 of the relevant fiscal year.

We estimate that FY95 Research Support Budget expenditures will approximate this year's RSB budget of $5,846,300. Hence we are not requesting any carry forward or carry back of funds for FY95. This situation is consistent with the estimates set forth in our earlier budget reports for this fiscal year.

cc: Lesley Davis, DECVP;
Boris Pleskovic, Clara Else, Vilma Mataac, RAD

THE WORLD BANK GROUP

ROUTING SLIP	DATE: March 17, 1995

NAME	ROOM. NO.
Mr. Gautam S. Kaji, Managing Director, EXC	E-1227

	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 Seminar on Managing Economic Reform under Capital Flow Volatility

REMARKS:

As we have discussed, a series of policy seminars is being planned by EDI, the first of which will be during May 31-June 2, in Washington, D.C. I am attaching a tentative program for this seminar. It might be a good idea to invite the President to a suitable session.

FROM	ROOM NO.	EXTENSION
Michael Bruno, V.P. & Chief Econ., DEC	S-9035	33774

New EDI Seminar Series: Managing Economic Reform in an Uncertain World

EDIEM plans to introduce a new series of seminars and training programs that will make use of current issues of wide interest as a basis to draw out new lessons for policy makers around the world. Using such current events could prove to be an effective learning tool for policy makers, as encouraging discussion and inciting problem-solving abilities are the most effective tools for adult education.

These seminar series will, therefore, focus on the new challenges faced by policymakers in a more open world or during the transition to a more liberal system. The main audience will be policy makers of developing countries. Each seminar will kick off a series of activities leading to the preparation of training material, including a video and text which will be taken on the road as a resource for use in many of our existing activities. The production of a video for each of these activities will be subcontracted to a professional agency which will also use seminar segments and interviews of participants as the main footage.

A New Format. A group of twenty policy makers from around the world will be invited to Washington DC for a training program of about a week's duration. The first day of training will start with a general introduction to the macroeconomic framework and tools that are required to approach the topic at hand. Small working groups will be given case studies with the parameters of a real country situation. They will be asked to understand how the country got into that particular situation and to propose solutions. The remaining days will have the format of an open conference with world class policy makers, private sector representatives, and academics covering the different aspects of the issue at hand as well as real country experiences. The conference will also be open to economists in the Bank and other development institutions. At the end of the week, once the open conference is finalized, the seminar will go back to a closed format in which policymakers will be asked to review their case studies and draw policy lessons.

Managing Economic Reform under Capital Flow Volatility

May 30-June 2, 1995
Washington, D.C

Tentative Program

Day 1 (Tuesday, May 30) COUNTRY STUDY DISCUSSIONS (small discussion groups)
Target audience: 24 senior-level public officials from developing countries and selected World Bank staff.

Morning. *Review of Basic Concepts and Issues*
Speakers (one per group): Sara Calvo (EDI); Leonardo Hernandez (IECIF); Klaus-Schmidt Hebbel (PRDMG); Carmen Reinhart (IMF)*; John Shilling (EAPVP).*

Afternoon. *Country-study discussions facilitated by policy makers.*

Day 2 (Wednesday, May 31). CONFERENCE
Target audience: same as day 1, resource people and IDB/IMF/WB staff.

Morning
Introduction
9:00-10:00

1. **EDI: a Catalyst of Change**
   Speakers: **Vinod Thomas** *(World Bank)*
   Moises Naim *(Carnegie Endowment)*

2. **Capital Flows in the 1990s: Stylized Facts** *(very short graph presentation)*
   Speaker: **Sara Calvo** *(World Bank)*

10:00-10:30 Coffee Break

Managing Economic Policy in the 1990s: Main Issues
10:30-11:50
Moderator/Speaker: **John D. Shilling** *(World Bank)*

1. **A Practitioner's View**
   Speaker: **Nasser Saidi**
   (First Deputy Governor, Central Bank of Lebanon)*
2. **An Academic's View**
   Speakers: **Guillermo Calvo** *(U. of Maryland)*
   Rudi Dornbusch *(MIT)*

11:50-:12:30 *General Discussion*

12:30-2:00 Lunch. Potential Speaker: **Michael Bruno** *(World Bank)**

** denotes will confirm*

Afternoon
Managing Economic Policy in the 1990s: Selected Key Issues

1. **Capital Flows and the Financial Sector**
2:00-3:00

Moderator/Speaker: *TBA*
Speakers: **Ronald McKinnon** *(Standford U.)*
Andrew Sheng
(Deputy Chief, *Hong Kong Monetary Authority))**
Roberto Zahler (Governor, Central Bank of Chile)*

3:00-3:45 *General Discussion*

3:45-4:00 *Coffee Break*

2. Capital Flows and Fiscal Adjustment:
4:00-5:00

Moderator/Speaker: **Isabel Guerrero** *(World Bank)*
Speakers: **Ernesto Talvi** *(Chief Economist, Central Bank of Uruguay)*
Vito Tanzi *(IMF)* *
TBA (Government of Thailand)

5:00-5:45 *General Discussion*

Dinner. Potential Speaker : **Stanley Fischer** (IMF)

Day 3 (Thursday, June 1). CONFERENCE
Target Audience: same as day 2

Morning
Managing Economic Policy in the 1990s: Selected Key Issues *(cont.)*

3. Exchange Rate Policy Issues
9:00-10:00

Moderator/Speaker: **Max Corden** *(SAIS)*
Speakers: **Sebastian Edwards** (World Bank)
C. Rangarajan (Governor, Central Bank of India)*
TBA

10:00-10:45 *General Discussion*

10:45-11:00 *Coffee Break*

4. Managing the Public Debt
11:00-12:00

Moderator/Speaker: **Ishac Diwan** *(World Bank)*
Speakers: **Michael Dooley** (*U. of California)*
Pablo Guidotti (Director, Central Bank of Argentina)
TBA (Government of *Hungary)*

12:00-12:45 *General Discussion*

12:45-2:15 *Lunch*. *Potential Speaker*: **Jesus Silva Herzog,** *Mexico's Ambassador to the US*

Afternoon

Views from Investors/Contagion Effects
2:15-3:15

Moderator/Speaker: **Mieko Nishimizu*** *(World Bank)*
Speakers: TBA *(Portfolio Manager)*
TBA *(Arthur Anderson/Mc Kinsey)*
Sara Calvo *(World Bank, w/***Carmen Reinhart***, IMF))*

3:15-4:00 *General Discussion*

4:00-4:15 *Coffee Break*

Lessons for the 1990s
4:15-5:15
Moderator/Speaker: TBA
Potential Panelists: **Hernan Buchi***(on Chile)/ **Arifin Siregar*** *Indonesia's Ambassador to the US/***Ricardo Hausmann** (IDB)/**Jeffrey Sachs***(Harvard U.)

5:15-5:45 *General Discussion*

Dinner. *Potential Speakers.* **George Soros/Andrew Crockett**

Day 4 (Friday June 2, 1995). COUNTRY STUDY DISCUSSIONS: Lessons Learned
Target audience: same as day 1

Closing Luncheon

Mr. Gautam Kaji

Gautam,

Re: Operational Implications of the WDR

I attach a revised version of the above note (previously sent out under Lyn Squire's signature on March 3rd) that incorporates comments from the Regional Chief Economists, HRO, and Legal. After consultation with the Regions and HRO, I would recommend that, in this case, we do not submit this at the same time as the WDR to the Board, but do so a short time thereafter in order to allow time for more extensive discussion of the operational implications within the Bank, and time to consider the approach to internal training to support the proposals. We would inform the Board of this in the meeting on the WDR. It may also make sense to have a special note on the issue of finance for severance pay, as suggested by Mr. Shihata, and to have the package discussed at a Policy Review Committee. For future WDRs and Policy Research papers, I think there is a case for sending a note on the operational implications jointly with the paper itself. We would then allow more time for internal discussion.

Michael

Michael Bruno

17 March, 1995

Attachment

cc: Messrs./Ms. Richard Frank, Ignacio Mas, Orsalia Kalantzopoulos, Sven Sandstrom
Mark Baird, Lyn Squire, Michael Walton, Paulo Vieira da Cunha

Operational Implications of the WDR on Labor

1. This note summarizes the operational implications of the WDR.

2. A pervasive theme of the report is that overall development strategy and international interactions are key to outcomes for workers. The WDR provides support for much that the Bank now advocates, including the priority of: investment in capital and human resources; openness in trade; prudent macroeconomic management (*inter alia* to reduce volatility of capital flows); the elimination of urban and anti-poor biases in the allocations of public spending in economic infrastructure and the social sectors; and effective reform strategies in both market oriented developing and former centrally planning economies. These parts of the report do not have new implications for Bank policy, but they do widen the scope of analysis to explicitly look at outcomes for labor. These are often hot issues in a country context and will warrant attention in the analysis and country dialogue.

3. The main areas with relatively new material relate to labor policy. In analyzing the role of labor policies, the report emphasizes that these have to be assessed within the context of the overall functioning of an economy. Labor policies directly influence wages and conditions of work of formal sector workers, which form a small fraction of the labor force in low income countries. Labor policies do influence the size and dynamism of the formal sector via the influence on formal sector hiring and firing, the size and formality of firms. Often, however, the priority in a policy dialogue over how to improve the conditions of workers will lie in other areas than labor policy, such as macroeconomic, trade, agricultural and education policy. Such a judgment should be made by the Country Department.

4. The main areas where there are new conclusions with operational impact are as follows. As discussed in the WDR, the motivation for many of these flows, in varying degrees, from efficiency or welfare motivations, or both:

- *Labor regulations* can be important to the policy dialogue in particular circumstances, for example where restrictive labor policy is an impediment to restructuring (as with excessively onerous job security regulations in Latin America or South Asia) or have large distributional or incentive effects (as with formal social security schemes in middle income countries, not least in former centrally planned economies). It is also possible that *de jure* labor regulations that now have little impact become important as a consequence of becoming linked to bilateral trade relations (as under NAFTA). In cases such as these, explicit analysis of the effects of labor regulations and reform options should be undertaken with the aim of regulatory reform to increase labor mobility, setting of standards at reasonable levels to broaden the formal sector, and legislative reform to provide the underpinnings for collective bargaining,

individual labor contracts and dispute resolution procedures in the formal sector.

- *Collective bargaining* can be an effective way of determining wages and conditions, and monitoring health and safety standards for the formal sector, and is important wherever there are independent unions. In general, decentralized collective bargaining within competitive product markets makes sense in generating efficient outcomes and avoiding excessive powers to particular worker groups. It is recommended that the appropriate framework for collective bargaining and other aspects of industrial relations be incorporated into the country dialogue where the functioning of the formal sector labor market is an issue. Such dialogue will have to take account of local political conditions, and, especially where there are no independent unions, may not always be feasible.

- *Compensatory measures to deal with job loss* can play an important role in reducing risks faced by workers. Severance pay will often form part of private contracts (and should generally not be mandated), and unemployment insurance makes sense when administrative capabilities are high. Large-scale downsizing of public sectors will frequently necessitate additional publicly financed compensation for those laid off, where these are essentially once-off measures (and so do not have adverse incentives effects). It is recommended that the Bank now reconsider investment lending in support of such compensation schemes, when there is a material impact on development, i.e. when they support restructuring judged necessary for further economic growth. Such compensation schemes will have to be devised to trade off acceptability, fairness, and low cost.

- *Public works* can have strong beneficial effects for labor and should be supported by the Bank in two areas. First, public works schemes that provide temporary employment when demand is slack (especially in cases of drought and severe macroeconomic shocks) are often a good instrument for providing income security to the working poor, in rural or urban informal sectors. Second, for some categories of infrastructural investment (rural roads is the key example), labor-intensive techniques can be superior, even in terms of private rates of return, on both efficiency and equity grounds, at least over the range of wages prevailing in low income countries. They are sometimes not used now either due to procurement practices or failure to consider labor-intensive alternatives. This should generally be done by private contractors, under local competitive bidding, with, in some countries, initial start-up public supervision. For both categories of public works, the local market wage should be paid, that may be below the urban minimum wage.

- *Child labor* is a complex problem that requires a multi-faceted approach, including legislation against hazardous and dangerous work, health and

educational facilities for those children who are working, and transfers to poor families who may be forced to put their children to work. Policies to deal with this problem will generally work best with strong local community or NGO involvement. It is recommended that the Bank pursue such a multi-faceted approach where this is judged to be an important issues in the country dialogue. Special emphasis should be placed on providing access to schooling for young girls.

- *The productivity of public employment* remains one of the key issues to be tackled in many economies undergoing reform. Restructuring and downsizing as well as improved public pay structures are necessary parts of the solution. Additional reforms will be necessary to restore productivity. While these have often proved politically and practically difficult, it is recommended that the Bank continue to support civil service reform, incorporating carefully designed and evaluated experiments into this work.

- *Agricultural and land policy distortions* can reduce labor incomes for small farmers and landless laborers through restrictions on tenancy and sales markets and subsidies that are biased toward large farmers and capital-intensive techniques. It is recommended that the Bank push for the elimination of these distortions and be willing to support market-based land reform (perhaps with grants for land purchase for small farmers) where inequalities of landholdings are severe.

- *Active labor market policies such as retraining, job search assistance and business start-up allowances,* that are used extensively in industrial countries, are generally not relevant for most developing economies, and are of limited use in the former centrally planned economies of Europe and Central Asia. Few countries have the necessary preconditions of high administrative capabilities and growing labor demand. The small number of empirical evaluations show poor results. It is recommended that the Bank only supports retraining, job search assistance and business start-up allowances on a limited scale with built-in evaluations.

- *Labor market information* is a public good that has benefits for the analysis of labor market and macroeconomic developments. It is recommended that the Bank encourage and advise labor ministries and statistical offices to provide timely information from market sources on general labor market developments, and incorporate labor-related information into household and enterprise based statistical work.

- *Labor standards and international trade* should not be linked. Advocates of such a link (that include the US and French governments and the union movement) propose that multilateral trade should be linked to a core set of

basic standards, usually including freedom of association, collective bargaining and avoidance of forced labor, exploitative forms of child labor and discrimination. These are legitimate areas for domestic policy and may make sense for foreign policy. However a link to international trade policy would be inappropriate. The effectiveness of trade policy in improving labor standards is unproven, while the dangers of abuse for protectionist purposes are great.

5. The preparation of the WDR has involved substantive interactions with both the ILO and the union movement. This revealed a high degree of interest, expertise and commitment by our counterparts, as well as a recognition of some differences in outlook. It also revealed considerable resentment, especially by the unions, at what is perceived to be a history of highhandedness of Bank staff in advocating policy changes that affected their domains or interests with little consultation. It is recommended that efforts be made at a country level to consult with the union movement in the process of country dialogue, especially where there are independent unions. Local circumstances will determine modalities, and this would generally have to be undertaken with the knowledge and approval of the government. It is also recommended that some interactions at a central level be instituted, as with NGOs. Consultation with the ILO is encouraged in areas where their specialized knowledge and expertise on labor issues can enhance the quality of the analysis and the effectiveness of the country dialogue.

6. The WDR will be disseminated with intensive press consultations in June, followed by a series of seminars in the remainder of the year. EDI and HRO will be involved in the design of seminars and the overall dissemination strategy. It is planned to develop materials that would provide Bank staff and developing country officials with tools and examples for the analysis of country-wide developments of labor outcomes and the analysis of the range of specific labor policy interventions.

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

DATE: March 16, 1995 01:22pm

TO: See Distribution Below

FROM: Michael Bruno, DECVP MB (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

I will be away on mission/annual leave from Thursday, March 30 through Monday, April 24. Mr. Mark Baird 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 - IECDR	(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: 20-Mar-1995 12:04pm

TO: WEEKLY BULLETIN (WEEKLY BULLETIN @A1@WBWASH)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

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

Title	:	Vice President
Name	:	Michael Bruno
Destination 1	:	Israel
2	:	Moscow
3	:	London
4	:	Annual Leave
5	:	
Dep/Return	:	3/30/95-4/25/95
Acting Assignment 1	:	Mark Baird
2	:	
3	:	

FAXED ✓

THE WORLD BANK GROUP

ROUTING SLIP	DATE: March 15, 1995

NAME	ROOM. NO.
Mr. Vinod Thomas	M-7-021

	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: Your memo on Foreword for Book on Japanese Civil Service

REMARKS:

Vinod,

Thanks. This is fine with me.

Michael

FROM	ROOM NO.	EXTENSION
Michael Bruno MB	S-9-035	33774

0109

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

95 MAR 13 PM 2:42

RECEIVED
DEVELOPMENT ECONOMICS
CHIEF ECONOMIST

DATE: March 6, 1995

TO: Mr. Michael Bruno, Vice President, DEC

THROUGH: Vinod Thomas, Director, EDI VP/

FROM: Hyung-Ki Kim, Chief, EDIST

EXTENSION: 36300

SUBJECT: **Foreword for Book on Japanese Civil Service**

I attach for your clearance a foreword which is to appear over your name in a book entitled *The Japanese Civil Service and Economic Development: Catalyst of Change* to be published this spring by the Oxford University Press. The book was prepared under the Program for the Study of the Japanese Development Management Experience financed by the Policy and Human Resources Development Trust Fund established at the World Bank by the Government of Japan. The program is managed by EDI's Studies and Training Design Division.

The premise of the book, which includes 18 chapters, is that there have been links between Japan's highly successful economic growth and the character of its civil service. The analysis assumes that the understanding of those links can be useful to those who are currently managing the economic growth of industrializing countries, even though the specific situations of these countries are different from those faced in the past by Japan.

The book examines the evolution of the modern civil service and certain aspects of the role played by Japan's administrative structure in helping the country achieve its high economic performance, focusing on the relationship between Japan's civil service and the private sector, and between local and central government. The study attempts to deduce general lessons that may be of value to policymakers from developing countries and other economies attempting to adopt a free-enterprise system.

I also attach for your information a copy of the book's table of contents and introduction.

Foreword

The decade of the 1980s represents a watershed in economic policymaking worldwide. Most countries, rich and poor, have taken liberalizing measures to create markets that are more efficient, or, as in many of the centrally planned economies, to create markets for the first time.

Governments have often proven to be inefficient in managing economies, and their roles are being challenged, changed, and, often, diminished. Many countries are now in a period of transition, struggling to implement these economically liberalizing measures which are intellectually rooted in what some economists have called *the neoclassical resurgence*. This school of thought affirms the efficacy of market-determined prices in allocating economic resources. Exceptions to the rule apply to those goods and services for which no markets exist, or where their markets have severe imperfections. In these cases, other arrangements must be made.

In the late 1980s and early 1990s, economic liberalization has had an important influence on institutional development. For example, financial systems and their associated legal and regulatory frameworks must be created to support economic reforms. In the process, existing institutions, in which many people have vested interests, must be dismantled or modified; people must be trained to create and sustain the new institutions; and long-standing preconceptions must be reshaped. Out of this transitional turmoil emerges an important and challenging role for government institution-building activities. In response to this challenge, the World Bank has begun to support institutional development efforts, and civil service reform in particular, in both the developing and transitional economies.

The Japanese Civil Service and Economic Development: Catalysts of Change examines Japan's experience in this regard, and analyses the influence of public institutions and public management on the evolution of the Japanese economy. The study was prepared in the belief that Japan's remarkable economic and political transformation to a modern economy holds some important lessons for developing and transitional economies and for international financing institutions. The book analyses the evolution of Japan's civil service and the Japanese approach to the kinds of issues commonly faced by the civil service in developing and transforming economies--notably those related to structure, size, composition, orientation, function, and instruments for policy implementation. The central purpose is to provide the policymakers of such economies with some insight into possible methods of reducing the

many costs associated with economic and political transactions. The study also includes a comparative analysis that draws on the experiences of Western European and other countries with a view to informing decisionmakers in the developing and transitional economies as they approach the restructuring of their own civil services.

The Japanese experience with managing development has intrigued policymakers worldwide. In an attempt to understand these successes the government of Japan established a Human Resources Development Trust Fund at the World Bank which finances a *Program for the Study of the Japanese Development Management Experience*. The Program is managed by the Economic Development Institute of the World Bank.

As part of this program the lessons learned from the Japanese experience are published and offered to policymakers from developing and transitional economies to judge the relevance to their own current situations. The views expressed in this book, however, including any findings, interpretations and conclusions, are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its board of Executive Directors or the countries they represent.

Michael Bruno
Vice President, Development Economics
and Chief Economist
The World Bank

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 13, 1995

Mr. Shahid Javed Burki

Mexico

Javed,

The attached note by Ross Levine (PRDFP) may be of interest in the context of your financial sector work. He stresses the importance of getting a handle on the fiscal cost of a financial crisis and the consistency with the overall macro program. This is clearly a central issue. I would be interested in hearing your views.

Michael Bruno

Attachment

cc: Messrs. Frank, Segura, Aiyer, Edwards

A Note on the Mexican Banking Crisis

Ross Levine

3/7/95

This note very briefly outlines some recent events, responses, and proposed Mexican responses to the Mexican Banking Crisis.

The liquidity crisis is being controlled, but long-run risks exist:

Mexican commercial banks face tight dollar and peso liquidity requirements. Of the US$29 billion of dollar liabilities of Mexican banks maturing in 1995, US$21 billion mature in the first quarter. As of March 1, about US$2 billion of dollar liquidity support flowed to banks from the Banco de Mexico via FOBAPROA (a support fund for troubled banks which has already been depleted), and more support is expected. As of mid-February, FOBAPROA was charging a 25% annual interest rate on these dollar loans of 28 days with 7 day rollovers. In terms of peso liquidity, funding costs have jumped from a range of 18%-28% in December to rates of up to 50%. The overnight rate was 50% on March 2.

World Bank staff are concerned about the ability and willingness of the Mexican government to distinguish liquidity problems from solvency problems in specific commercial banks. Unlimited support - in the name of liquidity - to insolvent banks would probably worsen the banking crisis.

The crisis hit a weak banking system with distorted incentives:

- High non-performing loans (over 8% of total loans in September, 1994).
  Low loan-loss provisions (41% of non-performing loans in September, 1994).
  This understates the problem because when delinquent interest payments are re-capitalized into a new loan, the new larger loan is considered fully performing.

- Eroding (and low) capital
  While not based on documented statistics, informed sources suggest that when the banks were privatized (1991-1992), the banks had very little real capital - after doing appropriate accounting. This weak base has eroded due to under-provisioning of bad loans, over-reporting of interest income, and revaluations of fixed assets.)

- World Bank staff concluded that Mexican bank asset growth had been reckless and that many banks had deficient management. (*Loans grew about nine times faster than GDP growth last year*).

- Supervision and regulation are weak, though they are being strengthened: assets classification is substandard, accounting procedures exaggerate income, related party lending restrictions are unenforceable, supervisory capabilities are insufficient and supervisory procedures need substantial improvement , etc. Yet, financial groups - financial conglomerates containing banks, brokerages houses, investment banks, insurance companies, - have very broad powers.

  Mexico was in the process of boosting supervision and regulation with the help of a recently signed Financial Technical Assistance Loan. World Bank staff have been urging Mexico to reform their financial sector policies for two years.

- The government implicitly guaranteed a very broad array of financial intermediary liabilities, which intensified the moral hazard problem.

Banking system distress is worsening, but we do not have accurate data.

Corporate borrowers that rely heavily on imports or had open foreign exchange positions are suffering substantial losses; many are not servicing their loans. Many businesses and consumers are unable or unwilling to pay the very high real interest rates, at least partially, produced by tight monetary policy. The expected recession implies a further weakening of bank balance sheets. A financial crisis may have large macroeconomic repercussions.

> *Warning: there are no accurate data! The latest figures on (poorly measured and under-reported) non-performing loans were released at the end of 1994. These figures, however, refer to September 1994. The figures for the first quarter of 1995 will not appear until June. Thus, we do not know how big the insolvency problem is going to be. If one uses September 1994 numbers, loss estimates hover around US$30 billion. When one makes guesses of real losses after the crisis, estimates reach US$100 billion.*
>
> *A first order of business is realistically assessing the size of the fiscal cost.*

On March 3rd, regulators intervened in Banpais Group. The Group included Mexico's eighth largest bank with assets equal to 4% of the Mexican banking system (US$4.27 billion) and two insurance companies, including Mexico's largest insurance company, Aseguradora Mexicana.

More interventions are likely. Mexican regulators warned that two-thirds of Mexico's banks have capital below currently mandated levels and would probably require infusions of capital from the Banco de Mexico via FOBAPROA. For example, Serfin, Mexico's third largest bank in terms of assets had past-due loans (measured in September 1994!) equal to capital. Only the two largest banks, Banamex and Bancomer, which now hold about half of banking system deposits, have stated that they do not need FOBAPROA assistance. Also, some brokerage houses are also in trouble. These would be supported through a fund, FAMV

administered by the Comision National de Valores. Note, stock market capitalization of the entire financial system fell dramatically: from about $27 billion before the crisis to about $7 billion last week.

Mexico has responded to bank insolvency.

Existing Quasi-capital scheme:

Banks can join PROCAPTE (Program for Temporary Capitalization), the quasi-capital scheme, in which banks issue subordinated convertible debt to the Banco de Mexico via FOBAPROA to bring bank capital to 9%. (These quasi-capital funds must be deposited at the Banco de Mexico.)

FOBAPROA gets one seat on the banks board and can call for a special audit (FOBAPROA has additional rights but I'm unclear on the details). (*Prior to the crisis, FOBAPROA was basically a very sparsely staffed fund - not a regulatory agency - in the Banco de Mexico.*) If capital falls below 2%, then FOBAPROA can take over the bank.

Over the next five years, existing bank owners have the option to buy out FOBAPROA stake. After five years, FOBAPROA converts debt into equity, which it can then sell. *Thus, existing owners - with very little capital of their own at risk but with very big incentives to undertake high risk investments - could still exert considerable control over the bank - unless FOBAPROA can really exert strong corporate governance. Current managers are not penalized or forced to leave.*

Existing Intervention Scheme:

The Comision National Bancaria (CNB) can intervene in banks if capital falls too low or other trigger mechanisms occur. Also, the Banco de Mexico via FOBAPROA can take over a bank under certain conditions. The precise coordination between the CNB and the Banco de Mexico is legally hazy. In practice, it has worked well in the recent intervention in Banpais Group and Grupo Financiero Cremi-Union.

New reserve regulations:

The CNB has required banks to raise loan-loss reserves to 60% of non-performing loans from its current level of about 41%.

A new team of financial intermediary and market regulators took command of the Comisiones regulating banks, securities companies, and insurance companies in April, 1994. They have made important advances, though too late to be ready for the current crisis.

Further steps are planned, but there are important risks:

Establishing a Crisis Resolution Team with participation from Hacienda, Banco de Mexico, and the CNB.

Planning to initiate in-depth diagnosis of individual banks that produce estimates of total fiscal costs of bank distress

risk:	*underestimate losses*
big risk:	*hope that existing banks make sufficiently profitable loans and investments such that the existing fiscal hole disappears*

Preparing detailed plans for bank recapitalization procedures, failure resolution procedures, and oversight of corporate debt restructuring

risk: *do not accept principles that existing shareholders and managers bear responsibility for bank losses*

Also: I think that it would be fiscally prudent, legally feasible, and improve long-run incentives if large investors shared in the losses of the bank. Deposit insurance is being interpreted too broadly: Mexico may ultimately find it impossible to both comply with the IMF/U.S. program and meet its commitment to savers.

Intensifying existing efforts to boost supervisory, regulatory, and accounting standards and capabilities.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 13, 1995

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

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Executive Directors' Colloquium**

On March 16 and 17, the Executive Directors of the World Bank will be conducting a Colloquium on the topic of *Globalization and the Developing Countries*. The keynote address will be delivered by Dr. Eduardo Aninat, Minister of Finance, Chile, on the evening of March 16.

I would like to take this opportunity to invite you to attend the Colloquium. For information, I have attached a copy of the agenda for the Colloquium.

The Colloquium is being held at the Lansdowne Conference Center in Leesburg, Virginia, close to Washington, D.C. Please let me know if you will be able to attend. For further information concerning the agenda, please feel free to contact me.

Thank you for your consideration.

cc: Messrs. Ahmed (IECDR), Dadush (IECAP)

Globalization and the Developing Countries
ED's Colloquium

Lansdowne Conference Center
44040 Woodridge Parkway
Lansdowne, Virginia 22075

Date: *Thursday, March 16, 1995*

Check-in (Main Lobby) and Lunch (Faulkner Room): *2:00 - 3:00*

Introduction (Faulkner Room): *3:00 - 3:45*

Topic Globalization - *The Facts, The Trends*
Uri Dadush, Chief, International Economic Analysis and Prospects Division, World Bank

Break: *3:45 - 4:00*

Session 1 (Faulkner Room): *4:00 - 6:00*

Topic: Private capital flows and the new conditionality
Simon Nocera, Portfolio Manager, GT Capital Management, San Francisco, California

Robert Citrone, Portfolio Manager, Tiger Management, New York

Aswin Vasan, Portfolio Manager, Oppenheimer Asset Management, New York

Ricardo Hausmann, Chief Economist, Inter-American Development Bank, Washington, DC

Cocktail reception (Kiosk Area): *6:00 - 7:00*

Dinner (Bacon Room): *7:00*

Keynote speaker (Bacon Room): *8:30 - 10:30*

Topic: Globalization and the developing countries
Dr. Eduardo Aninat, Minister of Finance, Santiago, Chile

Date: *Friday, March 17, 1995*

Breakfast (Riverside Hearth): *6:30-8:00*

Session 2 (Faulkner Room): *8:30 - 10:30*

Topic: Developing countries in the strategy of Multinational Companies

Maurice Strong, Chairman, Ontario Hydro, Toronto, Canada
Sonja Bata, Bata Limited, Toronto, Canada
Gary Gereffi, Professor of Sociology, Duke University
Durham, North Carolina

Break: *10:30 - 11:00*

Session 3 (Faulkner Room): *11:00 - 1:00*

Topic: "Reverse Linkages"
Richard Cooper, Professor of Economics, Harvard University,
Cambridge, Massachusetts
Ron Blackwell, Amalgamated Clothing & Textile Workers
Organization, New York

Lunch (Ballroom C): *1:00 - 2:30*

Implications for the Bank (Faulkner Room): *2:30 - 4:30*

Topic: Implications for the Bank (Discussion led by the Chief Economist, to include some panelists)

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 10, 1995

Mr. Francis X. Colaco

Shahid Yusuf's involvement with the IEA Congress

I have just returned from my visit to Africa, including Kenya and I want to express my appreciation for the arrangements made for me by the Resident Mission staff in Nairobi. The mission was a very revealing one and I hope we can have an opportunity to discuss some of my impressions.

I am also writing to ask for your help in a matter. I am currently engaged in organizing the International Economic Association Congress to be held in Tunis in December. Shahid Yusuf has been assisting me with the arrangements over the past fifteen months and, in addition, is co-chairman of the session on China. Now that he has taken up a new assignment in your department, I realize that he will have much less time to devote to IEA matters and I have arranged for someone from my office to help. However, given Shahid's long association with the Congress, and his keen interest in the sessions being planned, I hope that you will allow him, departmental work permitting, to maintain his involvement as well as attend the Congress.

Michael Bruno

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

OFFICE MEMORANDUM

DATE: March 9, 1995

TO: Mr. Yves J. Albouy, OEDD3

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: **Research Committee Membership**

I would like to invite you to become a member of the Research Committee for a three-year term.

This committee meets approximately once a month to consider research proposals requesting funding of more than $150,000. Committee members serve on subcommittees which prepare a briefing note and initiate discussion of each proposal at the meetings. In addition, smaller proposals (for amounts between $40,000 and $150,000) are reviewed and commented upon by members serving on subcommittees, not by the entire group. Members should expect to serve on such a subcommittee about five times a year.

I hope that you will be able to join the Research Committee.

cc: G. Ingram, RAD

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

March 9, 1995

Mr. Kim Jaycox

South Africa trip.

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

March 9, 1995

Mr. Gautam Kaji
E- 1227

March 9, 1994

TO: Kim Jaycox

From: Michael Bruno MB

Subject: **Key message from my trip to South Africa**

I will be writing up a longer and more balanced note on my trip to South Africa (as well as on Senegal and Kenya). But since you are leaving this weekend I thought I should quickly write you a brief note, focusing on one central issue, which I will try to supplement in our meeting to-morrow.

Let me start by saying that this was a very well prepared trip by both Katherine Marshall's Department as well as Isaac Sam and his office. Luiz Pereira da Silva's presence in all of the meetings, in particular, was very helpful. As I told you I first met with a group of parliamentarians at a very successful EDI-organized weekend seminar; then had a long informal meeting with the key Ministers - Liebenberg, Naidoo, Mboweni, Erwin (only Trevor Manuel was unable to come); a separate meeting with senior staff- Dreyer, Leroux and Links; an extensive meeting with Senior Staff of the Reserve Bank; groups of business leaders and of NEDLAC; members of the Economics Faculty at both the University of Capetown and the University of Pretoria (where I gave a public talk on the Mexican, not the South African, crisis). Last but not least, I spent two lengthy, privately arranged, visits to the townships and squatter camps around Capetown and Johannesburg, where I had occasion to observe and talk to men and women at the 'grassroots' level. There was no time in this brief visit, to see the provinces or the rural areas although the problems did, of course, feature in discussions.

At the end of the first year of the new South Africa and the 'political miracle' the country obviously projects a complex mosaic to which this type of a note cannot do justice. One gets the sense of a collectively shared pride over the initial political and economic consensus as is reflected in the maintenance of relative political stability as well as in the hitherto highly responsible macroeconomic policy stance. The one single message that I would like to bring out at this point is a fundamental inconsistency in the strategy that is presently being pursued. It is a strategy of **redistribution with zero projected per capita growth and rising unemployment** (from what is already a socially and politically unbearable starting point). Put differently, *political* apartheid (between black and white) may have ended. The new political mechanism may also force a reduction in *economic* apartheid *between* the two groups (e.g., in terms of wage gaps - black managers may even begin to earn higher wages than their white counterparts because they are in short supply and their presence in an enterprise enhances its social and political standing). But **economic apartheid within the black community, between the insiders and outsiders, is most likely to deepen.**

The leaderhip is naturally preoccupied with the redirection of government and its expenditures, as spelt out in detail in the RDP, with exclusive emphasis on redressing the glaring inherited ethnic and social gaps. This is done within the bounds of a genuine attempt to follow conservative fiscal and monetary policies. At the same time, however, there is no serious

thought being given to the issue of growth driven employment strategies. The consensus forecast that both Ministers and their staff, as well as virtually all others give is that of a 3 percent growth rate for the coming 3-4 years, i.e., virtually zero per capita GDP growth. This is the realistic estimate that present supply constraints, based on existing skill mixes and rigid real wage structures, yield (some experts even suggest a negative growth rate).

Given present trade union leadership (which is new and has to assert itself), the likelihood is a further bolstering of real wages for the insiders in the formal sector (including an upward closing of the ethnic wage gaps), to the detriment of the mass of unemployed outsiders. Real labour costs for most relevant sectors are not internationally competitive and for that reason, as well as others, sizeable foreign private investment is unlikely to be forthcoming soon. The argument that productivity growth (manna from heaven?) will somehow compensate for high real wages is very unconvincing at best. The exchange rate is subordinated to the price stability objective and even if it were not it is hard to see how, in the absence of real wage flexibility, a real devaluation can be affected without a damaging inflation. Similar distortions on the capital and financial markets side seem to favour large capital intensive types of activities to the detriment of small and medium size labour intensive (or export-led) activities. Excessive land concentration causes similar employment distortions in agriculture (the black dream is to emulate the large white farm holding). In other words, neither the macro nor the micro structure supports a high growth scenario.

Thus under present assumptions even the redistribution strategy seems unsustainable, because you cannot effectively redistribute a shrinking cake. It is most likely to break down when the initial political grace period is over, at the provincial fiscal level, or among the disillusioned urban unemployed or in both.

Obviously one can also envisage an alternative strategy, one that combines the clear advantages that the country has (in infrastructure, in financial and legal structures and, in particular, an initial condition of 'extraordinary politics') with an employment and export led growth strategy. With a rising cake both gradual reduction in unemployment as well as required social expenditures could be implemented. Moreover the total discounted real wage over the planning horizon could be higher for all, since it will be a positive sum, rather than a zero sum, game. But it takes a clear shift of emphasis. NEDLAC maybe a vehicle through which some of the rigidities could be loosened up. But I have also heard the argument that with the unemployed not properly represented, NEDLAC may actually solidify the corporatist status quo.

A major concern at the moment seems to me to be the need to get this fundamental inconsistency as well as alternative scenarios, based on comparative country experience, into the consciousness of the top leadership which comes across as intelligent and very highly motivated. The fact that on an important issue such as fiscal responsibility previous mindsets could be changed makes one hope that on the present issue inroads can be made before a deep crisis makes it happen in much more painful ways.

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

OFFICE MEMORANDUM

DATE: March 8, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **The Cross-Border Initiative (CBI) in Africa: IM**

3/9 Kate – corrected copy that went out JL

CBI

Maria Kate said give to you. JL

Joanne I kept a copy for Frank. Pl. give Kate a corrected copy — Tks. —C.

1. The Cross-Border Initiative (CBI) proposes a number of measures to better integrate African economies in the areas of trade, investment and finance. As is evident from the Regional Loan Committee Minutes, we have raised a number of concerns about the trade component of the CBI initiative and the case for Bank involvement. The revised IM responds to these concerns, although we still feel that it dismisses too easily the potential risks of the proposed trade arrangements. We strongly support the view, shared by the Region, that Bank involvement has to be aimed at achieving a significant reduction in external tariffs and NTBs (i.e., barriers against non-member countries). The issues for Loan Committee discussion should therefore focus on: (a) the strength and clarity of the IM proposals on external liberalization; and (b) the nature, extent and conditions of World Bank support.

2. The pros and cons of regional integration are well-articulated in IEC's recent paper on "The New Regionalism and its Consequences" (March 8, 1994). In the case of the CBI, the trade integration proposals suffer from a number of inherent disadvantages. The CBI is a South-South bloc among small economies with similar factor endowments (unlike Mexico and the US for example). Trade creation benefits (including replacement of high-cost sources by lower-cost sources) cannot be large, but trade diversion (the replacement of low-cost imports by higher-cost regional production) can be quite significant. Moreover, unless the currently high level of external tariffs is sharply reduced, investments will be channeled into protected activities and those who benefit from the protection would resist further liberalization. The principle of "convergence" might also lead laggards to pressure the leaders to slow down their liberalization efforts (reversing the positive peer pressure assumed in the IM). All in all, both the static and dynamic benefits of the CBI will depend largely on the extent to which external trade barriers are in fact reduced.

3. The Bank has traditionally avoided giving overt support to preferential trade arrangements as they benefit some developing countries at the expense of others and, in the past, have usually been driven by protectionist motivations. Our support for the CBI might therefore be seen as a precedent. This reinforces the importance of firmly tying Bank support to external liberalization rather than internal preferences.

4. In view of this, one option for the Bank is not to promote a common regional framework, but rather to continue to support trade liberalization in the traditional case-by-case manner. This approach would allow the Bank to support those countries, such as Uganda, which have relatively stronger commitment to low levels of protection and which may be prepared to go beyond any mutually agreeable level of average tariffs in the CBI.

5. If however the Bank chooses to sponsor a regional framework, such as the CBI, then we would suggest that Bank involvement be subject to the following conditions:

- CBI countries should be firmly committed to the long-term objective of free trade, both within the Region and with non-member countries. Annual indicators should be established to monitor progress toward this objective for each country.

- There should be a clear intermediate target which demonstrates significant progress toward this objective. In our view, the IM proposal of an average tariff of 15% by 2000, with only three bands and a maximum of no more than 25%, would be acceptable. Going above the 15% average tariff would seriously mitigate the benefits of the CBI. Obviously anything less than 15% would be still better -- a 10% average tariff would leave room for the most aggressive reformers to make even further progress.

- The CBI should aim to achieve a customs union with a common external tariff (CET). The current draft talks about tariff convergence, but stops short of recommending a CET. Without this, the CBI will have to negotiate and implement complex rules-of-origin (ROOs).

- We should not reward the creation of preferences in our lending operations; in other words, the loan amounts and the conditionality should be related to changes in external tariffs rather than to reciprocal actions under the CBI. We should also focus our support on those countries which show the strongest commitment to external liberalization, providing a positive example for other countries to follow.

Suggestions for the Agenda

6. In light of these comments, following are our suggestions for the agenda:

- You might first ask the Region to elaborate upon where the CBI initiative stands at the moment -- What is the critical path for decisions on the CBI? How many countries are leaning towards the CBI, and what are the prospects of the CBI becoming effective? What is the need for the Bank to endorse the CBI by sending a framework paper to the Board, and by entangling future Bank adjustment operations with the creation of regional preferences under the CBI? Given the small financial amounts involved, is a separate CBI initiative really justified?

- What is the CBI? Is it intended to be a customs union with a common external tariff, or is it a free-trade-area with differential external tariffs? The Concept Paper (Annex III) can be read both ways, while the IM suggests the latter. If the latter, then have the rules-of-origin been thought through? What mechanism would prevent the rules-of-origin from becoming important trade barriers?

- Regarding trade, are the members of the Committee satisfied with the technical analysis of trade diversion and creation and of investment diversion and creation? What levels of external tariffs and NTBs were assumed in the technical studies? Is there a presumption that the net economic benefits to the CBI countries will be positive? Would the Region

elaborate upon the distribution of the gains and losses within the CBI countries, and also outside the CBI (there is nothing in the IM)?

- Since the benefits of the CBI will vary directly with the extent of liberalization of external tariffs, what should be the external tariff targets? The IM proposes "convergence" (not necessarily equality) to a 15% tariff by year 2000, with a maximum of 25%. Should the Bank insist on a commitment to a lower average tariff? Is "convergence", which is rather vague, adequate wording? How would a commitment be made operational? Would the Bank be free to negotiate tariff reduction separately, or would the negotiations get complicated by bringing in the CBI?

- The IM suggests that external tariffs will be brought down by " peer pressure". But those who benefit from the new regional preferences will form a bloc to resist external trade liberalization in order to protect the preferences they enjoy (the preference margin is the difference between tariff on external trade and the tariff on intra-regional trade; thus a 30% external tariff means a 30% subsidy to local production). Are the members of the Committee satisfied that "peer pressure" will work in the direction of trade liberalization, rather than in the other direction?

- Can we disentangle future adjustment operations in CBI countries from the creation of preferences by excluding reciprocity from both the amounts of the loans and their conditionality?

- The most crucial question is under precisely what conditions the Bank would withdraw support from the CBI? The para. 27 of the IM suggests that the CBI should not increase external tariffs and NTBs from their present levels. Is this a satisfactory "bottom line", or should the "bottom line" be in terms of actually achieving radical reductions in external tariffs, as measured against pre-agreed benchmarks?

cc: Messrs./Mmes. O. Kalantzopoulos, I. Mas, M. Baird, A. Ray, M. Ahmed, A. Winters

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

OFFICE MEMORANDUM

Chron

DATE: March 7, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **The Cross-Border Initiative (CBI) in Africa: IM**

1. The Cross-Border Initiative (CBI) proposes a number of measures to better integrate African economies in the areas of trade, investment and finance. As is evident from the Regional Loan Committee Minutes, we have raised a number of concerns about the trade component of the CBI initiative and the case for Bank involvement. The revised IM responds to these concerns, although we still feel that it dismisses too easily the potential risks of the proposed trade arrangements. We strongly support the view, shared by the Region, that Bank involvement has to be aimed at achieving a significant reduction in external tariffs and NTBs (i.e., barriers against non-member countries). The issues for Loan Committee discussion should therefore focus on: (a) the strength and clarity of the IM proposals on external liberalization; and (b) the nature, extent and conditions of World Bank support.

2. The pros and cons of regional integration are well-articulated in IEC's recent paper on "The New Regionalism and its Consequences" (March 8, 1994). In the case of the CBI, there may well be significant "non-conventional" benefits (e.g., economies of scale in infrastructure investments) as well as political advantages to the Bank through closer association with the partner/member countries. We cannot judge. However, the trade integration proposals suffer from a number of inherent disadvantages. The CBI is a South-South bloc among small economies with similar factor endowments (unlike Mexico and the US for example). Trade creation benefits (including replacement of high-cost sources by lower-cost sources) cannot be large, but trade diversion (the replacement of low-cost imports by higher-cost regional production) can be quite significant. Moreover, unless the currently high level of external tariffs is sharply reduced, investments will be channeled into protected activities and those who benefit from the protection would resist further liberalization. The principle of "convergence" might also lead laggards to pressure the leaders to slow down their liberalization efforts (reversing the positive peer pressure assumed in the IM). All in all, both the static and dynamic benefits of the CBI will depend largely on the extent to which external trade barriers are in fact reduced. The real danger in the Bank and other donors supporting it is that it might become a mechanism for inhibiting external trade liberalization rather than enhancing it.

3. The Bank has traditionally avoided giving overt support to preferential trade arrangements as they benefit some developing countries at the expense of others. Our support for the CBI might be seen as a precedent. This reinforces the importance of firmly tying Bank support to external liberalization rather than internal preferences.

4. In view of this, one option for the Bank is not to promote a common regional framework, but rather to continue to support trade liberalization in the traditional case-by-case manner. This approach would allow the Bank to support those countries, such as Uganda, which have relatively stronger commitment to low levels of protection and which may be prepared to go beyond any mutually agreeable level of average tariffs in the CBI.

5. If however the Bank chooses to sponsor a regional framework, such as the CBI, then we would suggest that Bank involvement be subject to the following conditions:

- CBI countries should be firmly committed to the long-term objective of free trade, both within the Region and with non-member countries. Annual indicators should be established to monitor progress toward this objective for each country.

- There should be a clear intermediate target which demonstrates significant progress toward this objective. In our view, the IM proposal of an average tariff of 15% by 2000, with only three bands and a maximum of no more than 25%, would be acceptable. Going above the 15% average tariff would seriously mitigate the benefits of the CBI. Obviously anything less than 15% would be still better -- a 10% average tariff would leave room for the most aggressive reformers to make even further progress.

- The CBI should aim to achieve a customs union with a common external tariff (CET). The current draft talks about tariff convergence, but stops short of recommending a CET. Without this, the CBI will have to negotiate and implement complex rules-of-origin (ROOs).

- We should not reward the creation of preferences in our lending operations; in other words, the loan amounts and the conditionality should be related to changes in external tariffs rather than to reciprocal actions under the CBI. We should also focus our support on those countries which show the strongest commitment to external liberalization, providing a positive example for other countries to follow.

Suggestions for the Agenda

6. In light of these comments, following are our suggestions for the agenda:

- You might first ask the Region to elaborate upon where the CBI initiative stands at the moment -- What is the critical path for decisions on the CBI? How many countries are leaning towards the CBI, and what are the prospects of the CBI

becoming effective? What is the need for the Bank to endorse the CBI by sending a framework paper to the Board, and by entangling future Bank adjustment operations with the creation of regional preferences under the CBI? Given the small financial amounts involved, is a separate CBI initiative really justified?

- What is the CBI? Is it intended to be a customs union with a common external tariff, or is it a free-trade-area with differential external tariffs? The Concept Paper (Annex III) can be read both ways, while the IM suggests the latter. If the latter, then have the rules-of-origin been thought through? What mechanism would prevent the rules-of-origin from becoming important trade barriers?

- Regarding trade, are the members of the Committee satisfied with the technical analysis of trade diversion and creation and of investment diversion and creation? What levels of external tariffs and NTBs were assumed in the technical studies? Is there a presumption that the net economic benefits to the CBI countries will be positive? Would the Region elaborate upon the distribution of the gains and losses within the CBI countries, and also outside the CBI (there is nothing in the IM)?

- Since the benefits of the CBI will vary directly with the extent of liberalization of external tariffs, what should be the external tariff targets? The IM proposes "convergence" (not necessarily equality) to a 15% tariff by year 2000, with a maximum of 25%. Should the Bank insist on a commitment to a lower average tariff? Is "convergence", which is rather vague, adequate wording? How would a commitment be made operational? Would the Bank be free to negotiate tariff reduction separately, or would the negotiations get complicated by bringing in the CBI?

- The IM suggests that external tariffs will be brought down by " peer pressure". But those who benefit from the new regional preferences will form a bloc to resist external trade liberalization in order to protect the preferences they enjoy (the preference margin is the difference between tariff on external trade and the tariff on intra-regional trade; thus a 30% external tariff means a 30% subsidy to local production). Are the members of the Committee satisfied that "peer pressure" will work in the direction of trade liberalization, rather than in the other direction?

- Can we disentangle future adjustment operations in CBI countries from the creation of preferences by excluding reciprocity from both the amounts of the loans and their conditionality?

- The most crucial question is under precisely what conditions the Bank would withdraw support from the CBI? The para. 27 of the IM suggests that the CBI should not increase external tariffs and NTBs from their present levels. Is this a satisfactory "bottom line", or should the "bottom line" be in terms of actually achieving radical reductions in external tariffs, as measured against pre-agreed benchmarks?

cc: Messrs./Mmes. O. Kalantzopoulos, I. Mas, M. Baird, A. Ray, M. Ahmed, A. Winters

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. Boccara March 8 1995

Bruno,

I would very much appreciate your comments on the attached draft.

Thanks.

Michael

Michael Bruno

Att./-

Report on a Visit to Senegal: February 12-14, 1995

I was well briefed prior to the trip by Jean-Louis Sarbibe, Director of AF5, and his colleagues, particularly by Bruno Boccara who, together with David Jones, Resident Representative, participated in my meetings in Dakar. The trip included two very interesting trips to AGETIP-run projects in Pikine and Medina, a whole morning with the Rector and his staff at the Cheikh Anta Diop University of Dakar, two lengthy and very lively dinner discussions with groups of business leaders, a brief meeting with the Vice-Governor (Haji Boukary) and senior staff of the BCEAO and last not least substantial meetings with the Minister of Finance (H.E. Papa Ousmane Sakho) and the President (H.E. Abdou Diouf). Much of the short visit consisted of extensive and very open dialogues with a wide spectrum of people, from the men, women (and parents of children) in low income urban neighbourhoods to members of the intellectual and political elite. Given that the visit was extremely well prepared by David Jones (and the Department) the 48 hours of my stay gave me an invaluable opportunity to learn the myriad shades of realities behind the CAS and the PSA (presented at the Board on Febturary 16) .

General

For a first-time visitor to Senegal one is struck by the colours and liveliness of the place, by the deep contrasts *within* the elite, between its Parisian haute couture and its patronage politics, as well as the schasm, in what claims to be a political democracy, *between* this elite and the uneducated urban layers of a society that paradoxically looks non-violent. In my two days in Dakar I had no time to visit the country side, but as far as the contents of most people's dialogues were concerned, that rural 70 percent of the population seemed like living in a very remote foreign country.

Views from the top

The government seems committed to the reform process in the sense that it will follow Bank recommendations without backtracking (at least a priori) but it does not seem to have articulated its own vision for the future. 'Following ' the IFI induced reform process rather than leading it and only half-hearted ownership seemed to characterize its stance at best.

The conversations with both the Minister and the President were extremely cordial and quite open. I started in both cases with praise on the bold steps taken and the signs of change that is obviously taking place, stressing that I have mainly come to learn. I then raised questions based on the two possible scenarios that could be read into the answers that I was getting from my various dialogues.

The Minister of Finance was basically unable to explain his own program in very clear terms. As an ex-Central Banker who is a fiscal and monetary conservative he viewed openness as a way of limiting the increase in prices, due to a reluctantly accepted devaluation, and not as a way of boosting the country's external competitiveness. Likewise he mentioned growth mainly as a way to increase the tax base, so as to address the revenue mobilisation problem and, inspite of my mentioning the problem explicitly, totally ignored the ability to widen the tax base by removing special privileges.

The President's response on the latter was more forthright - he was instructing the MOF (who was present at our conversation) to fight exemptions. When confronted with a two-equilibria scenario that I had distilled from my conversations (muddling through at 0 or 1 percent per capita growth, say, compared to a considerably rosier 3-4 percent rate with all that it entails in terms of growth and macro fundamentals) the President was clearly intent on even loftier objective but did not articulate a clear strategy to achieve it (in answer to a question "of course primary education is important, but we cannot finance the teachers"). When confronted with complaints on clear weaknesses in the judicial system he quotes all the wonderful new things that are now being planned for the retraining of judges. Upon my mentioning a news item that had appeared that morning on the ability of the sugar monopoly to import cheap sugar under the previous prices (thus enabled to reap large rents) the evasive response was that I had to understand the details of the agreements reached . At the same time the President seemed strongly

behind the reform process, in the sense defined above, an example being the commitment to privatization of the electricity board (this came in response to my query which in turn was provoked by his claim that to compete businesses should be allowed to obtain reduced prices for purchased utilities) . I would not be surprised, however, if serious slippages would occur in the process of further decision making in the cabinet, on all of these issues, or their implementation by the civil service.

Views from the business community

The 100 percent devaluation of a year ago has obviously been a watershed to some, in particular to exporters in tourism, the fisheries, or exotic women's dresses. The series of liberalisation and decontrol steps are interpreted by some leaders of the business community as the beginnings of a bright new era of private sector growth. They would like to be "left alone" and let economic opportunities--in a non-distorted world-- guide their behaviour. Others see these steps as not much more than lip-service to satisfy us donors, by a corrupt government whose ways cannot be changed in a fundamental way, or who will sooner or later renege on its commitments. There were also those whose past dependence on massive public subsidies or favours obviously tilted the conversation towards the need for a "slower pace of change", or clear state intervention to "pick the winners".

As an example of the disppointing supply response, I was struck by the story of a single relatively small flower grower (frenchman...) who does very well and there is apparently no one around to emulate his success or compete.

A serious problem that pervaded much of the discussion is the dual formal and informal economy especially as it relates to large wage gap between the union controlled insiders of the formal sector and the rest of the labour force. In response to a question as to why more exporting firms could be set up in the informal sector I was told that for shipping or any other use of public services there is no escape from `going formal'.

Views from the lower reaches

The men and women of the Pikine (very poor neighbourhood) `streets' to whom I could talk struck me as fundamentally indifferent to the general situation even though not immune to small step micro incentives if they could see them. In answer to questions they did not sense a change from a year or two ago, there was no urge to give their children primary education ("because it would not change their (un-) employment status anyway") and they did not have any vision of their own future ("inshalla" is a favourite reply). On the other hand one meets with minute scale craftsmanship, bustling bazaars (including second-hand clothing whose imports from Europe are allegedly monopolized by the President's sister) or fairly active work among the lucky few who are employed . I even met with an interesting case of endogenous public service provision where there is a government failure -- poor neighborhood , part voluntary part commercial, private secturity services. The entrepreneurship of senegalese when faced with a different environment abroad is mentioned as a saving feature.

Low-level traps

When asked about the reason for the low rate of savings a common interesting argument was given to us by several people (notably by Boubakar Toure, independent media leader and one of the most perceptive people I met on this trip) -- the role of the individual vis-a-vis his kinship and the imposition to share one's earnings which has become binding after many years of deep recession. Instead of everyone working on his own plot of land they have had a slump in which "sharing" not only provided a social insurance scheme but made it acceptable to shirk.

The combination of unclear government signals, an apparent inability of the private sector to enter niches in an aggressive way and cultural aspects like the above may hamper escape from the low-

level equilibrium trap in which an economy like Senegal seems to be in. Only a critical mass of reforms will enable such escape and it is not at all clear that this is anywhere near happening.

The Role of the Bank

In light of the above the education and communication aspects of the CAS seem particularly important. "Lack of Bank communication with wider audiences" was mentioned in our conversations both with businessmen and at the University as a major problem. There is obviously room for a lot more dialogues to take place.

Although the prospects remain bleak, this does not imply that the Bank should not intervene and the adjustment operations proposed in the CAS could, in principle, help further. Important changes are definitely taking place and it is a matter of bolstering ownership and consensus building for these to give further pay-offs.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

March 7, 1995

Mr. Gautam Kaji

DEC's Contribution to the Review Process

Gautam,

You may be interested in the attached review of our review work. Mark's cover note highlights the key findings and raises a number of issues for follow-up. It would be useful if we could also get feedback from EXC on our contribution and ways to make the review process work better. Mark and I would be happy to discuss these issues with you at your convenience.

Michael Bruno

Attachment

cc: Messrs./Ms. Baird, Kalantzopoulos, Mas

0936

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

95 FEB 28 PM 1:00

RECEIVED
DEVELOPMENT ECONOMICS
VICE PRESIDENT

ATE: February 28, 1995

TO: Mr. Michael Bruno

FROM: Mark Baird

EXTENSION: 31666

SUBJECT: Review of the Review Process

1. Attached are two outputs from our review of the review process (for country strategies and operations): a report from Harold Pilvin (consultant) on the impact of our review work; and the results of a staff questionnaire on their perceptions of the review process. I would like to highlight some of the key findings and, in response, suggest some ways we could do things better.

2. Harold Pilvin looked at a sample of five country strategies, five adjustment operations and five other operations reviewed by DEC over the past year. He rated our performance in two respects: the strength of our intervention (quality); and the coincidence with operational decisions (impact). The results are summarized in Table 1.

Table 1: Summary of DEC Performance Ratings

Country	Product	Quality	Impact
Algeria	Reconstruction	5	4
Cameroon	TSAC	4	2
India	CSP	5	4
Peru	CAS	4	3
Russia	ARIS/LARIS	5	1
Russia	Enterprise Support	5	1
Russia	Housing	5	3
Senegal	ASAC, PSAC, CAS	5	5
Tanzania	CAS	4	3
Tanzania	SAC	4+	4
Vietnam	SAC	5	5
Vietnam	CAS	4+	3+

Ratings are on a scale of 0 (low) to 5 (high).

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Michael Bruno - Internal Chronological - March to April 1995	30486493

Document Date	Document Type
03/06/1995	Facsimile

Correspondents / Participants

To: Fritz Fischer, Executive Director

From: Michael Bruno

Subject / Title

MB's talking Points for the Board Seminar

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.

Withdrawn by	Date
Salma Berrada	April 29, 2025

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Michael Bruno - Internal Chronological - March to April 1995	30486493

Document Date	Document Type
03/06/1995	Memorandum

Correspondents / Participants
To: Eveline Herfkens, Executive Director
From: Michael Bruno

Subject / Title
Guidelines for Staff Cooperation with the World Trade Organization (WTO)

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.

Withdrawn by	Date
Salma Berrada	April 29, 2025

TRANSMISSION RESULT REPORT (MAR 07 '95 03:37PM)

WB DECVP 2024770549

(AUTO)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
010	MEMORY TX		21639	01/01	OK

ERRORS

1) HANG UP OR LINE FAIL 2) BUSY 3) NO ANSWER 4) NO FACSIMILE CONNECTION

MAR 06 '95 02:39PM WB SECGE 202 5221639 P.1/1

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

For clearance: Mr. Bruno MB

DRAFT:DMatthaisen(x80230)
(f-21639)

SecM95-217/1

FROM: Vice President and Secretary

....

NOTICE OF SEMINAR

Global Economic Prospects and the Developing Countries, 1995

(SecM95-217)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

For clearance: Mr. Bruno MB

DRAFT:DMattheisen(x80230)
(f-21639)

SecM95-217/1

FROM: Vice President and Secretary

....

NOTICE OF SEMINAR

Global Economic Prospects and the Developing Countries, 1995

(SecM95-217)

A Seminar of the Executive Directors of the Bank on the above subject will be held on Monday, March 20, 1995 at 10:00 a.m. in the Board Room, under the chairmanship of Mr. Michael Bruno, Vice President, Development Economics and Chief Economist.

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 3, 1995

TO: Mr. Richard Lynn, Director, PBD

FROM: Lyn Squire, Acting Vice President, DEC

EXTENSION: 36099

SUBJECT: **FY96-98 Business Plan**

1. Attached is DEC's Business Plan for the period FY96 through FY98, together with the required data tables.

Attachments

cc: Mr. Bruno (o/r) and DEC Senior Managers
DEC Budget Officers
Messrs/Mss. Ahmed, Garcia-Thoumi, Rizo, McCollom (PBD)
Regional CAOs and CVP Program Coordinators

DEVELOPMENT ECONOMICS

BUSINESS PLAN

FY96 - FY98

March 3, 1995