

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Michael Bruno - Internal Chronological - May to June 1995

Folder ID: 30486494

Series: Michael Bruno's Chronological Correspondence File (Internal and External Chronological Files)

Dates: 05/04/1995 - 06/15/1995

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: 05/09/2025

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED



30486494

R1997-299 Other #: 2 Box #: 125679B
Michael Bruno - Internal Chronological - May to June 1995

DECLASSIFIED
WITH REVISIONS
WBG Archives

OFFICE MEMORANDUM

DATE: June 15, 1995

TO: Distribution

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Delegation of Authority

Further to my EM of June 9, please note that Mr. Lyn Squire will act on my behalf on the afternoon of Thursday, June 15 through Friday, June 16.

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 to Legal Files)

Distribution:

**Mr. James D. Wolfensohn
Mr. Richard Frank
Mr. Gautam Kaji
Mr. Sven Sandstrom
Mr. Ibrahim Shihata
Ms. Orsalia Kalantzopoulos
Ms. Atsuko Horiguchi
Mr. Masood Ahmed
Mr. Mark Baird
Mr. Alan Gelb
Mr. Gregory Ingram
Mr. Lyn Squire
Mr. Vinod Thomas
Ms. Lesley Davis
Mr. Paulo Vieira da Cunha
Mr. Jean Bradier
cc: ISC Files**

OFFICE MEMORANDUM

DATE: June 5, 1995

TO: Distribution

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Delegation of Authority

I will be in New York on Thursday, June 8. Mr. Mark Baird will act on my behalf.

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 to Legal Files)

Distribution:

Mr. James D. Wolfensohn
Mr. Richard Frank
Mr. Gautam Kaji
Mr. Sven Sandstrom
Mr. Ibrahim Shihata
~~Ms. Jane Armitage~~
Ms. Orsalia Kalantzopoulos
Mr. Ignacio Mas
Mr. Masood Ahmed
Mr. Mark Baird
Mr. Gregory Ingram
Mr. Lyn Squire
Mr. Vinod Thomas
Ms. Lesley Davis
Mr. Paulo Vieira da Cunha
cc: ISC Files

Atsuko ... (pls check name)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION
062	MEMORY TX	

TEL NO.

RAD INGRAM

PAGE RESULT

01/01 OK

ERRORS

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

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

OFFICE MEMORANDUM

DATE: June 5, 1995

TO: Distribution

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Delegation of Authority

I will be in New York on Thursday, June 8. Mr. Mark Baird will act on my behalf.

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.

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION
061	MEMORY TX	

TEL NO.
EDI THOMAS

PAGE	RESULT
01/01	OK

ERRORS

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

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

OFFICE MEMORANDUM

DATE: June 5, 1995

TO: Distribution

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Delegation of Authority

I will be in New York on Thursday, June 8. Mr. Mark Baird will act on my behalf.

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.

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
060	MEMORY TX		SQUIRE	01/01	OK

.....
ERRORS

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

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

OFFICE MEMORANDUM

DATE: June 5, 1995

TO: Distribution

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Delegation of Authority

I will be in New York on Thursday, June 8. Mr. Mark Baird will act on my behalf.

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.

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

OFFICE MEMORANDUM

DATE: July 11, 1995

TO: Mr. Sven Sandstrom

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: *Sustainable Transport: A Sector Policy Review*
Policy Review Committee Meeting, July 28, 1995

Attached are the comments we have sent you on an earlier version of this paper. We have followed up on this paper regularly and have given the authors comments and suggestions on several earlier versions. We support its main conclusions and endorse its policy recommendations. Since we sent you the earlier comments on April 10, the authors have prepared yet another version and have taken into account most of the comments and suggestions we then made. However, the issues we have identified in our memo of April 10 are still pertinent in reviewing this paper.

cc: Mme/Messrs: Kalantzopolous, Mas, Baird, Squire, Eskeland, Vieira da Cunha.

cc
chron

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.

Tuesday, July 11, 1995

Messrs Lyn Squire and Emmanuel Jimenez

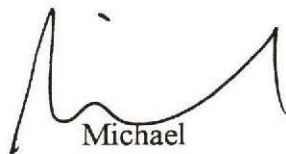
Cost effectiveness analysis in health care

Lyn, Manny,

Thank you for your note. I agree with and endorse your position. Please do send the letter to Mr de Ferranti. There is, however, an issue of "practicality:" We can argue cogently against introducing a misleading metric but we should also try to provide an alternative. Perhaps you could add a sentence or two in your letter suggesting that we would be willing to work with them in developing more reliable approaches to measurement. If this does not fit into your work-program we could at least indicate that we would help them find consultants to work on these issues.

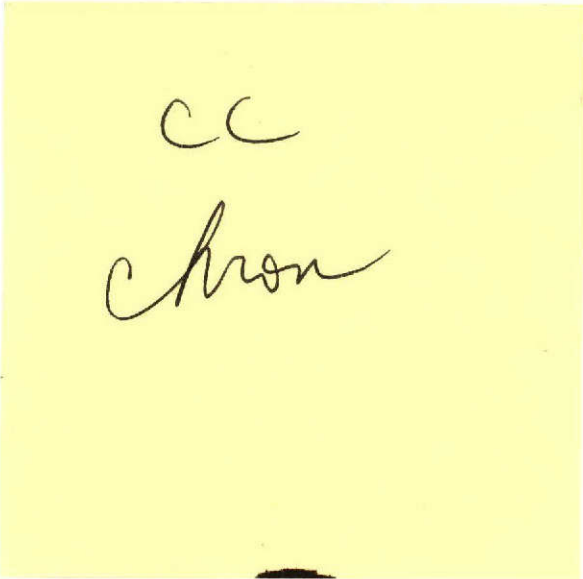
You have noted that HRO will not welcome your letter. Nevertheless, as this involves an issue of policy, we should have a clear stand. If you think it appropriate you may copy me in the letter.

Thank you,



Michael

cc: Messrs Baird, Vieira da Cunha



cc
Chron

0129

95 JUL -6 AM 10:32

July 5, 1995

Mr Michael Bruno

RECEIVED
DEVELOPMENT ECONOMICS
JUL 7 1995

Manny Jimenez on "Cost Effectiveness" of Health Care

Michael,

Manny sent you the note attached. It asks for your endorsement of a letter to be sent to David Ferranti who is the Director in charge of health issues in HRO, under Armeane Choksi. The point of contention is the use of a simplistic and misleading metric of cost effectiveness in health projects. Manny's points and Lyn's letter to David Ferranti are clear and authoritative. I'm a bit puzzled as to why they seek your endorsement but, as Manny notes, there is an issue with the WDR-1993 (Health). The metric in question was recommended in the WDR, with some important provisos. The latter are now being ignored--and, in general, I gather that PRD would rather do without the metric altogether.

I don't see why you shouldn't endorse the letter (I suppose this means it would be cc'd to you). One problem I have with it is "practicality." We can argue cogently against introducing a misleading measure of cost and benefits. We should also try to provide an alternative. If we can't do so right now, we should make it clear that we are willing to invest in developing it (or at least to provide advice to those who could develop it).

Please let me know if you want me to prepare a response to Manny.

Thank you,



Paulo

cc: Mr Baird (w/o attachment).

DECLASSIFIED

June 30, 1995

Confidential

APR 29 2025

Mr. Michael Bruno, DECVP

WBG ARCHIVES

Michael:

Lyn asked me to send for your review the attached draft note from him to David de Ferranti, PHN Director. It responds to Dr. Richard Feachem's note about future Bank work in health. We feel it is important to flag DEC's objection to the use of "cost effectiveness" analysis in health care because the approach is analytically wrong in ways that are important to policy.

What is "cost effectiveness" analysis? The core team of the WDR 1993 (see below) originally proposed that the way to approach health policy was to define some objective measure of health status, the DALY (disability-adjusted life year), then calculate the cost of various medical interventions (e.g. immunizations, chemotherapy, vector control) and then recommend that in order for the government to get "value for money" in health it should fund those activities that are most "cost effective" that is, have the greatest reduction DALYs lost per dollar.

What is wrong with this as a policy tool?

A) It ignores everything about what people might actually want as it 1) assigns arbitrary weights to deaths at different ages and to various health conditions, 2) ignores all non-health outcome related aspects of health care, that is all dimensions of service quality, 3) ignores all non-health objectives consumers might have.

B) It ignores everything about how actually one might go about providing health services, in terms of how to motivate public sector providers, how to monitor private providers that are reimbursed by the government, how to deal with third party payment.

C) It ignores all distinctions between types of economic goods, like "private" and "public." By judging "interventions" by their medical efficacy in reducing DALYs it judges public sector health interventions by assuming that nothing would have happened if the public sector had not intervened. Since some health goods are private (aspirin, the pill) and some are public (vector control) this mode of analysis is wrong.

The final version of the WDR 1993 is unfortunately inconsistent on these points because, due to inattention, there was not enough time to revise completely the report to take the comments from the office of the then Acting DECVP (Nancy Birdsall) into account. However, the WDR 1993 never endorses crude medical intervention cost effectiveness and it rightly defines cost effectiveness as public sector cost effectiveness (e.g page 59, "whether a particular public intervention is cost-effective: this means judging the improvement in health compared with what would have happened through private decisions in the absence of public action"). We would like to inform all that DEC subscribes to the latter, more refined, definition. If you'd like more background next week, Lant Pritchett can fill you in as I'll be on leave until the July 10.

Manny
Emmanuel L. Llanena

cc: L. Squire (o/r), L. Pritchett, J. Hammer, S. Devarajan, D. Wheeler (PRD) M. Baird, P. Viera da Cunha (DECVP), V. Thomas (EDIDR), M. Ahmed (IECDR).

July 3, 1995

Mr. David de Ferranti
PHN

Re: Dr. Richard Feachem's Vision

David,

Thank you for giving me the opportunity to comment on the statement of Dr. Richard Feachem of his vision for health related work in the Bank. I agree that it's refreshing for Bank staff to hear the views of newly arrived staff, particularly one with such an international reputation. Most of the areas identified in the paper are timely and appropriate for the Bank's attention. In particular, the difficult problems of health care system reform, improving health in Africa and the opportunities the Bank can seize in guiding international research and distribution effort are priority areas.

I think that there is scope and opportunity to channel our scarce analytical resources to support Richard's call for "Clarifying a reasonable center." A proper analysis of where that center is that will contribute to health care reform will start with the questions: "How can the government most effectively improve upon the status quo?" or equivalently "Which government expenditures, provision or regulatory activities will make the greatest contribution to improving lives relative to what would have happened without the government?"

To answer these questions will require addressing the truly difficult questions about the behavior of individuals as consumers of health services and a promoters of their own health (the demand side) and as providers of health services, information, and financing or insurance (the supply side). Policy analysis will have to take seriously the inherent problems posed by insurance, non-competitive structures in medical markets, specific problems in health promotion, and other features of the health sector. We look forward to working with you by combining sector expertise and expertise in policy analysis on these difficult and important issues.

However, my colleagues and I do have strong reservations about the Bank's use of the concept of "buying cheap DALYs." The concept and measurement of DALYs is unambiguously an improvement on cruder indicators of health status (such as infant mortality or death rates) and DALYs may constitute a useful basis for monitoring progress. However, in our view, ranking potential medical "interventions" on their costs and DALY benefits is an inappropriate methodological basis for policy analysis. As Richard states:

"Whether the cheap DALYs are bought with public funds or private funds, and whether the services purchased are delivered by public or private providers, are separate debates."

Since all policy discussions of "what should the government do?" essentially revolve around these two questions (that Richard points out DALYs are irrelevant to) it is not clear what is gained by

introducing them. Moreover, much may be lost in policy discussions from the confusion that inevitably surrounds discussions of "cost effectiveness, without a prior analysis of public/private roles."

Lyn Squire

bcc: E. Jimenez, S. Devarajan, J. Hammer, L. Pritchett



Jerusalem,
June 29, 1995

To: Bill Easterly

From: Michael Bruno

Re: Article for Transition Newsletter (plus some further thoughts)

Bill,

Finally got to read the article that you sent me. I have only two comments:

A. It is really superb. It is crisp, reads extremely well and has interesting value added tailored to the transition context.

B. Please seriously consider owning it as your own without having to include my name with yours as co-author (after all the reference is to our joint paper). Why not for once "do unto me what I did unto to you" (in the F&D article)? Feel free and let me know.

Will now read more carefully the second draft. May get back to you only after I come back (returning July 2).

I have had some additional thoughts to discuss with you on the benefits and costs of a deep crisis, and a broader definition of crisis, which could also be linked to the need and effectiveness of aid, not for this paper but maybe for another. It links up with some of my observations on the tenth anniversary of the Israeli 1985 program. Israel is the only crisis country (on our definition) in which growth dropped only slightly and with Mexico is one in which growth did not quite catch up to the past during recovery. This may be linked with the fact that it enjoyed ample (and I think excessive) foreign aid (or long term capital inflow) during the crisis years which is why it is the only crisis case that was not a debt rescheduler. In spite of seemingly impressive GDP growth performance (in large part explained by recent human capital inflow) it is still lagging behind other successful reformers (like Chile and Argentina) in structural reform (sluggish privatization, maintaining monopolies in public utilities, expensive public pension fund system etc). Comparison with other cases would suggest that the stabilisation took place at a crisis point which in hindsight may not have been deep enough. The fear was that George Schultz would give Peres the promised 1.5 billion before the comprehensive program was in place. Maybe it should have been and waiting for 1000 or 2000 percent inflation might have helped... The cost of that may of course have been a deeper unravelling of the social and political fabric, which is what one observes in the case of hyperinflation.

Is this something that could be generalized into a testable model (or classification of countries) in which we link delay and depth of subsequent crisis with availability of temporary placebos (like unconditional aid or oil resources, as in some African or Latin American countries), evolving political commitment to extensive reform (how measure?) and extent of recovery afterwards?

cc: Paulo Vieira da Cunha



WB DECVP 2024770549

(AUTO)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION
038	TRANSMISSION	

TEL NO.
95223518

PAGE	RESULT
01	OK

ERRORS

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

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

DATE: June 19, 1995 11:21am

TO: See Distribution Below

FROM: Michael Bruno, DECV

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

Further to my em of June 9, Mr. Lyn Squire will act on my behalf from Monday, June 19 through Thursday, June 29. Mr. Mark Baird will act for me on Friday, June 30th. I will return to the office on Monday, July 3.

Pursuant to paragraph 4 of Annex D of the Administrative Manual Statement No. 1.30, they are 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: James D. Wolfensohn
TO: RICHARD FRANK
TO: Gautam S. Kaji
TO: SVEN SANDSTROM
TO: IBRAHIM SHIHATA
TO: ORSALIA KALANTZOPOULOS
TO: ATSUKO Horiguchi
TO: Masood Ahmed - IECDR
TO: Mark Baird
TO: Gregory Ingram
TO: Lyn Squire
TO: Vinod Thomas
TO: Alan Gelb
TO: Paulo Vieira Da Cunha
TO: Lesley Davis
TO: Jean Bradier
CC: INSTITUTIONAL ISC FILES

(PAPER MAIL)
(RICHARD FRANK @A1@WBWASH)
(GAUTAM KAJI)
(SVEN SANDSTROM @A1@WBWASH)
(IBRAHIM SHIHATA @A1@WBWASH)
(ORSALIA KALANTZOPOULOS @A1@WBWA)
(ATSUKO Horiguchi @A1@WBWASH)
(MASOOD AHMED)
(MARK BAIRD)
(GREGORY INGRAM)
(LYN SQUIRE)
(VINOD THOMAS)
(ALAN GELB)
(PAULO VIEIRA DA CUNHA)
(LESLEY DAVIS)
(JEAN BRADIER)
(INSTITUTIONAL ISC FILES @A1@WBW)

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

DATE: 19-Jun-1995 09:36am

TO: Lyn Squire

(LYN SQUIRE)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Attached

Lyn, Michael agreed that you should act for the entire period. However, I understand that you are away on Friday June 30th so I have put Mark acting on that day. Please let me know if attached is OK with you.

Apart from the meetings I have already advised you of, there will be a President/VPs meeting on Wednesday 6/28, 8.30-9.30.

Thanks

Kate

CC: Carol Best

(CAROL BEST)

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

DATE:

TO: See Distribution Below

FROM: Michael Bruno, DECVF (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

Further to my em of June 9, Mr. Lyn Squire will act on my behalf from Monday, June 19 through Thursday, June 29. Mr. Mark Baird will act for me on Friday, June 30th. I will return to the office on Monday, July 3.

Pursuant to paragraph 4 of Annex D of the Administrative Manual Statement No. 1.30, they are 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: James D. Wolfensohn	(PAPER MAIL)
TO: RICHARD FRANK	(RICHARD FRANK @A1@WBWASH)
TO: Gautam S. Kaji	(GAUTAM KAJI)
TO: SVEN SANDSTROM	(SVEN SANDSTROM @A1@WBWASH)
TO: IBRAHIM SHIHATA	(IBRAHIM SHIHATA @A1@WBWASH)
TO: ORSALIA KALANTZOPOULOS	(ORSALIA KALANTZOPOULOS @A1@WBWA)
TO: ATSUKO Horiguchi	(ATSUKO Horiguchi @A1@WBWASH)
TO: Masood Ahmed - IECDF	(MASOOD AHMED)
TO: Mark Baird	(MARK BAIRD)
TO: Gregory Ingram	(GREGORY INGRAM)
TO: Lyn Squire	(LYN SQUIRE)
TO: Vinod Thomas	(VINOD THOMAS)
TO: Alan Gelb	(ALAN GELB)
TO: Paulo Vieira Da Cunha	(PAULO VIEIRA DA CUNHA)
TO: Lesley Davis	(LESLEY DAVIS)
TO: Jean Bradier	(JEAN BRADIER)
CC: INSTITUTIONAL ISC FILES	(INSTITUTIONAL ISC FILES @A1@WBW)

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

OFFICE MEMORANDUM

Chum

DATE: June 15, 1995

TO: Mr. Sven Sandstrom, Managing Director, EXC

FROM: Michael Bruno, Vice President, DECVP *MB*

EXTENSION: 33774

SUBJECT: **Operational Implications of the World Development Report on Labor**

I attach for your review and clearance minutes of the Policy Review Committee meeting held on Friday 9th June, 1995, together with a revised version of the note on operational implications of the WDR. I have already shared this with Armeane Choksi, since HCO will be key to implementation of this, and I have incorporated his comments.

CC: Messrs./Mmes. Kaji, Kalantzopoulos, Mas (EXC) Choksi (HCO), Baird, Vieira da Cunha, Walton (DEC)

Minutes of the Policy Review Committee to discuss the Operational Implications of WDR 1995

The Committee agreed on the following general issues:

1. The purpose of the note is to provide a checklist of points that regional and task managers should consider when they judge that labor issues are important to the country assistance strategy. The recommendations all fall within existing Bank policy. These points would be clarified in an introductory paragraph, that would also provide the context in terms of the conclusions of the WDR itself. The relevant WDR chapters would be cross-referenced in the note.
2. In addition to analysis of some relatively new areas for the Bank, the WDR provides strong support to a range of areas where the Bank is already active, for example in education and rural development. It is also closely related to the Bank's overall work on poverty, since improving labor incomes and conditions is central to poverty reduction. These points would be emphasized in the note.
3. With respect to the relative new areas for the Bank, such as labor policy, child labor and unions, it is premature to provide comprehensive and detailed guidance to staff under all circumstances. The WDR provides an overall approach, and more involvement of the Bank will often be justified in specific country circumstances. However, we need to explore, innovate and learn about best practices. HRO and DEC (especially EDI) are developing training materials for both Bank staff and our clients. HRO in particular will also guide task managers to the specialized skills—in- or out-house—that may be needed to implement work on labor, for both lending and non-lending services.

The Committee also agreed on the following specific points:

- *Collective bargaining.* In view of the above general clarifications, the note strikes the right balance.
- *Compensatory measures to deal with job loss.* The note would support use of measures such as severance pay within existing Bank policy (under the use of counterpart funds in adjustment loans) without closing the door to future reconsideration of such support under investment lending
- *Child labor.* It would be stated, as in the WDR, that exploitative forms of child labor are bad, and the issue was how to deal with such child labor, in view of the ineffectiveness of a purely legislative approach.
- *Labor standards and international trade.* This is not a point directly affecting staff behavior, and would be recast as a summary statement of the conclusion of the WDR--that there should not be any linkage between domestic labor standards and multilateral trade agreements.

Implications of the WDR on Labor for Operational Staff

1. The 1995 World Development Report on labor assessed the impact of development strategy, international interactions and labor policy on the welfare of workers. In the spirit of the WDR on poverty, it underscored the centrality of labor outcomes for strategies to reduce poverty. The Report concludes that problems of low incomes, poor working conditions, and insecurity of many the world's workers *can* be effectively tackled in a way which reduces poverty and regional inequality. But to do so will require sound domestic policy and a supportive international environment. This means governments must:

- pursue market-based growth paths that generate rapid demand for labor, expansion in the skills of the work force, and rising productivity;
- take advantage of new opportunities at the international level, by reacting to new market opportunities and attracting capital—and managing the dislocations that changing trade patterns sometimes bring;
- construct a framework for labor policy that complements informal and rural labor markets, supports collective bargaining in the formal sector, provides safeguards for the vulnerable, and avoids biases that favor relatively well-off workers;
- and, in those countries struggling with the transition to more market-based and internationally integrated patterns of development, try to ensure that the transition happens as fast as possible without large or permanent costs for labor.

2. The analysis has implications for the Bank's operational work. These fall into two categories: first, the WDR provides strong support for a number of areas in which the Bank is already active; and second, it provides advice in areas where the Bank has had relatively little involvement, especially with respect to labor policy and institutions. This note is intended to provide guidance to country and task managers on these implications. It briefly summarizes the conclusions in the first area, and then provides a checklist of conclusions with operational implications in the second area. The background to these conclusions is given in the WDR itself, that is cross-referenced throughout. This note is intended as a guidepost to the WDR and other sources of more detailed technical advice for staff. The areas of advice outlined fall within existing Bank policies and should be treated as recommendations and not mandates for staff.

3. Whether an issue relating to labor is judged important to the country assistance strategy will be a matter for regional managers to decide—a judgment that can be informed by the analysis and approach of the WDR. Where such a judgment is formed, there may be a need for specialized skills, since only a few task managers in the Regions have experience and skills in this area. HRO and DEC will be available to provide advice, and HRO has already developed a training program, closely linked to the WDR, that was offered to staff for the first time in May 1995. EDI, in collaboration with HRO, will be developing in the summer of 1996 a new course on policy aspects of the labor, based around the WDR, that will be offered in various regional

courses in FY96. Since some of the areas are new, experience and innovation will be important. This will feed into best practice and training in the future.

4. ***Areas in which the Bank is already active.*** A pervasive theme of the report is that overall development strategy and international interactions are key to the welfare of workers. The WDR provides support for much that the Bank now advocates. This includes the following:

- *Economic growth* is crucial to rises in wages and employment and will require a combination of high investment and a market-based environment that ensures that investments lead to rising productivity (Chapter 2).
- *Avoiding biases against labor demand* is key to ensure workers fully participate in the growth process. Such biases often flow from distorted product, capital and land markets or misguided tax policy, or the pattern of spending on economic infrastructure, that fails to provide strong support for broad-based rural development and family farms (Chapter 4).
- *Agricultural and land policy distortions*--a special case of distortions with strong labor demand effects--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 Bank staff encourage the elimination of these distortions and explore the potential of market-based land reform (perhaps with grants for land purchase for small farmers) where inequalities of landholdings are severe (Chapter 4).
- *Investment in human resources*, with an emphasis on broad-based, subsidized access to basic schooling and health services for the poor, is fundamental to equipping children for future work and to ensuring an equitable distribution of the fruits of growth (Chapters 5 and 6).
- *Openness to international transactions*, especially trade and capital flows (since migration will often continue to be controlled), underpinned by prudent macroeconomic management (*inter alia* to reduce volatility of capital flows) is necessary to ensure that workers reap the potential opportunities in the global economy (Chapters 6-9).
- *Vigorous and credible reform strategies* are necessary in both market-oriented developing and former centrally planned economies to ensure these economies move swiftly on to the new growth paths that are critical to growth in jobs and wages (Chapters 15-16).

In each of these areas a focus on the labor dimension will often be important to analytical work and the policy dialogue, and may influence lending strategies.

3. ***Areas new to the Bank, or with new emphases.*** 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, who form a small fraction of the labor force in low income countries. Labor policies influence the size and dynamism of the formal sector via their influence on formal sector hiring and firing, the size and

employment practices 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 Region. The main areas where there are new conclusions with operational impact are as follows.

- *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 (Chapters 11 and 12).
- *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 into country analysis (Chapter 12).
- *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 the public sector raises additional issues, and will frequently necessitate special 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 through the use of domestic counterpart funds under adjustment lending. Such compensation schemes will have to be devised to trade off acceptability, fairness, and low cost (Chapter 13).
- *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 the 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 (Chapter 13).

- *Exploitative forms of child labor* are deplored in almost all societies and carry high social and economic costs. But reducing such child labor can be difficult, and is not simply a matter of legislating against it. Generally a multi-faceted approach is required, that would include legislation against hazardous and dangerous work, subsidized 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 (Chapter 11).
- *Women and minorities frequently work in relatively low paid jobs and get paid less for the work they do.* This is generally a reflection of two factors: relatively low marketable skills, and less access to job opportunities even after skills and capabilities are controlled for. Lower marketable skills can be a consequence of weaker access to schooling or biases in the allocation of food or health services in the household. Household decision-making is important to these effects. Worse jobs or wages, after controlling for skills, can be due to laws, social norms and market perceptions. The Bank should identify factors responsible for differential labor market outcomes and address discriminatory practices through appropriate policy instruments including labor legislation and measures to improve human capital formation for women and minorities (Chapter 6 and 11).
- *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 (Chapter 14).
- *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 (Chapter 17).
- *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* is not an issue of relevance to country assistance strategy but is frequently in the public debate. Advocates of such a link propose that multilateral trade agreements 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. The position in the WDR is that these are legitimate areas for domestic policy and international concern. 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 (Chapter 11).

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.

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

DATE: June 15, 1995 06:12pm

TO: See Distribution Below

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: DECVP MOVE Friday June 23

My office will move to N6-043 on Friday, June 23. DECVP will be closed for business on that day. Thursday, June 23 and Monday, June 26 will be packing/unpacking days. Telephone numbers will remain the same. Our new fax numbers are: M. Baird: 522-1157; M. Bruno: 522-1158. I would appreciate your patience during this disruption of work.

Thanks.

Michael

DISTRIBUTION:

TO: RICHARD FRANK	(RICHARD FRANK @A1@WBWASH)
TO: Gautam S. Kaji	(GAUTAM KAJI)
TO: SVEN SANDSTROM	(SVEN SANDSTROM @A1@WBWASH)
TO: S. Shahid Husain	(S. SHAHID HUSAIN)
TO: IBRAHIM SHIHATA	(IBRAHIM SHIHATA @A1@WBWASH)
TO: Shahid Javed Burki	(SHAHID JAVED BURKI)
TO: Armeane Choksi	(ARMEANE CHOKSI)
TO: JULES MUIS	(JULES MUIS @A1@WBWASH)
TO: JESSICA EINHORN	(JESSICA EINHORN @A1@WBWASH)
TO: EDWARD V.K. JAYCOX	(EDWARD V.K. JAYCOX @A1@WBWASH)
TO: HIROO FUKUI	(HIROO FUKUI @A1@WBWASH)
TO: CAIO KOCH-WESER	(CAIO KOCH-WESER @A1@WBWASH)
TO: JOHANNES LINN	(JOHANNES LINN @A1@WBWASH)
TO: ROBERT PICCIOTTO	(ROBERT PICCIOTTO @A1@WBWASH)
TO: Jean-Francois Rischard	(JEAN-FRANCOIS RISCHARD)
TO: Ismail Serageldin	(ISMAIL SERAGELDIN)
TO: TIMOTHY THAHANE	(TIMOTHY THAHANE @A1@EDSEL)
TO: WILFRIED P. THALWITZ	(WILFRIED P. THALWITZ @A1@WBWASH)
TO: D. Joseph Wood	(JOE WOOD)
TO: JANNIK LINDBAEK	(JANNIK LINDBAEK @A1@WBWASH)
TO: ORSALIA KALANTZOPOULOS	(ORSALIA KALANTZOPOULOS @A1@WBWA)
TO: ATSUKO HORIGUCHI	(ATSUKO HORIGUCHI @A1@WBWASH)
CC: Masood Ahmed - IECDR	(MASOOD AHMED)
CC: Mark Baird	(MARK BAIRD)
CC: Gregory Ingram	(GREGORY INGRAM)
CC: Lyn Squire	(LYN SQUIRE)
CC: Vinod Thomas	(VINOD THOMAS)
CC: Alan Gelb	(ALAN GELB)
CC: Jean Bradier	(JEAN BRADIER)

Mr. Gautam Kaji,

Gautam,

World Development Report 1995

I enclose a copy of the pre-publication copy of the WDR on labor. It will be released on June 30th. Thank you for your help and inputs on this project.

A handwritten signature in blue ink, appearing to read 'Michael Bruno', is positioned above the printed name.

Michael Bruno

15 June, 1995

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

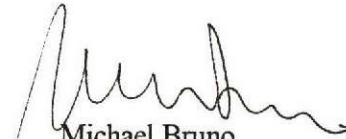
June 14, 1995

Mr. Gautam Kaji

Bank-Fund Collaboration on Public Expenditure Work

Gautam,

Attached, for clearance, is the final version of the note to staff on public expenditure work. In light of the lunchtime discussion with Mr. Camdessus, we have prepared a cover note for Mr. Wolfensohn to sign, stressing the importance of public expenditure work and Bank-Fund collaboration in this area. We have also lightened the language of the attached guidelines to make them less bureaucratic.



Michael Bruno

THE WORLD BANK
INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

To: The staffs of the Bank and the Fund June 14, 1995
From: Michel Camdessus and James D. Wolfensohn
Subject: Bank-Fund Collaboration on Public Expenditure Work

Bank and Fund staffs have recently completed their work on public expenditure issues, and have highlighted a number of areas in which collaboration could be enhanced. We are committed to working together to maintain and strengthen Bank-Fund collaboration, and attach particular importance to public expenditure work.

The overall level and composition of public expenditure are key determinants not only of financial stability but also of the efficiency and equity with which scarce resources are allocated within an economy. Good public expenditure analysis, along with a strengthening of local capacity in this area, can help governments achieve their fiscal objectives (including efficient public expenditure) without sacrificing priority programs aimed at supporting longer-term growth and social development. Sound public expenditure decisions are also essential for the effective use of domestic and foreign resources.

Recognizing the importance we attach to Bank-Fund collaboration on public expenditure issues, we have agreed on the attached guidelines for our work in developing countries. These have been developed after a very productive process of consultation between the staffs of the two institutions. We hope that they will not only strengthen collaboration between Bank and Fund staffs, but also lead to a more effective response to our members' needs. The final measure of success will be improvements in public expenditure policies and their implementation by member governments, which are responsible for policy decisions and implementation in this area.

Attachment

Guidance Note for Bank-Fund Collaboration on
Public Expenditure Issues

Over the last year, Bank and Fund staffs have reviewed their involvement and collaboration in public expenditure issues. These reviews took place in recognition of the importance of advice on public expenditure issues and the need to coordinate advice on macroeconomic policy with advice on public expenditure policies and management. To enhance Bank-Fund collaboration on public expenditure issues, the following procedures have been agreed.

1. Each year, regional and area department senior staff in the Fund and the Bank will meet to review the experience with previous efforts and discuss priority countries and issues for public expenditure work (including related fiscal and institutional development issues). It is suggested that these meetings take place when Bank staff discuss their program for economic and sector work, normally in September. Records of these meetings will be sent to the respective managements for information and guidance; this will be coordinated by FAD and PDR in the Fund, and by DECVP and Regional Chief Economists in the Bank.

2. For each country for which public expenditure issues have been identified to be of priority importance in these meetings, the regional and area department staffs of the two institutions will meet to discuss and agree a specific work program and record the results. For illustration, the agreed work program might include:

- objectives and requirements of the Bank and the Fund, including related lending operations;
- the need for follow-up to existing work on public expenditure;
- coverage and priorities for new work (e.g., advice on public expenditure composition ahead of approval of recipient government budgets, comprehensive public expenditure reviews, or selective reports);
- the macroeconomic framework and data to be used (including coverage and classification of public expenditures);
- measures to strengthen the involvement of the country authorities;
- work plan for the coming year and indicative plan for the subsequent two years indicating the following:
 - timetable,
 - respective responsibilities,

- output,
- mission participation, and
- exchange of data, terms of reference and draft reports.

3. During the course of the year, Fund staff might request from Bank country officers the preparation of short notes distilling the main results of existing public expenditure work if needed, as input for policy dialogues with the authorities of a member country in the context of surveillance or program discussions. Similarly, to facilitate the Bank's public expenditure work, Bank staff may ask from country economists to provide the most recent fiscal projections, including the underlying macroeconomic assumptions on which they are based, to insure the consistency of the advice on public expenditure issues with the macroeconomic framework. Staff comments on draft reports of the other institution (e.g., draft briefing papers, initiating memoranda and Board documents addressing public expenditure issues) will be provided at an early stage.

4. The staffs of the Bank and the Fund will collaborate more generally on analytical issues relating to public expenditure. This will be coordinated by FAD in the Fund and PRDPE in the Bank.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

June 14, 1995

Mr. S. Shahid Husain

Revised Economist Criteria

Shahid:

Please find attached a revised set of economist criteria for clearance to Levels 25-28. These are substantively the same as before, except that we have:

- merged the country, sector and research streams into one set of criteria for all economists;
- focused more on the candidate's demonstrated capacity and potential, rather than completion of specific tasks and responsibilities;
- given explicit recognition to the value of work on policy notes and dialogue;
- deleted "years of experience" as a requirement for Level 25;
- added "independent thinking" to the criteria for Level 27; and
- simplified and clarified the language.

If you agree, these revised criteria should be distributed to Bank managers and staff to guide the selection of candidates for next year's round of panel clearances. For the current round of clearances, we will continue to use the existing criteria, while keeping in mind the added points of emphasis noted above.



Michael Bruno

Attachment

cc: Economist Panel Members, Mr. Olivares, Mmes. Travis, O'Neil, Cardona

ECONOMIST CRITERIA

	Level 25	Level 26	Level 27	Level 28 *
Education	Ph.D in economics. However, relevant experience either within or outside the Bank, including proven capabilities for dealing with major policy issues, may be substituted. <i>Note:</i> Research economists will normally have a Ph.D in economics. However, in exceptional cases, pre-Bank experience, including a strong publications record, may be substituted.	Same as Level 25.	Same as Level 25.	Same as Level 25. * In applying these criteria to structured Level 28 positions (such as Chief Economist) due consideration will be given to Bank process aspects (review of ESW, administration, policy formulation and dialogue with member governments, staff development, etc).
Professional Knowledge and Experience	Candidate should have clearly demonstrated capacity and potential to: i) conceptualize and analyze economic issues in an innovative manner; ii) plan, coordinate and monitor economic work programs; iii) lead economic missions and policy dialogue; iv) prepare and supervise policy-based operations; and v) prepare and/or review policy and strategy papers.	In addition to the factors mentioned for Level 25, candidate should have: i) normally, not less than 2 years of experience in the Bank at Level 25; ii) worked in one other part of the Bank (e.g., field office, CVPU or a Region other than the one where presently assigned). Appropriate pre-Bank experience may substitute; iii) demonstrated the knowledge and experience needed to lead major economic missions and handle particularly sensitive and difficult negotiations with country officials; and	In addition to the factors mentioned in Levels 25 and 26, candidate should: i) have demonstrated knowledge or experience that qualify him/her as the Bank's leading authority in one or more subject areas that are essential to the Bank's economic and policy work; ii) have demonstrated the capacity to guide Bank management with innovative professional and technical approaches to resolving complex and long-term operational problems; and	In addition to the factors mentioned in Levels 25 to 27, the candidate should: i) be recognized as the Bank's leading authority in one or more subject areas that are essential to the Bank's economic and sector work. Must be widely recognized as being at the top of the profession; and ii) normally, have occupied senior positions in academia, industry or international organizations.

	Level 25	Level 26	Level 27	Level 28 *
	<i>Note:</i> A solid track record of publications is essential for research economists. For country and sector economists, work on (peer-reviewed) policy notes and policy dialogue is equally valid as formal reports. <i>Note:</i> Due consideration should be given to equivalent high-caliber policy, review and dissemination work in the Bank's central units (e.g., EDI, OED, FPR). <i>Note:</i> For external candidates, potential should have been demonstrated through involvement in high-level policy (and analytical) work in developing countries or development-related institutions.	iv) demonstrated the capacity to apply "cutting edge" knowledge to policy and operational work. <i>Note:</i> At this level, emphasis is placed upon the quality of policy judgments, the breadth of knowledge (including the links between macro and sectoral concerns), and understanding the relationship to other aspects of national development. <i>Note:</i> Research economists should have a substantial record of contributing to operational support, Bank training and dissemination efforts. <i>Note:</i> For external candidates, higher levels of experience and potential, consistent with the criteria for Bank staff, are expected for Levels 26 and above.	iii) be recognized as having particular expertise and be able to represent the Bank in any forum concerned with his/her field of specialization.	
Leadership	Recognized as a leader in professional and operational matters related to discipline or specialty by colleagues and senior managers. Respected for sound judgment as demonstrated by being sought after for advice and counsel.	Recognized as a leader among Level 25 peers in one's field of expertise. In addition to factors mentioned for Level 25, candidate demonstrates capacity to: i) provide innovative approaches to difficult policy and operational issues at the Bankwide, regional, country or sector levels; and	Recognized in the Bank as the leader in one's field among Level 26 peers. In addition to factors mentioned for Level 26, candidate demonstrates capacity to provide innovative approaches to complex, strategic and long-term issues at VPU levels and Bankwide.	Recognized in the Bank and externally as the leader in a major field of expertise relevant to the Bank's economic and sector work. In addition to factors mentioned for Level 27, candidate is recognized as providing innovative approaches to complex and long-term Bankwide issues.

	Level 25	Level 26	Level 27	Level 28 *
	<i>Note:</i> If not an experienced staff member, should have demonstrated equivalent leadership by established reputation and outstanding record of accomplishment. Candidate demonstrates capacity to: i) contribute new or innovative approaches to policy and operational issues and take the lead in their dissemination and/or implementation; ii) provide coaching to more junior staff to improve their effectiveness and motivation; and iii) be sensitive to the Bank's objectives of gender and nationality diversification.	ii) lead conception and design of professional and operational training or dissemination activities in one's field of expertise.		
Communication	Is persuasive and diplomatic, but able to defend ideas in a hostile environment, if required. Demonstrates superior ability to communicate difficult analyses and conclusions orally and in writing to Bank staff (including staff not in the candidate's discipline), senior Bank management, government officials and/or external professional colleagues.	Same as Level 25.	In addition to factors considered at Level 26, candidate should have demonstrated an ability and willingness to assert his/her ideas before senior management.	Same as Level 27.

	Level 25	Level 26	Level 27	Level 28 *
Effectiveness with Clients	Demonstrates ability to present, discuss and/or negotiate issues and proposals with senior Bank management, Executive Directors, senior government and/or private sector leaders, other multilateral organizations or academic/research institutions . Demonstrates sensitivity to historical, cultural and political factors, and gender issues that may affect policy or administrative decisions.	Demonstrates ability to conduct discussions and/or negotiations with broader and more senior-level contacts on increasingly more substantive issues and proposals. Same as Level 25.	Demonstrates ability to lead discussions at the highest policy levels, in the country and within the Bank, and with donor and other officials on major development policy issues and research initiatives. Same as Level 25.	Same as Level 25.

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

DATE: 14-Jun-1995 05:31pm

TO: Jules Muis (JULES MUIS@A1@WBWASH)

FROM: Michael Bruno, DECVP (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: Visit of Chairman of Federal Accounting Standards Board

Jules,

Thank you for inviting me to join the meeting with the Chairman of FASB on Monday next. Unfortunately, I will be out of the office on that day.

Michael

✓
A L L - I N - 1 N O T E

DATE: 12-Jun-1995 04:46pm

TO: See Distribution Below

FROM: Jules Muis, CTRVP

(JULES MUIS@A1@WBWASH)

EXT.: 81674

Sent By: Margaret E.A. Bowell

SUBJECT: Visit of Chairman of Federal Accounting Standards Board

Dennis Beresford, the Chairman of FASB and his Technical Director will be in the Bank next Monday to speak with the Association of Professional Accountants at 4:00 pm. Dennis has agreed to a prior meeting to be held at 3:00 pm in E-5078 to which I would like to invite you as members of the Finance Committee. Two or three of my own senior staff will also be present. It is a good opportunity to discuss worrisome accounting policies of the standard setters for the U.S.A., to hear some of the inside track and emerging issues or just to be more comfortable with all that is going on.

By the way, please do also encourage your respective staffs to participate in the bigger meeting at 4:00 pm in JB1-080 as announced in the Weekly Bulletin - it is not confined to APA members only. Thanks.

DISTRIBUTION:

TO: MICHAEL BRUNO	(MICHAEL BRUNO @A1@WBHQB)
TO: Russell Cheetham	(RUSSELL CHEETHAM@A1@WBWASH)
TO: Jessica P. Einhorn	(JESSICA EINHORN@A1@WBWASH)
TO: Caio Koch-Weser	(CAIO KOCH-WESER@A1@WBWASH)
TO: Johannes Linn	(JOHANNES LINN@A1@WBWASH)
TO: Ibrahim Shihata	(IBRAHIM SHIHATA@A1@WBWASH)
TO: Richard Frank	(RICHARD FRANK@A1@WBWASH)
TO: GAUTAM KAJI	(GAUTAM KAJI @A1@WBHQB)
TO: Sven Sandstrom	(SVEN SANDSTROM@A1@WBWASH)
TO: IGNACIO MAS	(IGNACIO MAS @A1@WBHQB)
CC: Kay Binkley	(KAY BINKLEY@A1@WBWASH)
CC: Lyda Tanco	(LYDA TANCO@A1@WBWASH)

OFFICE MEMORANDUM

DATE: June 14, 1995

TO: Mr. Timothy Thahane

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Annual Meetings - Pilot Program

This refers to your memorandum of June 1, 1995. Many thanks for being very responsive to our proposals. We find the timings you have proposed acceptable, with one exception. Since the weekend of October 7, is a long weekend in the United States, it may be difficult to attract good private sector participants on the first day of that weekend. We would, therefore, like to propose that the seminar on *Prospects of Private Flows after Mexico* be held on the other lunch slot you were offering the WDR (Wednesday, October 11). If that is not possible, you may like to suggest a time that would be convenient to private sector participants.

cc: Messrs: Clift, Friis, Capbert, Malloch-Brown, Voyadzis, Lateef, Ahmed, Baird, Vieira da Cunha, Gelb, Ingram, Squire, Thomas, MacDonald, Winters; Mmes: Davis, Kamel, Guerrero.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

Mr. James D. Wolfensohn

June 12, 1995

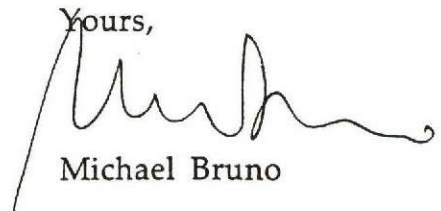
Dear Jim,

At the recent DEC meeting on development experiences you asked about The Economic Development Institute (EDI). I attach, for your information, a paper that describes the institute's newly emerging strategy.

You are scheduled to visit EDI on September 20 which will give you a first-hand flavor of the kinds of activities the institute carries out. At that time you will also be able to exchange views on EDI's new directions.

The changes under way should help EDI be a much more vigorous learning institution where country participants can learn about what has and has not worked. I have participated in an EDI seminar on macroeconomic reform for parliamentarians in South Africa and, as you suggested, we should and will be doing many more activities of this kind.

Yours,

A handwritten signature in dark ink, appearing to read 'Michael Bruno', with a long, sweeping horizontal stroke at the end.

Michael Bruno

The Relaunching of EDI

THE ECONOMIC DEVELOPMENT INSTITUTE
DEVELOPMENT ECONOMICS ♦ WORLD BANK

Meeting the Needs of a Changing World

SINCE ITS CREATION FORTY YEARS AGO, THE ECONOMIC DEVELOPMENT INSTITUTE (EDI) HAS BECOME A VALUABLE RESOURCE TO THE WORLD BANK AND MEMBER COUNTRIES. Through its training programs and publications, EDI has promoted understanding of what works for growth and development, what does not work, and why. More than 40,000 policymakers from the Bank's borrower countries have benefitted from lessons learned.

EDI has been adapting its programs and approaches to meet the emerging needs of its constituents. At no other time has the requirement to be alert and responsive been more critical than in today's world of rapid and dramatic political, social, and technological change.

To prepare to meet its new challenges, EDI carried out a strategic planning exercise in 1993-94. The process benefitted from the guidance of an advisory committee of development specialists and recommendations of a panel of individuals who have participated in EDI activities. The advice and counsel of EDI staff, donors, and professionals from other parts of the World Bank have helped this strategic work.

✧ The process yielded new directions requiring EDI to expand its mandate from that of a training institute to a learning institute helping to share the lessons of experience from around the world. These directions oblige EDI to restructure its programs, products, and management so that it can move quickly to meet the needs and interests of the countries it serves. EDI views these far-reaching changes as a partnership with client countries and the other departments within the Bank. Working in collaboration will generate new ideas in pursuit of the World Bank's overarching mission of helping countries achieve sustainable and equitable development. The new directions of EDI are summarized in this paper.



Changes at the Economic Development Institute

CHANGES IN TODAY'S WORLD CONTINUE TO BE RAPID AND DRAMATIC. THE EMERGENCE OF NEW DEMOCRATICALLY ELECTED GOVERNMENTS, THE ENTRY OF MANY new countries to the World Bank following the break up of the Soviet Union, changes in development strategies worldwide, the increasing availability of information and the proliferation of global information links present exciting challenges and opportunities to the World Bank and the Economic Development Institute.

The World Bank's greatest contribution in the coming years will be to help countries strengthen their capacities to manage change and economic reform by sharing knowledge about best practices in policy design and implementation. EDI is uniquely positioned to be the key link within the Bank to achieve this goal. To realize its potential EDI has expanded its mandate and begun to engineer changes in its program and business structure.

FROM TRAINING INSTITUTE TO CENTER FOR GLOBAL LEARNING

EDI was created in 1955 as a training institute to assist officials from developing countries with economic planning and management. EDI's expanded mandate builds on this strong foundation and calls for EDI to serve as a center for global learning and the dissemination of knowledge about development.

To realize this objective EDI will make three fundamental changes:

- ◆ It will expand its programs from teaching basic skills for selected audiences to adapting policy lessons for broader audiences.
- ◆ It will promote the development of an information network among countries and facilitate communication between the Bank and its clients.
- ◆ And, it will adopt a consolidated and more flexible structure that focuses on major programs, assures quick responsiveness to changing needs, and promotes collaboration within the Bank and with outside partners.

NEW PROGRAMS AND AUDIENCES

Sharing Lessons Learned. EDI functions as a center for the exchange of practical knowledge to advance the development process. In the recent past its curriculum has emphasized basic skills training, and it will maintain a core capacity in basic skills because they remain a priority for economies in transition. Its goal is to move gradually from the direct provision of basic skills training by collaborating with other training institutions so that they can assume this role. EDI's increasing emphasis will be on assistance in policy formulation and implementation. It could take advantage of its unique potential to draw on the Bank's rich resources of research, knowledge, and experience in development practice to become the catalyst for sharing the lessons learned in development worldwide.

Expanding the Audience. EDI's primary clients are senior officials and other influentials who make development policy. But, the spread of democracy and global access to information has increased the need to bring others into the policy dialogue. EDI intends to broaden its participant pool to include some of these important voices. Future EDI programs could include policymakers at the central, state and municipal levels, parliamentarians, local opinion leaders, nongovernmental development organizations, labor unions, trainers from other institutes, journalists, and the public, as some of the recent programs in South Africa, Tanzania and Ukraine have done. Their diverse and important points of view will encourage innovation and enhance EDI's capacity as a consensus-builder.

Connecting the World. While seminars and publications continue to be essential EDI products, EDI will begin to take greater advantage of opportunities to share knowledge through new information technologies. Because of its unique ties within the Bank and with countries and training institutes worldwide, the EDI can help to connect the world. Recent seminars for journalists in Cameroon and Senegal using television and teleconferencing to link participants with Bank experts are a successful example. EDI will develop new products using video cassettes, CD-ROM, radio, electronic mail and other electronic media to increase EDI's reach and impact.

Strengthening the Network. In the future EDI will serve a more catalytic role in policy reform. It will become more facilitator than expert, promoting open exchange and two-way communication among countries and between the Bank and its clients. In this way, questions of high priority can be addressed in a timely and efficient fashion. EDI will strive to strengthen relations with country institutions, regional banks, and multilateral organizations, and expand its links with training institutions worldwide in order to serve its clients more efficiently and effectively.

DEVELOPMENT THEMES AND PRIORITIES

Client-Driven Themes. EDI will continue to develop products and themes that address crucial client concerns. Countries have placed priority on developing and implementing policy and regulatory frameworks in several key areas: economic policy, human resources, environment and natural resources policy, and private sector development.

Regions and Countries. Seventy percent of EDI resources have been devoted in recent years to Sub-Saharan Africa and the countries of the former Soviet Union combined. The dimensions of Africa's problems and the conditions of transition in the former Soviet Union justify this emphasis. Nonetheless, EDI will continue to be flexible in responding to new demands in other developing regions. In those countries where basic training in market economics is under way, EDI will work to leverage its activities with other institutions, allowing it to respond to the needs of other regions where countries are launching reform programs.

In disseminating best practices, EDI must pay close attention to low income countries everywhere. However, EDI will also maintain a meaningful involvement with those countries that have succeeded in their development efforts in order to learn from and communicate their successes to others. The regional distribution of EDI's global presence will continue to be determined by assessing country needs and through discussions with the Bank's Operations staff.

Program Emphasis. Areas of emphasis in the coming years include decentralization and fiscal policy, girls' education and reproductive health, poverty programs, environmental action, water programs, and regulatory reform, as well as the development of new EDI product lines to help manage change, and increased dissemination activities. Areas of receding emphasis for EDI programs include energy, some of the work in transport and agriculture that the private sector can absorb, and the direct provision of basic skills training generally. Staff changes reflect these realignments. EDI will make further adjustments as appropriate.

MANAGEMENT APPROACHES

Forging Closer Links Within the Bank. By forging closer links with Operations and other parts of the Bank, the Institute can increasingly serve as a conduit for the exchange of knowledge and the flow of information between the Bank and its client countries. It can also be a vehicle for validating the country priorities for the research and policy questions that the Development Economics (DEC) and other Central Vice Presidencies (CVP) pursue.

EDI could assume a much more vigorous role in disseminating research results through training materials and other programs. EDI's follow up activities to current and future World Development

Reports is a step in this direction. Joint training activities with the CVPs and collaboration with the Operations Evaluation Department (OED) could be other important initiatives.

Working with the Bank's resident missions, EDI can help Country Operations manage information exchange and dissemination among a growing range of stakeholders. The Bank's Regions will be able to use EDI as a forum for the exchange of country experiences. Operations staff can follow through on economic and sector work by joining with EDI in designing seminars and other learning events.

EDI could also support the training of Bank staff. Joint seminars for Bank staff and country participants on selected topics would spark discussion of new ideas and sharing of experiences. The Institute has started to conduct such courses in project management, social sector policy, and resettlement.

Organizational Streamlining. EDI has adopted a structure that should allow it to focus more clearly on core activities, phase out lower priorities, and reduce administrative overhead. It has crafted a simpler divisional structure that would realign work programs from seven divisions to five and sharpen the thematic focus: New Products and Outreach, Macroeconomic Management and Policy, Human Resources and Poverty, Environment and Natural Resources, and Regulatory Reform and Private Enterprise. Various alternatives for greater staff rotation between EDI and the rest of the Bank need to be explored. This movement will help promote interaction and allow for changes in staffing profiles within budget constraints.

Resident Offices. EDI will continue to support resident missions in Moscow and Kiev for the short term because of the exceptional conditions in the transition economies of the former Soviet Union. However, in the long term, EDI will provide support mainly through partnerships with local institutions working closely with the Bank's resident missions.

The Budget. A tighter Bank budget constrains EDI, too. Cofinancing has constituted about half of EDI's total budget. Even within a tighter budget, EDI will plan for greater financial flexibility so that it can acquire expertise from inside or outside the Bank as needed. It will need to leverage further its resources by pursuing relationships with other institutions. EDI is exploring possibilities for greater cost recovery for its services. Initial surveys indicate market acceptance of such a move.



IN A RAPIDLY CHANGING WORLD, embracing new initiatives on issues of policy, broader audiences, substantive themes affecting regions and countries, closer interactions with the rest of the Bank, and the use of electronic technologies open up fresh and exciting opportunities to EDI. But responding effectively to this broad new mandate also presents a tough challenge. Strategically repositioned, the Institute can meet the challenge.

EDI ADVISORY COMMITTEE MEMBERS

MASOOD AHMED

Director

*International Economics Department
World Bank*

NOEL A. JONES

Senior Management Consultant

*Organization and Business Practices Department
World Bank*

NANCY BIRDSALL

Executive Vice President

Inter-American Development Bank

MOISES NAIM

Senior Associate

Carnegie Endowment

MICHAEL BRUNO

Vice President

*Development Economics
World Bank*

ANDREW STEER

Director

*Environment Department
World Bank*

ELKYN CHAPARRO

Senior Advisor

*Finance and Private Sector Development
World Bank*

ALEXANDER H. TER WEELE

Deputy Director

*Economic Development Institute
World Bank*

CATHERINE GWIN

Vice President of Studies

Overseas Development Council

VINOD THOMAS

Director

*Economic Development Institute
World Bank*

EDI PARTICIPANT FEEDBACK WORKSHOP

ENOS S. BUKUKU

*Economic Advisor to the Prime Minister and
First-Vice President
Tanzania*

HASSAN SELIM CHALAK

*Chairman, Civil Service Board
Lebanon*

LALIT KUMAR JOSHI

*Joint Secretary, Command Area Development,
Ministry of Water Resources
India*

MICHAEL J. KELLY

*Professor
University of Zambia*

JOAN MACDONALD

*Environmental Affairs Officer
United Nations Economic Commission for
Latin America and the Caribbean
Chile*

LASZLO MAGYAR

*Deputy Director General
National Bank of Hungary*

GODFREY MUDIMU

*Senior Lecturer
Agricultural Economics and Extension
University of Zimbabwe*

STANE PRAPROPTNIK

*Vice-Secretary, Ministry of Defense
Slovenia*

VALENTIN SILIANOV

*Vice Rector
Moscow State Automobile and Road
Technical University
Russian Federation*

ROGER TCHOUGNI

*Professor
Higher Institute of Public Management
Cameroon*

EDI ORGANIZATION

VINOD THOMAS

Director

ALEXANDER H. TER WEELE

Deputy Director

HYUNG-KI KIM

Adviser, Programs

PETER MIOVIC

Lead Economist

HATSUYA AZUMI

Division Chief, Environment and Natural Resources

BARBARA BRUNS

Division Chief, Human Resources and Poverty

ISABEL GUERRERO

Division Chief, Macroeconomic Management and Policy

JOHN MIDDLETON

Division Chief, New Products and Outreach

XAVIER L. SIMON

Division Chief, Regulatory Reform and Private Enterprise

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

DATE: 12-Jun-1995 04:57pm

TO: See Distribution Below

FROM: Michael Bruno, DECVP

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Thanks!!

Just to let you know how much I enjoyed the picnic on Friday and to thank you for all the effort which obviously went into organizing it. It was a great initiative and a lot of fun. I really enjoyed the opportunity to meet the families and see DEC staff show off their non-intellectual skills. Let's make sure we do it again next year.

Michael

DISTRIBUTION:

TO: Lesley Davis
TO: Karen Adams
TO: Carol Best
TO: Elizabeth Crayford
TO: Jean Jacobson
TO: Craig Noome
TO: Deborah A. Butts
TO: Vilma Mataac
TO: Rebecca Sugui
TO: Bilkiss Dhmun
TO: Joanne Lee
TO: Maria Elena Edwards
CC: Masood Ahmed - IECDR
CC: Mark Baird
CC: Gregory Ingram
CC: Lyn Squire
CC: Vinod Thomas
CC: Michael Walton

(LESLEY DAVIS)
(KAREN ADAMS)
(CAROL BEST)
(ELIZABETH CRAYFORD)
(JEAN JACOBSON)
(CRAIG NOOME)
(DEBORAH BUTTS)
(VILMA MATAAC)
(REBECCA SUGUI)
(BILKISS DHOMUN)
(JOANNE LEE)
(MARIA ELENA EDWARDS)
(MASOOD AHMED)
(MARK BAIRD)
(GREGORY INGRAM)
(LYN SQUIRE)
(VINOD THOMAS)
(MICHAEL WALTON)

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

DATE: 12-Jun-1995 04:18pm

TO: WEEKLY BULLETIN

(WEEKLY BULLETIN @A1@WBWASH)

FROM: Michael Bruno, DECV

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Weekly Bulletin--Announcements

-DECVP will move to the Sixth Floor of the "N" Building (801 19th Street,NW)
-effective Friday, June 23 and consequently will be closed for business
-on that day. As Thursday, June 22, and Monday, June 26, will be
-packing/unpacking days, we would appreciate receiving only essential
-calls on those days. (For move related questions only, please call
-Ext 30625.) New FAX Nos. 522-1157/522-1158

-
-
-
-

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

DATE: 12-Jun-1995 12:50pm

TO: Mark Baird

(MARK BAIRD)

TO: Anjali Villagran

(ANJALI VILLAGRAN)

FROM: Kate Oram, DECVP

(KATE ORAM)

EXT.: 31107

SUBJECT: The Move and the Weekly Bulletin

Anjali/Mark, hereunder is a draft text for the Bulletin. Please let me know if you have any changes. Thanks. Kate.

DECVP will move to the Sixth Floor of the N Building (801 19th Street, N.W.) effective Friday, June 23 and consequently will be closed for business on that day. As Thursday, June 22, and Monday, June 26, will be packing/unpacking days, we would appreciate receiving only essential calls on those days. (For questions, please call Ext. 30625.)

new Fax Nos. 522-1157/5221158

more
added
only
(We would like to send this to the Bulletin by tomorrow.)

Kate,

*Per mark, can we please ^{add} the wording above to the notice. Maybe we should also add our new fax nos (see my em).
Thanks.*

Anjali

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

DECLASSIFIED

APR 29 2025

WBG ARCHIVES

"PERSONAL"

June 9, 1995

Mr. Stanley Fischer, Deputy Managing Director, IMF

Stan,

As a follow-up on your meeting with Johannes and Masood, I enclose a note that reflects DEC's view - FYI only, please.

Sincerely,



Michael Bruno

L L - I N - 1 N O T E

DATE: 03-Jun-1995 10:21pm EST

TO: JOHANNES LINN

(JOHANNES LINN @A1@WBWASH)

FROM: Masood Ahmed - IEC DR, IEC DR

(MASOOD AHMED)

EXT.: 33800

SUBJECT: Multilateral debt -- meeting with JW

Johannes,

I am glad that you stopped by yesterday. I thought it was a very useful discussion and I feel very comfortable with where we came out on the substance and on the presentational strategy for the monday meeting. I thought it might be useful to summarize the approach, partly as a way of preparing for the meeting and partly to brief Michael and Ravi who will be there as well.

First on the substance. Based on our discussion, this is how I see the approach that we would develop further:

-Our current strategy of providing adequate amounts of new IDA credits to countries that maintain a sound policy framework, has been quite succesful in dealing with their liquidity needs, even while private creditors have pulled out. This has worked not only for countries with substantial IDA debt service, but also for countries with an overhang of IBRD debt which are now IDA only. There are a few countries which are not covered by the existing mechanism of the 5th dimension, but we propose to take care of this loophole by recommending a change in the cut off eligibility date.

-the rolling over of past IDA and IBRD credits for new credits on highly concessional IDA terms, also means that a continuation of the same strategy will over time reduce the real value of these debt obligations to the point where under reasonable assumptions of export growth, the countries should return to a sustainable debt burden. If you wait for twenty years or so, then most of these countries will get to this situation of sustainability; some get there much earlier.

-while there is general agreement that our current strategy is adequate to take care of the liquidity needs of these countries, it does have a few shortcomings. The main ones are that it does not directly address the issue of the impact on the countries of the debt stock overhang; that the need to make new IDA loans that keep net transfers positive to countries smacks of defensive lending and puts pressure on the staff to lend in circumstances where they otherwise should not; and that the issue of large debt service to IDA by countries that are very poor and heavily indebted has become a political hot potato not only for the NGO

community but also among many church groups and others who should be supporters of the Bank and IDA.

-there is some disagreement amongst reasonable analysts both within and outside the Bank as to how serious these shortcomings are; for example, one adverse impact of the debt overhang in middle income countries -- that the uncertainty causes a slowdown in new private flows -- is likely to be less important for the poorest countries where there are many other obstacles to private capital flows. But another effect of the debt overhang may be more important, in terms of making it more difficult for policymakers to sell economic reforms because the debt burden has become a rallying point for opponents; there is also only anecdotal evidence of the adverse effect of pressure to lend in these countries, but it is a view that is too widely held to be disregarded. Finally, it is hard to explain to people outside that our strategy is to rollover debt for some twenty years and that the problem will get solved if we just wait long enough.

-the main reason why we have not developed new instruments to deal with these "shortcomings" is not because of disagreement on their importance; rather it is because any instruments that address these issues directly are likely to entail a change in long standing policies and principles of the Bank group and have important consequences for the institution. For IBRD writing down or rescheduling debt would almost certainly have both a short term cost in terms of our spreads, and an even more important long term cost in terms of eroding the basic principle of full repayment that underlies this financial cooperative. For IDA, the issue is one of equity and of donor acceptability, as well as the possible contagion effect on IBRD. For both institutions there are also major issues of moral hazard.

-to date our judgement has been that the benefits to a handful of countries of additional more radical measures to address the IBRD/IDA debt issue, fall short of the costs to the rest of our borrowers and to the institution. Until recently, we could have said with confidence that this judgement was also widely shared by our shareholders and by most mainstream development analysts;

-we recognize that the external climate of opinion is changing against us however. Most worrying is the position of countries like the UK, some Nordic constituencies and even parts of the US administration which all talk about the need for some "more imaginative response by the Bank". The financial press has also moved to a view that further action on multilateral debt is both feasible and desirable. Thus there may now be additional costs to the institution of not doing something bolder, in terms of the erosion of support for the Bank in other areas, notably IDA replenishment.

-if we do move in the light of these changing circumstances, it is important that we do so in a way that preserves the core objectives of our current strategy and minimizes the costs to the

Bank and its entire spectrum of clients. Thus, we should preserve the link between Bank support and sound policy, since any across the board type of measures would both provide the wrong incentives and result in the new money being wasted like the old. It is important to note that the reason most SILICs have unsustainable debts today is because the large net transfers they have received over the past decade have not generated the export and output growth that was expected. Maintaining performance based criteria for debt relief -- as for new lending more generally -- is the key to ensuring better use of funds in the future. Similarly, we should design any programs in a way that minimizes the contagion and moral hazard, both across countries and over time. And we should try at all costs to maintain the exceptionally low spreads that we currently enjoy for IBRD borrowing.

-We have been thinking about some specific options that would meet these criteria; one such option is the 7th dimension idea put forward by the British, which would provide predictable new IDA commitments proportional to IDA debt service to countries with sound policy; another idea would be to set up a separate fund (financed through IBRD net income and donor contributions) which would buy back IDA debt service falling due for prespecified countries with good policies. If the president would like to explore these and other options we could do so and come back with a more thorough comparative analysis. This analysis would help to provide a conceptual framework to look at the pros and cons of the various options in terms of the effect on countries' liquidity and solvency, on the incentives for maintaining good policies, and on the Bank's reputation and hence our cost of funds.

-At the same time we need to recognize that despite our best efforts, all of these options will entail some costs. Politically, Japan a major IDA donor and a traditional opponent of debt relief will need to be brought along. Technically, designing eligibility criteria and avoiding moral hazard is not going to be easy. And the impact on financial markets cannot be predicted with certainty. At the end there will be tradeoffs and a judgement call on their relative weights. There is no cheap lunch here.

-Given these difficulties, we think the best way to proceed if JW indeed wants us to explore the stock reduction options further, is to do some quiet in house work and then test the waters with the major stakeholders late in the summer. This should enable enough progress to be made for some kind of public announcement at the annual meetings.

Sorry this has become rather long; but it may help you in writing up your own notes for the monday preparation. On the presentation itself, the more I think about it the more it seems to me that keeping at the general strategic level would indeed be better than going into the details of any particular option. As a

financial man, he might get so interested in the details of the option that we run out of time before the big issues have all been explored.

Pls do give me a call if there is anything here that is unclear or if I can help in any way. I also want to reiterate that we'd be more than happy to contribute in any way you see useful to further work on the associated documents (IDA deputies paper and th like).

Best regards,

Masood

PS. As you can see, I've copied this to Michael and Ravi for info. If you think it's worth copying to the other participants, pls feel free to forward it.

CC: Nawal Kamel

CC: Michael Bruno

CC: RAVI KANBUR

CC: Mark Baird

(NAWAL KAMEL)

(MICHAEL BRUNO)

(RAVI KANBUR @A1@WBWASH)

(MARK BAIRD)



Record Removal Notice

File Title Michael Bruno - Internal Chronological - May to June 1995		Barcode No. 30486494		
Document Date 06/03/1995	Document Type Letter			
Correspondents / Participants To: Atsuo Nishiharo, Executive Director From: Michael Bruno				
Subject / Title [Visit to Japan]				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

To James D. Wolfensohn

June 8, 1995

Dear Jim,

I am sorry I could not prepare the enclosed brief before you left. There was just too much to do and I had heard about the BIS conference and your trip only a few days ago.

I have enclosed a two-pager that reflects the talking points I used in recent seminars that I participated in - IDB in Jerusalem (with Cavallo, Summers and Frenkel) and a seminar that EDI in the Bank organized last week for some 30 high ranking Central Bankers from all over. Also enclosed are the relevant pages from our recent *Global Economic Prospects* (note in particular the interesting picture and Table on p. 17, contrasting Latin and East Asian economies); a photocopy of a February article on 'capital punishment' in the Economist, based on a paper of ours. Finally an update on private capital flows recently prepared by our International Economics Department.

Looking at the list of participants in the BIS seminar from emerging markets I know most of them in person (except for the gentlemen from Hong Kong, Malaysia, Ryadh and Venezuela). If you have the opportunity, I'd appreciate it if you could give them my regards, and also my regards to David Crocket, an old friend.

I hope you can now enjoy a quiet weekend in the Central Banking waters of Basle, having so dramatically (and, I believe, very constructively) stirred up the Bank during your first week in office.

Yours,



Michael

cc: Richard Frank, Jessica Einhorn, Masood Ahmed, Mark Baird

Living with Private Capital Flow volatility after Mexico: Talking Points
(used in recent seminars, April-May 1995)

1. One should differentiate between the main long-run driving force of private capital flows which is a stock adjustment phenomenon and between short-term flow volatility. The first is a portfolio diversification of savings of an aging population in the industrial countries looking for more profitable investment in emerging markets. This is very far from maturation. E.g., in 1913 the UK equity portfolio included 46% (!) in what were then emerging markets (20% were in Latin American markets). By contrast to-day only 1-2% of US pension funds are thus invested. This could easily rise to 5% over a decade implying a gross flow increase of 10-15% per annum (net flows may for a while increase by less, because of large current account deficits in LAC that will have to adjust). With time as the reform spreads the number and size of emerging markets will increase. Thus the process is bound to continue. Nonetheless in the short-run there is volatility of flows mainly driven by interest rate changes in the major industrial countries. This is a fact of life which is unlikely to change and has policy implications for the countries involved.
2. The composition of capital flows has changed with FDI now reaching 2/5 of the flows. Even in 1994 these increased by 19%, induced by continued trade liberalization, technical change, deeper reforms in host countries and globalisation of corporate production and distribution.
3. Regions differ and within regions countries differ widely in fundamentals, which are the main determinants of the response to capital flow volatility. Note the contrast in the recent *Global Economic Prospects* (Box 1-2, pp.16-17) between East Asia (excluding Philippines which is more 'Latin American') and between most of Latin America (with Chile more like an 'East Asian') in terms of the source of the current account deficit (whether originating from investment or consumption increase). The countries differ likewise in the share of FDI. It is important to point out that in 1994, despite rising interest rates and tough equity markets, equity and bond issues went up \$13 billion in East Asia while they went down by the same amount in Latin America. In 1995 FDI in total may not be very different from 1994. (For recent update on private capital flows see enclosed note from IEC.)
4. At this point in time one can say that our assessment in January that we were not in for a systemic crisis was correct. The contagion effect looked serious but the Mexican package helped. The crisis is now almost only confined to Mexico, in which a recovery is taking place, though the financial sector is still in deep trouble. The crisis may elsewhere have had a longer run sobering effect. In fact there were even some positive contagion effects - E.g., Cavallo used the Mexican crisis to pass reforms in parliament one month before the elections that he would never otherwise have brought about. Even the more drastic steps taken in Hungary recently can be attributed to the fear of a Mexico syndrome. There is hope that the investment funds and their clients have also learnt a lesson. In the future there are bound to be more single country crises, hopefully not of the same magnitude.

Major policy lessons

- a. Bad macro policy gets punished more quickly in the new global setting. The importance of macro fundamentals goes beyond fiscal discipline and highlights the need to watch the current account deficit (counter to the Nigel Lawson doctrine) and especially its roots (whether from investment or consumption increase).
- b. There is a high premium on private savings promotion, for example through introduction of mandatory savings schemes such as pensions (vide Chile).
- c. There is need to distinguish between keeping a fixed exchange rate as a nominal anchor during stabilization from high inflation (Mexico in 1988, Israel in 1985) and the need for greater exchange rate flexibility in face of capital mobility in more normal periods (a horizontal or diagonal exchange rate band provides an intermediate regime).
- d. The episode highlights yet again the importance of financial depth and healthy financial and capital markets with efficient regulatory and supervisory functions.
- e. As to Capital Controls - distinguish between countries that are opening up for which gradualism is advisable (especially if domestic financial markets are only gradually being liberalized) and between imposition of controls where they do not exist. These are in general distortive and may be effective only in the short-run. Our assessment is that Chile avoided trouble mainly because of its fundamentals and not so much due to its controls. (For more discussion see enclosed Economist summary of a DEC paper by Corbo and Hernandez, February 1995.)

Lessons for the IMF: mainly better surveillance and early warning system; less excitement about a new large lender of last resort facility.

Lessons for the World Bank: Greater emphasis on financial sector reforms so as to minimize pain once a crisis emerges. For countries that do not yet enjoy access to capital flows the reform process must be geared towards integration into the global economy. However there is a sequencing issue - the current account has to be opened up first (trade liberalization), fiscal conservatism is crucial and reasonably developed domestic financial markets are a good forerunner of capital account liberalization which in itself had better be undertaken gradually.

Fiscal consolidation and firm monetary policies should allow real long rates to move to the 4 to 4.5 percent range (rather than the 5 percent G-7 average at the end of 1994), implying, together with higher short-term rates, a flattening of yield curves. Real rates at this level imply that capital markets will remain tight. Additional fiscal consolidation could achieve larger reductions in long-term rates in the medium term, with beneficial implications for developing countries. It is estimated that a 1 percentage point reduction in interest rates sustained for five years could add 0.3 percentage points to developing countries' annual growth over that period, with growth effects as high as 0.5 percentage points a year in more indebted areas, such as Latin America and parts of Sub-Saharan Africa (Petersen and Srinivasan 1994).

Private capital flows: growth moderates

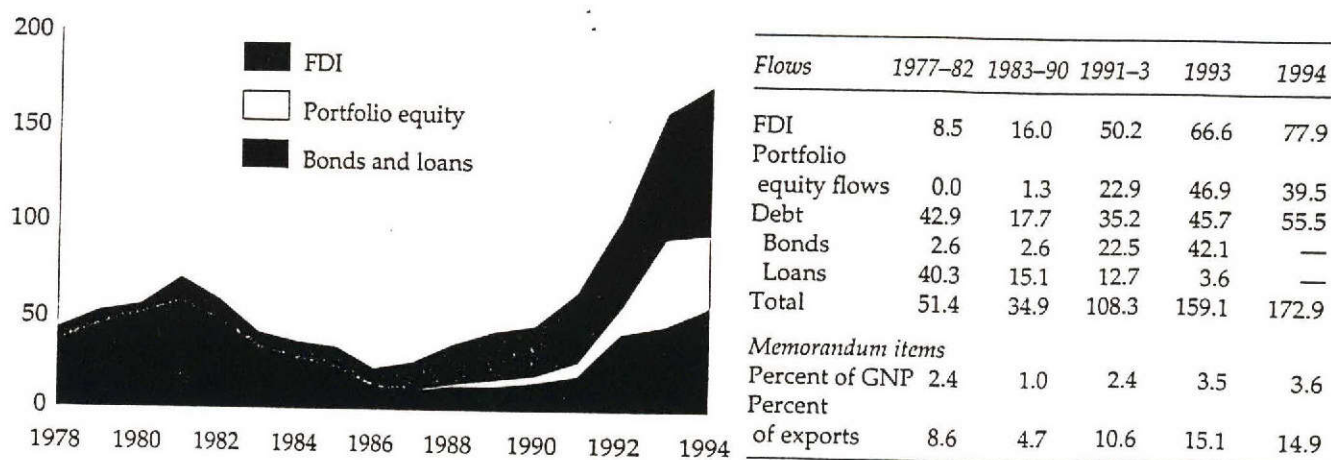
Growth in private capital flows to developing countries decelerated markedly in 1994, after having almost quadrupled in net terms in 1990–93 (figure 1-4). Flows to some countries in Latin America fell during the year. In Mexico the culmination was a balance of payments crisis that has, in turn, resulted in contagion effects on several Latin American stock markets and a correction in emerging markets in general. The Mexican crisis has renewed questions about the sustainability of capital flows to developing countries and the appropriateness of policies in dealing with them.

The crisis in Mexico is a result of problems that are largely specific to that country, as are recent balance of payments crises in Venezuela and Turkey. While in the latter two countries the underlying cause was serious fiscal imbalance, in the case of Mexico the main problem was the unsustainability of large and growing current account deficits. These resulted primarily from domestic rather than external factors. Significant domestic factors contributing to higher current account deficits included a fall in domestic saving rates and an appreciation of the real exchange rate (which was not sufficiently offset by higher productivity) in the wake of the surge in capital flows. In the past year concerns about political stability, loose monetary policy, an associated rise in off-budget spending through development bank lending, and the rise in U.S. interest rates helped trigger the crisis. Once confidence began to deteriorate, excessive reliance on short-term borrowing aggravated the looming liquidity problem.

While it is too early to draw general conclusions from the Mexican crisis, our analysis suggests that this is not 1982: a generalized reversal of private capital flows, as happened in 1982, is unlikely, the Mexican crisis notwithstanding. But major uncertainties continue to attach to the impact of the crisis on the state of financial market confidence and to the outlook for portfolio flows (on which Mexico was disproportionately dependent). In fact, Mexico alone accounted for about one-quarter of all portfolio flows to developing countries in 1993.

Private capital flows to developing countries slowed sharply in 1994, following rapid growth in 1991–93

Figure 1-4 Annual average net private capital flows to developing countries
(billions of dollars)



— Not available.

Source: World Bank data and staff estimates.

While the rise in flows in 1991–93 was supported in part by cyclical developments in industrial countries (low interest rates, weak economic activity), it was also underpinned by improved economic policies and prospects in most recipient countries. The importance of recipient country policies is reflected in the uneven distribution of private flows; in general, countries achieving greater progress in economic reforms have tended to attract more capital. The continuation and strengthening of reform policies in recipient countries should help sustain the flows. The higher returns on investment in developing countries, which attract foreign capital, are fundamentally supported by the stronger economic growth prospects of these countries. On the supply side, demographic shifts in industrial countries are likely to increase the pool of financial savings available for investment worldwide (see box 1-1).

The composition of private flows to developing countries has also become more diversified. Foreign direct investment (FDI), which is driven primarily by longer-term or structural factors, rose 17 percent in 1994, even as portfolio flows fell, and at more than two-fifths of private flows now accounts for the largest share. The increase in the share of non-debt-creating finance in total inflows provides a more favorable sharing of risk between recipients and investors than in the past. A further sharp rise in international interest rates on top of the 1994 increases would surely have a serious effect on private flows, but as noted in the preceding section, such an increase seems unlikely. Overall, private capital flows to developing countries are likely to continue to increase in the medium term, though at a much slower pace than in the early 1990s.

FDI flows should continue to rise with the further globalization of corporate production and distribution strategies induced by trade liberalization, technological change, and deeper reforms in an increasing number of host countries. In addition to finance, these flows bring important supplementary benefits in technology and export market development. Higher projected growth in developing regions such as Africa and Eastern Europe and the former Soviet Union should encourage more flows to countries there than in the past, reducing the current concentration of private flows in a few countries. A recent study (Bhasin, Jun, and Economu 1994) finds host country growth the single most important determinant of FDI inflows: a 1 percentage point increase in the average GDP growth rate of developing countries is found to raise FDI inflows, at current levels, by about \$10 billion. Gross FDI flows have risen as a share of developing-country exports and domestic investment by 4 to 5 percentage points since 1988. If these ratios rise by, say, 2.5 percentage points in the next decade as a result

of further international integration, FDI to developing countries would rise by 10 to 15 percent a year, or 7 to 12 percent in real terms, compared with average annual real increases of 39 percent in 1991–94 and 11 percent in 1981–90.

Portfolio flows will no doubt go through a period of stagnation after the Mexico crisis. However, once confidence is reestablished, growth in portfolio flows to developing countries is likely to be supported by growth in global financial assets, growth in developing countries' exports and capacity to service foreign liabilities, continued development of capital markets in developing countries, and increased diversification of investor portfolios. Global equity market capitalization increased fivefold between 1984 and 1994 to \$17.8 trillion, with the share of emerging markets rising from about 4 percent to 10 percent. A conservative projection would be for global equity market capitalization to at least double by 2004, with the share of emerging markets rising to more than 20 percent.⁷ At the same time, the share of developing countries in investor portfolios in industrial countries can be expected to increase from its still very low level (about 1 to 2 percent of U.S. pension fund financial assets are currently invested in emerging markets). Assuming an increase in this share, on average, to 5 percent (much less than the 20 percent or so typically suggested by optimal risk-return calculations), the stock of developing-country equity held by foreigners could increase fivefold over the next decade, with gross flows again rising on average by 10 to 15 percent annually in nominal terms.

Net private capital inflows are expected to grow less rapidly than gross flows, depending on the current account paths of different developing countries and regions. Many countries are at the limit of prudent borrowing, so at most their net liabilities can rise in line with exports. Current account deficits in Latin America, Sub-Saharan Africa, and the Middle East and North Africa, in particular, are expected to be reduced to more sustainable levels. Given projected trends for current account deficits, official financing, and reserve accumulation, net private capital flows are expected to grow on the order of 7 to 10 percent a year over the next decade. Within this overall trend Asia and several transition economies are likely to see the largest increases, while private capital flows to Latin America are likely to grow at a slower pace as a result of current account adjustments in the wake of the Mexican crisis.

Although a generalized reversal of the increased private capital flows to developing countries appears unlikely, individual countries may be vulnerable to volatility in flows, depending on their circumstances. The risk of volatility has been heightened by the Mexican crisis. Maintaining strong economic funda-

mentals is the key to ensuring stability and steady growth in private capital inflows. When a reversal of inflows occurs, as recently in Mexico, it may appear to be sudden, but its causes can be traced to slippages in economic policy and performance. Despite the extreme reaction of financial markets to the devaluation of the Mexican peso, the unsustainability of Mexico's current account deficit and the need for adjustment had been widely recognized.⁸ A number of early warning signs had signaled impending trouble. A lesson from the Mexican crisis is for policy-makers to pay particular attention to such advance warnings of looming problems.

One important indicator of an emerging crisis in capital flows is a large appreciation of the real exchange rate. The appreciation often arises from persisting too long with a fixed nominal exchange rate introduced as part of a stabilization program and is aggravated by large capital inflows attracted by the high interest rates needed to support the exchange rate. Other signals to watch for, and often associated with a substantial real exchange rate appreciation in the capital-recipient country, include a declining domestic saving rate (indicating that the inflows are going into consumption rather than investment), inadequate investment in the tradables sector, weak export growth, and a rise in current account deficits to levels that are inconsistent with prudent targets for foreign liabilities (given such factors as initial debt levels, expected interest rates, and the size, growth rate, and volatility of exports). Another warning indicator is a growing reliance on short-term capital inflows. Though country cases differ and no one indicator is infallible, monitoring a combination of these indicators can help in detecting an emerging balance of payments crisis and in initiating timely adjustments. Given the speed at which capital can move in and out of countries today, there is an increased premium on sounder, more agile economic management.

The current international economic environment provides a favorable setting for capital-recipient countries to reduce their vulnerability to volatility in private flows by strengthening their economic fundamentals. Adjustment is necessary in countries where the rise in inflows has been associated with unsustainable increases in current account deficits. Boosting export growth is central to achieving a soft landing for external deficits. Failure to adjust carries the risk of undermining market confidence and triggering an abrupt reversal of inflows that would force a hard landing. In assessing capacity to service rising external liabilities, countries need to allow for both debt and nondebt external obligations: FDI and other equity inflows bring important benefits but also tend to require higher returns. Among major recipients the need to adjust to a slower growth in external liabilities is in general great-

est in Latin America (box 1-2). This need has been underscored by the Mexican crisis.

The mix of policies appropriate for fostering sustained private capital inflows depends on a country's circumstances. The intensity of the undesirable macroeconomic side effects of inflows, such as overheating and real exchange rate appreciation, varies with the behavior of private savings, growth in productivity, and other factors. But cross-country experience offers some general policy lessons. These point to the importance of fiscal restraint, structural reforms that guide resources toward investment and exports rather than consumption, and a sound institutional and regulatory framework for the banking system and capital markets.

World trade: developing countries lead a marked acceleration

World merchandise trade (exports plus imports) surged by an estimated 8 to 9 percent in 1994, up from about 4 percent in the 1991-93 recession. Trade growth is expected to continue at a brisk pace through 1996. Trade in services should grow even faster, partly because of higher flows of foreign direct investment, increasingly directed at the services sector, and growth of long-distance services (see chapter 3). In the longer run (1997-2004) merchandise trade growth is projected at about 6 percent, roughly the same as in 1986-90. Supported by a shift toward outward-oriented policies that are increasing their integration in the world economy, trade growth in developing countries is expected to exceed that of industrial countries by 1 to 1.5 percentage points.

This forecast represents a continued trend toward more rapid global trade integration that took hold in the mid-1980s (table 1-4).⁹ This, in turn, may represent a resumption of the trend of the 1950s and 1960s before the macroeconomic instabilities of the 1970s and early 1980s—the twin oil shocks and the debt crisis. Six factors underpin the expected strength of world trade growth: in the nearer term (1995-96) the cyclical recovery in industrial countries, yen appreciation and market opening in Japan, and the increased purchasing power of primary exporters from higher commodity prices; in the longer term faster growth in developing countries, integration of world capital markets (reflected in the rise of private capital flows to developing countries), and accelerated trade liberalization, including the extension of regional trading arrangements to encompass some developing countries.

In a remarkable departure from historical relationships, world trade continued to grow by about 4 percent in 1991-93, despite the recession in industrial countries. This contrasts with previous recessions in

Box 1-2 Contrasts in managing capital inflows: a tale of two regions

The recent surge in private capital flows has been concentrated in East Asia and Latin America, but there are several differences between the two regions in the composition and management of the flows. These differences, brought into sharper relief by recent developments in Mexico, have important implications for future flows to these regions and for policies for managing the flows.

While regionwide macroeconomic indicators mask appreciable variations among countries (with Chile's performance, for example, resembling that of successful East Asian countries), they nevertheless reveal some important differences between the two regions (inset table). East Asia has underpinned larger inflows with a more stable macroeconomic environment that is more favorable to sustained high growth. East Asia has maintained high national saving and investment rates, exceeding those in Latin America on average by as much as 13 percent of GDP. Higher investment and GDP growth in East Asia (where growth averaged 7 percent in 1990-93, compared with 2.4 percent in Latin America) has been primarily domestically financed. Complementing domestic savings, inflows into East Asia have tended to increase investment rather than consumption, while in some countries in Latin America the inflows have fed a consumption boom (inset figure). The average national saving rate in Latin America fell in the 1990s, the period of high capital inflows, but rose in East Asia.

East Asian export growth has been stronger, and exports represent a much larger share of GDP, signaling a better future capacity to service foreign liabilities. Foreign liability to export ratios in Latin America substantially exceed those in East Asia and have risen as the increase in inflows outstripped the growth in exports. East Asia has continued to provide investors and exporters with a more stable financial environment, reflected in both lower inflation and a lower variability of inflation and real exchange rates than in Latin America. East Asian countries (except the Philippines and Thailand) have also avoided significant appreciation of real exchange rates, thereby protecting external competitiveness, despite larger capital inflows. Real exchange rates appreciated significantly in several Latin American countries, despite efforts to mitigate the impact of capital inflows through sterilization or, in some cases, capital controls. The erosion of competitiveness was in turn associated with rapidly widening current account deficits. In East Asia's comparative success in avoiding real currency appreciation, the higher proportion of FDI in total inflows and the channeling of more inflows to investment have been contributory factors. In general, East Asian countries have also made greater use of fiscal restraint in coping with inflows (Corbo and Hernandez 1994).

East Asia has also attracted a more favorable mix of flows. In 1990-93 FDI constituted about 55 percent of net private flows to East Asia, compared with about 40 percent for Latin America. Within portfolio investment, equity flows accounted for about 55 percent of the total in

East Asia and 45 percent in Latin America. Most FDI in East Asia has been in new investments—greenfield operations and joint ventures. In Latin America FDI has been associated largely with privatization of enterprises, which raised almost \$17 billion in foreign exchange between 1988 to 1993 (only \$5 billion in East Asia), and debt-equity swaps. The higher inflow of FDI into East Asia has been supported by higher returns. Estimated average returns on U.S. FDI in East Asia in 1990-93 were more than twice the average worldwide return on U.S. FDI, while returns in Latin America were only slightly higher.

Given East Asia's stronger economic fundamentals and sounder macroeconomic responses to large capital inflows, the likelihood of capital flows being sustained is higher for countries in this region than in Latin America. Latin American countries, such as Mexico, experiencing large increases in current account deficits need to adjust to lower capital inflows. East Asia's greater success in attracting non-debt-creating and longer-term flows also makes it less vulnerable to volatility in flows. Evidence of the greater resilience of East Asian inflows to external shocks is provided by the behavior of portfolio flows in 1994. Despite rising international interest rates and difficult bond and equity market conditions, East Asian countries were able to increase their international equity and bond and debt issues by more than \$13 billion, compared with a drop of \$8 billion for Latin American countries.

East Asia has underpinned larger capital inflows . . .

Total private capital inflows (annual average post-cutoff date)

Region/ country	Cutoff date	Amount (\$ billions)	Percent of 1992 GNP
<i>Latin America</i>			
Brazil	1991	5.8	1.5
Argentina	1991	5.4	2.4
Colombia	1993	1.3	2.7
Venezuela	1991	1.8	3.0
Costa Rica	1991	0.2	3.1
Mexico	1990	11.8	3.7
Chile	1990	1.6	4.2
Average		4.0	2.9
<i>East Asia</i>			
Korea, Rep. of	1991	6.6	2.2
Philippines	1992	1.4	2.6
Indonesia	1990	3.7	3.0
Thailand	1988	4.5	4.2
China	1992	27.6	6.4
Malaysia	1989	4.1	7.5
Average		8.0	4.3

Source: World Bank and IMF data.

... with stronger economic fundamentals

Macroeconomic indicators: Latin American and East Asian countries

(annual means for individual countries)

Region/ country	GDP growth (%)	Gross national savings (% GNP)	Gross domestic invest- ment (% GNP)	Govern- ment con- sumption (% GNP)	Total exports (% GNP)	Annual export growth (%)	External debt/ exports (%)	Monthly inflation variance (%)	Monthly REER ^a variance (%)	Monthly inflation (%)	REER ^a appre- ciation (%)
<i>Latin America</i>											
Brazil	0.7	21.7	21.5	14.1	11.8	4.3	303.7	—	—	26.0	-5.9
Argentina	3.5	17.3	19.3	8.4	10.9	4.1	478.3	—	—	16.4	151.8
Colombia	3.6	22.5	19.6	12.1	19.3	6.6	167.2	0.7	3.1	1.9	14.6
Venezuela	2.7	20.0	16.5	9.2	25.4	6.0	181.8	7.7	19.4	3.1	3.8
Costa Rica	5.1	20.1	29.2	17.6	40.2	10.7	208.8	0.5	1.4	1.4	-10.2
Mexico	2.6	17.6	22.8	9.3	20.3	3.1	223.9	3.5	8.0	1.7	40.7
Chile	7.1	25.2	28.1	10.4	35.4	11.1	207.4	0.7	2.4	1.3	9.5
Average	3.6	20.6	22.4	11.6	23.3	6.6	253.0	2.6	6.9	7.4	8.7 ^b
<i>East Asia</i>											
Korea, Rep. of	7.1	36.4	37.6	7.1	31.1	9.5	44.8	0.2	6.0	0.5	-10.0
Philippines	1.0	20.6	22.6	9.5	32.0	6.2	226.0	0.4	15.8	0.9	6.9
Indonesia	6.6	33.3	35.6	6.6	24.1	6.1	221.7	0.7	1.4	0.7	-4.1
Thailand	9.5	32.1	37.6	9.5	34.3	17.3	140.7	0.4	1.6	0.3	7.1
China	8.9	46.5	44.9	9.7	19.4	14.6	86.2	0.1	2.3	0.8	-12.6
Malaysia	8.8	31.8	32.2	14.3	73.7	13.1	66.2	0.1	3.4	0.3	-12.5
Average	7.0	33.5	35.1	9.4	35.8	11.1	130.9	0.3	5.1	0.6	-6.6

— Not available.

Note: Estimated over a period starting two years before significant inflows began (the cutoff date) and ending in 1993.

a. Real effective exchange rate.

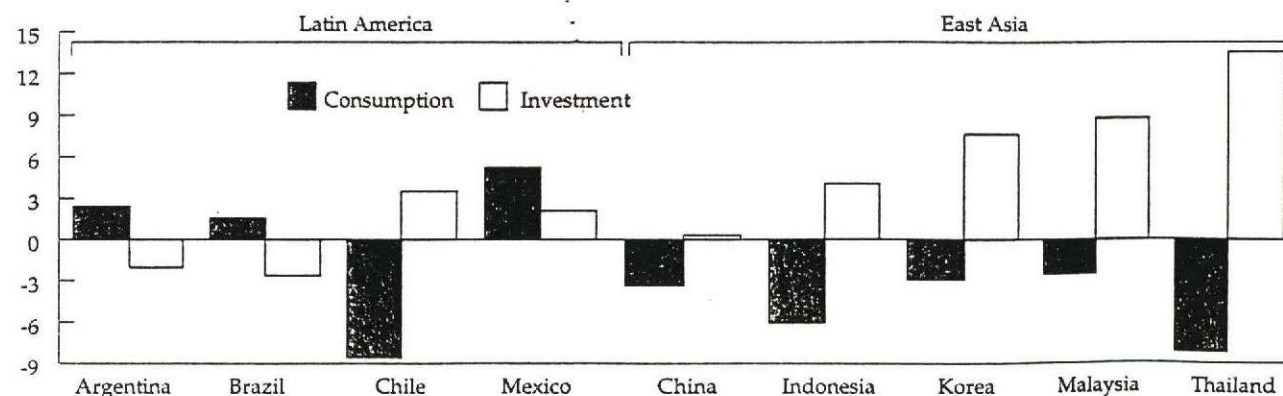
b. Excludes Argentina.

Source: World Bank and IMF data.

Inflows into East Asia have tended to increase investment rather than consumption

Change in consumption and investment between 1985-87 and 1991-93

(percent of GNP)



Note: The years 1985-87 represent the period before the inflow and 1991-93 the period after the inflow began. For Korea, the average for the second period includes only 1991-92.

Source: World Bank staff estimates.

Capital punishment

Should developing countries try to control short-term capital inflows?

WHILE the world digests the implications of this week's rescue of Mexico, the issue of controlling capital inflows may seem oddly arcane. It is not. Although foreign capital is unlikely to be surging into emerging economies this year, the long-term consequences of the Mexican crisis will depend, in part, on how developing countries treat inflows of foreign capital, and particularly portfolio capital (stocks, bonds, etc), in future.

Look at the emerging economies that have been least affected by the recent investor panic and you see the dilemma. A country such as Chile, which has some controls on short-term capital inflows, has been less affected by market jitters than one such as Argentina, where foreign investors hold significant amounts of shares and bonds. Does this mean that developing countries should rethink their enthusiasm for foreign capital?

Most economists agree that removing capital controls can be dangerous if an emerging economy has not yet liberalised prices and trade. In that case, large inflows of foreign money serve only to promote the wrong sorts of investment and output. Many argue that the removal of capital controls should therefore come towards the end of the process of economic reform. It may make sense, for instance, for the former communist countries of Europe to retain some of their capital controls for a time. But why does a country such as Chile, which is widely regarded as the most advanced of the Latin American reformers, need to employ such controls, albeit of a limited sort?

It is worried that short-term capital inflows might undermine the competitiveness of its economy. The main goal of

ECONOMICS FOCUS

Chile's macroeconomic policy is to maintain a competitive real exchange rate. A key pillar of its economic success over the past decade or so has been the liberalisation of the economy and an increase in exports. The competitiveness of Chilean exports was strongly supported by a depreciating real exchange rate: between 1982 and 1988 it fell by 53%.

Large inflows of foreign capital make it more difficult for the government to control the real exchange rate. When the Chilean economy was showing signs of overheating at the beginning of the 1990s, for instance, the central bank raised real interest rates. The effect of such a rise, however, was to attract large amounts of foreign capital: Chile's foreign-exchange reserves rose by almost 70% in 1990 alone. This enormous capital inflow pushed up the real exchange rate.

Worried by the prospect of a further real exchange-rate appreciation caused by short-term capital inflows, Chile at first tried to neutralise their effect by selling domestic bonds, but without much success. Since 1991 the Chilean approach has been to allow some real appreciation, by revaluing the exchange rate (see chart). But Chile has also tried to limit the inflow of capital.

Among other things, it has tried to increase the exchange-rate risks facing foreign investors by widening the band within which the currency can fluctuate; it has swept away restrictions on capital outflows; and it has also introduced specific measures to discourage capital inflows, including a special stamp tax and high

minimum reserve requirements on foreign credits.

Although its reputation as a model reformer makes the Chilean case particularly striking, it is not the only emerging economy to impose such restrictions on capital inflows. Throughout Asia, restrictions on foreign borrowing by domestic companies and higher reserve requirements on foreign inflows are common. In the short run, these controls do make it easier to maintain a stable real exchange rate, as a recent World Bank study* has strikingly confirmed.

However, a competitive real exchange rate, as opposed to a stable one, is better achieved by keeping fiscal policy tight and interest rates low. And an exchange rate that is both stable and competitive is not the only goal of economic policy. Capital controls can make it harder to achieve other goals, and the tighter the controls the greater the cost.

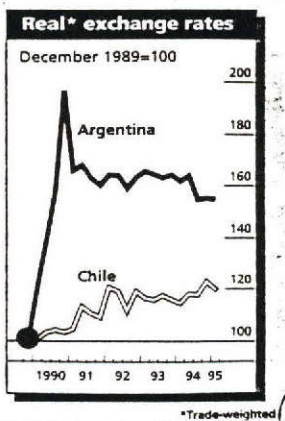
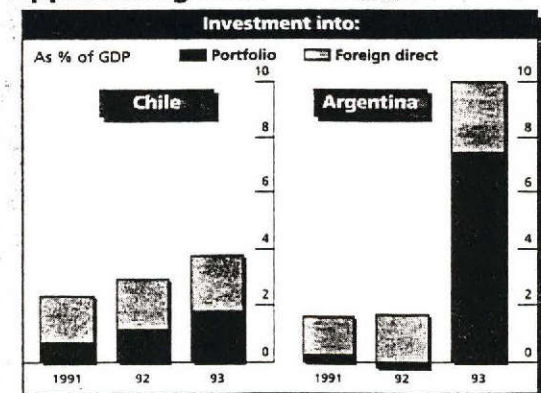
Mobile money

Capital mobility, like free trade, results in the most efficient allocation of global resources. By allowing investors to put their money where it will earn the highest rates of return, the world as a whole makes the best use of its savings. Capital controls prevent this from happening. As well as denying a country access to the cheapest possible sources of finance, capital controls also have other nasty side-effects, such as preventing a country's domestic financial system from becoming more efficient. Worse, as investors find ways around them, the scope of controls may have to be increased, causing further distortions.

For all of these reasons, it would be wrong to conclude that capital controls are a sensible long-term policy, although some restrictions may be appropriate for countries in the early stages of economic reform, or as a temporary measure when large amounts of foreign capital flood in unexpectedly. Many developing countries would indeed do well to copy the Chilean model. But Chile's restrictions on short-term capital inflows are hardly the key to its success. Its commitment to liberalisation and deregulation, not its penchant for capital controls, has made it Latin America's most successful reformer. And in Chile at least, notwithstanding recent events, such controls may have outlived their usefulness.

* "Macroeconomic Adjustment to Capital Inflows", by Vittorio Corbo and Leonardo Hernandez. World Bank Policy Research Working Paper No 1377

Appreciating Chile



Update on Private Capital Flows Post-Mexico

1. Private capital flows to developing countries over the past year have been affected by two main factors: the turning point in US interest rates in February 1994 and subsequent increases through the year, and the Mexico crisis. The deceleration of flows to developing countries has been on account of portfolio flows alone. FDI flows continued to increase in 1994, as did commercial borrowing.

- Portfolio flows--both equity and bonds (based on data of international issues) which decelerated during 1994 primarily because of the interest rate increases, declined sharply after Mexico. In the first quarter of 1995, international equity flows were only US\$ 0.5 billion, compared to an average of US\$ 4.9 billion during 1994, and bond issues were only US\$ 5.5 billion compared to an average of US\$ 12.5 billion in 1994. (Note that these data do not include direct participation in equity markets).

- Although no data are available, our best assessment is that FDI flows to developing countries in aggregate over the first few months have not been affected.
- Commercial loans also appear to have been affected only minimally.

2. Underlying these trends in capital flows has been considerable differentiation between countries and regions. From the stock market index, it would appear that while portfolio flows have been negative in the first quarter in all regions, the declines have been much more pronounced in Latin America than in Asia (see graphs). Moreover, since portfolio flows have accounted for a larger part of total private flows to Latin America, the impact on aggregate private flows to Latin America has been sharper than on East Asia. The differentiation of borrowers on the part of creditors is also evident in the risk spreads on international bond issues. All developing countries saw a rise in spreads over US dollar denominated fixed rate issues, as rising interest rates have made investors particularly sensitive to credit risks—but Latin America saw a 100 bp widening of spreads in 1994, whereas Asia saw a widening of about 48 bp.

3. Most recent trends indicate an upturn in stockmarkets in developing countries, reflecting greater confidence on interest rate outlook and a gradual recovery of confidence post-Mexico (see graphs). April-mid May data on international issues of equity and bonds also show a sizable pickup in activity. (International bond issues over April-mid May have risen by 11% compared to the average of the first quarter, while equity issues during the past one and a half months—at US\$ 652 million—have been higher than over the entire first quarter—at US\$ 488 million).

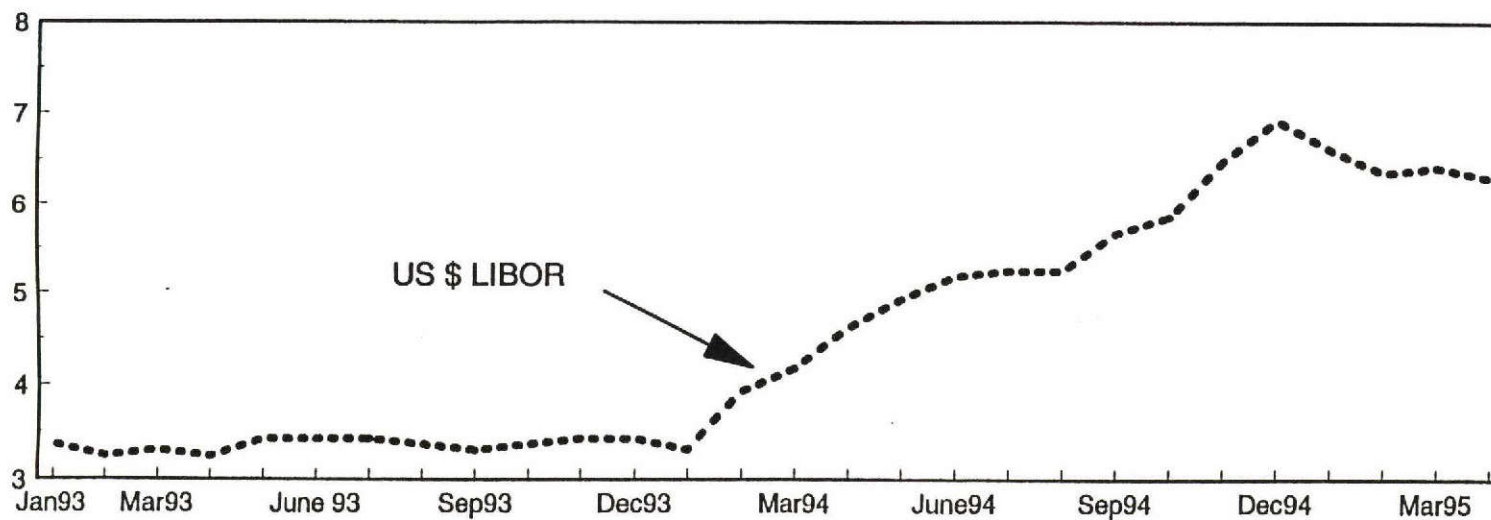
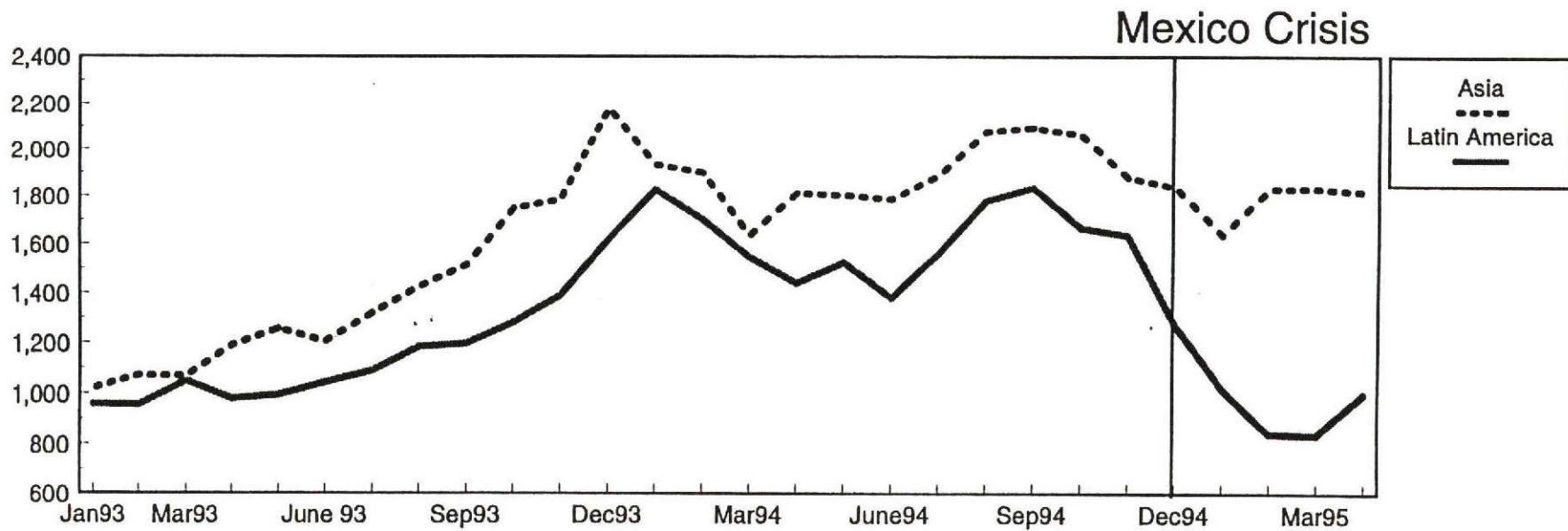
4. At this juncture there is, of course, still considerable uncertainty as to what the outcome will be for 1995. If we extrapolate from first quarter trends, and assume that FDI¹ and loans flows will stabilise at their 1994 levels, then private capital flows could decline by about ~~26-30%~~ from their 1994 levels.

around a third !

swat\ d:\wrd6\doc\postmex.doc

¹ FDI flows to developing countries in 1995 could in fact be somewhat lower than 1994, in light of a deceleration in flows Mexico (which saw a surge in 1994 following the NAFTA agreement) and China (which received as much as 30 billion in 1994, and may be reaching absorption constraints). On the other hand, first quarter data on US FDI to Latin America shows a 46% increase relative to the first quarter of 1994.

IFC Price Index



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

OFFICE MEMORANDUM

Chro

DATE: June 6, 1995

TO: Mr. Michael Walton, WDR 1995

FROM: Michael Bruno, DECVP *mb*

EXTENSION: 33774

SUBJECT: **Terms of Reference**

You will travel from June 15 to 27, 1995, to Europe and Japan to disseminate the *1995 World Development Report* on Labor at the Press Briefings; and from July 4 to 14, 1995 to the Latin American countries for seminar discussions.

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

OFFICE MEMORANDUM

DATE: June 6, 1995

TO: Mr. Dirk Mattheisen, SECBO

FROM: Michael Bruno, DECVP *MB*

EXTENSION: 33774

SUBJECT: **Bureaucrats in Business: The Economics and Politics of Government Ownership**

The attached draft Policy Research Report and note on operational implications is for circulation to the Board. The Report and note propose no changes in the Bank's policy towards state enterprise reform, but offer lessons from experience which will help improve implementation. We plan to disseminate these lessons widely to both our clients and staff, working closely with Finance and Private Sector Development and EDI. Dissemination will begin with a roundtable discussion and press conference at the Annual Meetings. Other dissemination activities will include conferences in Africa, South Asia and MENA, a teaching video produced jointly with EDI for use in their seminars, and participation by the authors in seminars and conferences organized by others. An extended summary of the report will be translated into Arabic, French, Spanish, and Russian. Dissemination within the Bank will include guidance notes on some of the findings, seminars and workshops, and cross support to help put the findings into practice.

Comments or questions about the report should be directed to Lyn Squire or to the co-authors, Mary Shirley and Ahmed Galal. In order to meet the schedule for printing and distribution of the report at the Annual Meetings in October, we would appreciate receiving any comments by June 23.

Attachment

From: Vice President and Secretary

June 6, 1995

BUREAUCRATS IN BUSINESS:

THE ECONOMICS AND POLITICS OF GOVERNMENT OWNERSHIP

Attached for information is a report entitled "Bureaucrats in Business: The Economics and Politics of Government Ownership" prepared by the Policy Research Department.

The Report and note propose no changes in the Bank's policy towards state enterprise reform, but offer lessons from experience which will help improve implementation. The Policy Research Department plans to disseminate these lessons widely to both Bank clients and staff, working closely with the Finance and Private Sector Development Vice Presidency and the Economic Development Institute. Dissemination will begin with a roundtable discussion and press conference at the Annual Meetings. Other dissemination activities will include conferences in Africa, South Asia and the Middle East and North Africa, a teaching video produced jointly with EDI for use in seminars, and participation by the authors in seminars and conferences organized by others. An extended summary of the report will be translated into Arabic, French, Spanish, and Russian. Dissemination within the Bank will include guidance notes on some of the findings, seminars and workshops, and cross support to help put the findings into practice.

In order to meet the schedule for printing and distribution of the report at a roundtable during the Annual Meetings in October, the Policy Research Department would appreciate receiving your comments by June 23. Comments or questions about the report should be directed to Mr. Squire (ext. 36099) or Ms. Shirley (ext. 37483)..

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

BUREAUCRATS IN BUSINESS:
THE ECONOMICS AND POLITICS OF GOVERNMENT OWNERSHIP
IMPLICATIONS FOR BANK OPERATIONAL POLICY

This Policy Research Report measures the extent to which bureaucrats are in the business of overseeing state owned enterprises (SOEs) and the impact of public ownership at the firm level and, in the aggregate, on economic growth. It also assesses the reasons why SOE reforms succeed or fail, and identifies the pre-conditions for successful reform. The report provides clear evidence that reform is necessary and -- done right -- highly beneficial. However, it also finds that few countries have reformed successfully. Most countries have failed to improve the performance of their SOEs, either because reform design was flawed or because well-designed plans were not implemented. Since the Bank has been closely involved in promoting and assisting efforts to reform state owned enterprises, these findings have important implications for Bank operations.

The findings of the report are summarized in the Overview. Briefly:

- *Problems with design* often arise when countries fail to combine key elements of SOE reform -- divestiture, competition, hard budgets, financial sector reform, and changes in the relationship between SOEs and government -- into a comprehensive approach. This results in a "waterbed effect," as reforms to eliminate distortions in one area displace them to another; for example, overt subsidies to SOEs may be replaced by soft loans. Countries that improved the performance of their state owned enterprises (such as Chile, Korea, and Mexico) avoided these problems by introducing a comprehensive program of reforms.
- *Problems with implementation* arise when people who benefit from the SOE status quo -- SOE employees, managers, and the buyers of subsidized SOE outputs -- are an important source of support for the governing group or otherwise have the power to block SOE reform. The countries that reformed successfully met three necessary conditions: (i) reform was desirable (the leadership's support base did not depend on SOEs and economic problems made the advantages of reform obvious); (ii) reform was feasible (reformers controlled all relevant decision making organs of the state and were able to overcome opposition through a mix of compensation and compulsion) and, (iii) reform was credible (the reforming government's promises to compensate losers and protect the property rights of investors were credible).

These findings suggest that the design and timing of Bank efforts to promote state owned enterprise reform must be carefully considered on a country by country basis, taking into account both economic factors and reform preconditions. Indeed, our report shows that poorly designed or ill-timed SOE reform efforts not only waste scarce resources, they may even worsen a situation. This can happen in several ways:

- *Increased cynicism of public managers.* Formalistic approaches that fail to change the

incentive structure may cause performance to deteriorate. We found this to be particularly true of performance contracts (agreements between governments and SOE managers), a tool that the Bank has actively promoted and supported. In the sample we studied, performance contracts were seldom associated with marked improvements in firm performance; to the contrary, performance sometimes *declined* after the contracts were implemented. This may be because governments often reneged on their promises to managers and/or the enterprises under the contracts, and that managers, becoming more cynical, used their information advantage to negotiate for more and softer targets.

- *Negative impact on the financial system.* Elimination of overt SOE subsidies, often required of borrowing governments as part of World Bank loan conditionality, sometimes led to the expansion of covert subsidies and bank credits to SOEs. These hidden subsidies can be harder to identify and curb; moreover they may spread problems previously mostly confined to the SOE sector to the financial system.
- *Reduced pressure for SOE reform.* Foreign assistance, whether targeted to improve the productivity of state owned enterprises or not, may inadvertently reduce the pressure for SOE reform, by making it easier for a government facing a financial or economic crisis to continue SOE subsidies.
- *Tarnishing the reputation of reform.* Although hard to document, it is reasonable to expect that Bank and donor support for formalistic reforms which don't show results tarnishes the reputation of reform efforts generally, and that of the institution associated with them in particular. This may make it more difficult to undertake subsequent reform efforts.

This suggests that donors, including the Bank, need to be more selective and patient, following a different course of action in countries which are ready to reform their SOEs from those which are not.

Implications for ESW

A crucial first step is a good understanding of the underlying causes and magnitude of SOE problems and a sound basis on which to assess the impact of reforms. The report suggests that Bank ESW should:

- *Develop a time series of key SOE variables* (value added, investment, employment, foreign and domestic debt, budgetary impact, productivity, operating surplus or deficit, etc.), *and identify large problem SOEs and quantify their performance over time.* The data in the report were collected almost entirely from non-Bank sources after an exhaustive search of Bank reports. Information on SOEs, especially consistent information over time, was simply not available, despite the fact that numerous SOE sector reports are done by the Bank every year. Key SOE variables not only allow cross country comparisons such as those in the report, but also are crucial for tracking the impact of Bank conditionality and for public expenditure reviews. Other important information about SOE performance which was often absent from Bank reports included

a consistent time series of consolidated SOE accounts, the overall SOE deficit, the SOE budgetary impact and SOE domestic and foreign borrowing.

- *Measure the success of past SOE reforms by assessing performance.* Many SOE sector reports attempt to appraise past reform efforts, since these are often the basis for future reforms, but seldom offer a bottom line judgement. This report has provided a framework for measuring performance outcomes that could prove useful in future sector work. Such an assessment may be more costly and time consuming than the more casual evaluations which are common now, but an up front investment could save the borrower considerable wasted effort later.
- *Analyze reform readiness more systematically and in-depth.* Reform readiness is complex and can seldom be predicted without ambiguity, but a more systematic understanding can help improve judgements. Bank staff often make informal judgements regarding country readiness for SOE reform, but our findings suggest that assessments of readiness based on partial and unsystematic analysis can be misleading. For example, assessments of loan risks sometimes maintain that a change in government has created a window of opportunity for SOE reform, but this is true only if the new leadership is less vulnerable to opposition from labor and others who favor the SOE status quo. A better understanding of who in government must agree before a reform can be implemented and what their interests are will give a clearer picture of reform feasibility. The credibility of a government's promises can be gauged through surveys of investors, while legal constraints, treaty obligations and the like can help measure the likelihood of reform reversal.

Implications for Lending

The findings of the report have the following implications for lending:

- *Systematically evaluate country readiness for SOE reform before lending.* When in doubt, there is a strong case for including up front actions (such as layoffs or privatization of a few large and important SOEs) to provide evidence that SOE reform is desirable, feasible and credible.
- *Suspend lending for SOE reforms when reversal is evident.* Signals of reversal include, for example, measures to protect SOEs from competition (such as import levies, sales agreements between SOEs, non-tariff barriers to imports), and the write off or assumption of SOE debts without measures to improve SOE financial management or address the underlying causes of overindebtedness. Measures to address the underlying causes of overindebtedness could include replacing non-performing managers; eliminating ready access to soft credits, including SOE guarantees; and allowing SOEs legal recourse to collect arrears from government or other SOEs.

That a country is *not* ready for SOE reform does not mean nothing can be done. To the contrary, even when the pre-conditions for successful SOE reform do not exist, it is possible to pursue policy reforms in other arenas that will help the economy and at the same time help create the

necessary pre-conditions for SOE reform. This is possible because different types of reforms have different sets of supporting and opposing constituencies. Thus the Bank should support reforms in areas other than the state owned enterprise sector that help unready countries lay the groundwork for SOE reform. Such support could include, among other things:

- Policy based loans and technical assistance to support the introduction of fiscal and trade reforms and the removal of barriers to entry.
- Support for reforms to reduce the social cost of SOE reform, including reducing the relative price of labor (such as changes in tax policy or elimination of measures which subsidize capital), removing barriers to hiring (such as regulatory impediments to labor mobility) and otherwise encouraging private job alternatives for SOE workers.
- Financial sector reform loans aimed at improving banking regulation and supervision, charging interest rates closer to real rates, and allowing banks to make credit decisions on the basis of commercial criteria. Because unreformed SOEs can pull down a newly liberalized banking system in a sea of bad debt, financial sector liberalization and bank privatization should not be pursued in the absence of SOE reform.
- Technical assistance to help countries document the cost of non-reform (combined with strengthened ESW, as described above) and familiarize policy makers with the experience of other countries.

In countries that meet the three pre-conditions for successful state owned enterprise reform, the findings of the report suggest that the Bank should:

- *Provide assistance in designing and implementing a comprehensive reform strategy that combines divestiture, competition, hard budgets, financial sector reform, and changes in the relationship between SOEs and government.*
- *Give greater attention to financial sector reforms from the beginning of SOE reform, paying careful attention to sequencing the reforms so that strengthened supervision and regulation precede measures to increase competition, free entry and privatize banks.*
- *Assist countries divesting monopolies to create a credible regulatory framework which motivates private investors to improve efficiency and also protects consumers. There may also be a role for Bank guarantees of regulatory risk to assist reform ready governments to attract private capital. The experience with guarantees should be assessed as soon as a track record is available, since much of what we know about them is based on their potential utility rather than rigorous assessments of their impact on performance compared to a counterfactual.*
- *Support the use of management contracts in sectors where privatization is not an option and information problems don't make contracting too difficult. Management contracts proved to be a promising tool where privatization might not be an option for political reasons. They work best in activities where the enterprise's technology is changing slowly and output is primarily a single homogenous product (e.g. water or sugar) or quality is easily monitored (e.g. hotels).*
- *Be more selective in supporting performance contracts. The report found little evidence*

that these contracts, which have been widely supported by the Bank, improved performance, and some indication that they did harm. They should be used only where they can be designed to provide clear targets aimed at better performance, reward improved performance and penalize backsliding, and curb government's tendency to renege.

Finally, the forthcoming WDR on labor has important lessons for minimizing the social cost of layoffs, specifically: (i) severance pay can play an important role in reducing risks faced by SOE workers; it will have to be devised to trade off acceptability, fairness, and low cost; and, (ii) retraining, job search assistance and business start-up allowances require high administrative capabilities and growing labor demand which are not often present in developing countries; the Bank should support such policies only on a limited scale with build-in evaluations.

June 5, 1995

OFFICE MEMORANDUM

DATE: June 6, 1995

TO: Mr. Timothy T. Thahane, SECV

FROM: Michael Bruno, Vice President, DEC MB

EXTENSION: 33774

SUBJECT: **FY96 Per Capita Income Guidelines for Operational Purposes**

The attached memorandum from the President, "Per Capita Income Guidelines for Operational Purposes," has been approved by Mr. Gautam S. Kaji, EXC.

Please make the necessary arrangements for its transmittal to the Board.

Attachment

cc.: Messrs./Mme. G. Kaji (EXC); M. Baird (DECVP); M. Ahmed,
S. Badiie (IECDR); S. Choi (SECBO); B. Blazic-Metzner (IECSE)

Rfok:fo
n:\iecse\raquel\opmem4.doc
file

6/2

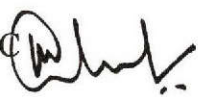
THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

Approved by: 
Gautam S. Kaji
Date: 6/1/95

DATE: June 1, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Masood Ahmed, IEC 

EXTENSION: 33800

SUBJECT: **FY96 Per Capita Income Guidelines for Operational Purposes**

Attached for your approval and initial is a revised memo from the President to the Executive Directors on the above subject. The revisions incorporated are as follows:

(a) A sentence relating to Argentina's per capita GNP figure has been added to the last paragraph, as discussed with you;

(b) The last sentence of the last paragraph has been modified to present the effective time period more precisely, as suggested by OPR; and

(c) Bosnia-Herzegovina has been deleted from the memo, as recommended by LEG, since it has not yet completed the formalities for membership.

Attachment

Cleared with and cc: Mr. Bruno (DEC)
cc.: Mr. Blazic-Metzner (IECSE)

JPark:jp/prr:fo
n:\iecse\park\excop.doc

FROM: The President

SecM95-
June __, 1995

Per Capita Income Guidelines for Operational Purposes*

The per capita GNP guidelines covering the Civil Works Preference, IDA Eligibility, IBRD Terms (grace period and fixed maturities) and the initiation of the IBRD graduation process are updated every year, based on the annual rate of change of the SDR deflator [see, President's Memorandum to the Executive Directors dated September 27, 1983 (SecM83-924)]. The updated operational guidelines to be applied during FY96 are as follows:

<u>Operational Categories</u>	<u>FY96 Guidelines (1994 US\$)</u>
I. Civil Works Preference	Less than or equal to \$725
II. IDA Eligibility and 20-year IBRD Terms	\$726 - \$1,395
III. 17-Year IBRD Terms	\$1,396 - \$2,895
IV. 15-Year IBRD Terms	\$2,896 - \$5,055
V. IBRD Graduation	Over \$5,055 ¹

Per Capita GNP data (Attachment 1) for borrowing member countries for 1994 have been prepared in accordance with the procedures described in SecM89-73, SecM93-589, and SecM94-661.

¹ Countries in this category are subject to 15-year IBRD terms before their actual graduation.

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

*Questions on this document
should be referred to
Mr. Boris Blazic-Metzner
(Ext. 33806)

THE WORLD BANK GROUP

ROUTING SLIP		DATE: June 2, 1995	
NAME		ROOM. NO.	
Mr. John Page		H7-055	
☒	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: John, For your and Caio's eyes only to help you prepare a letter consistent with the Region's thinking. Thanks. Michael			
FROM Michael Bruno		ROOM NO. S9-035	EXTENSION 33774

DECLASSIFIED

APR 29 2025

WBG ARCHIVES

bcc: Mark Baird



95 JUN -2 PM 2:32
95 JUN -2 AM 9:48
RECEIVED
DEVELOPMENT ECONOMICS
CENTRAL BANK OF JORDAN

CENTRAL BANK OF JORDAN

Dr. Michel Marto

Deputy Governor

June 1, 1995

Mr. Michael Bruno
Vice President and Chief Economist
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Mr. Bruno:

During his visit to Tokyo over the period May 21-25, 1995, His Royal Highness Crown Prince El-Hassan Bin Talal held wide-ranging discussions with senior Japanese officials on the Middle East peace process and the pivotal role Jordan has been playing in advancing the cause of peace in the region. The Crown Prince and accompanying delegation also reviewed the progress Jordan has been making in the areas of macroeconomic adjustment and structural reform, and discussed Japan's role in supporting this effort in the context of the ongoing regional peace process, with Mr. Yokei Kono, Deputy Prime Minister and Minister of Foreign Affairs, and Mr. Masayoshi Takemura, Minister of Finance. The Jordanian delegation held further technical discussions on these issues with Mr. Kato, Director General of the International Finance Bureau of the Ministry of Finance, and Mr. Hogen, Director General of the Middle East and African Affairs Bureau of the Ministry of Foreign Affairs, as well as other officials of the two ministries.

The Jordanian delegation expressed appreciation for Japan's continued support of Jordan's adjustment and reform effort and underscored the critical importance of stepping up that support and tailoring it in a manner that can most effectively address Jordan's needs at this critical juncture. In this connection, the delegation explained that, largely reflecting uncertainties regarding future currency arrangements in the West Bank and Gaza Strip, Jordan has been experiencing severe pressures on its official foreign exchange reserves and that, despite the strength of Jordan's adjustment effort and the soundness of underlying fundamentals, these reserves have dwindled to a level that, itself, is undermining confidence in the continued

stability of the Jordan dinar and in the overall prospects of the economy. Against this background, the delegation also explained that while cofinancing by Japan will continue to have an important role to play in supporting Jordan's adjustment and reform effort, the country's most pressing need at this stage is for quick-disbursing balance of payments assistance on concessional terms. As to the magnitude of this quick-disbursing assistance, the delegation indicated that US\$500 million would be necessary to shore up confidence in the currency and in the prospects of the economy. The delegation also requested grant support in the amount of US\$50 million annually over the next five years.

The Japanese authorities expressed deep appreciation for the constructive role Jordan has played over the years toward bringing about a durable peace in the Middle East; they reaffirmed their intention to do their utmost to support the ongoing peace process; and they reiterated their readiness to continue to support Jordan's adjustment and reform effort. The Japanese authorities considered that cofinancing continued to be an appropriate mechanism for extending assistance. Mr. Kato indicated, however, that, particularly as regards Jordan's request for quick-disbursing balance of payments concessional assistance and for grant support, he would appreciate receiving a letter from your goodself supporting the case for building up official foreign exchange reserves through such assistance. Accordingly, I would highly appreciate it if you could send Mr. Kato such a letter prior to June 17, 1995--the date on which a high-level Japanese delegation is scheduled to arrive in Amman to hold follow-up discussions on Jordan's request for assistance. I would also appreciate having a copy of the letter sent to Mr. Hogen of the Ministry of Foreign Affairs.

I would like to thank you, in advance, for your kind help with this important matter. And I would also like to take this opportunity to, once again, convey to you our deep appreciation for the World Bank's continued support for Jordan.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Michel Marto', with a long, sweeping horizontal line extending to the right.

Michel Marto
Deputy Governor
Central Bank of Jordan

OFFICE MEMORANDUM

DATE: June 1, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: **The Fiscal Rationale for Adjustment Lending**

6/2

Maria -

for you down.

HL

1. As a follow-up to the recent Loan Committee discussion on the Morocco loan, this note summarizes the economic issues that arise when adjustment loans are proposed for fiscal reasons. As you are aware, the Operational Directive on adjustment lending recognizes the legitimacy of fiscal motivations, but it also urges caution because of the difficulty of establishing a need for foreign borrowing in such cases.¹

2. As emphasized in that Directive, the rationale for quick-disbursing loans can be generally defined in terms of actual or anticipated current account deficits. The original motivation was that of coping with unexpected changes in external terms of trade, but the OD recognized that programs of policy reforms can themselves lead to current account deficits. In particular, it was noted that this rationale covered cases where policy reforms entailed higher budget deficits which need to be financed in part with additional foreign borrowing. The fiscal rationale for adjustment lending has been used in practice on several occasions.

3. This note elaborates upon the fiscal rationale, and explains the conditions under which fiscally motivated adjustment loans can be considered. No departures from the basic policy, as laid out in the Directive mentioned above, are required.

The General Rationale

4. The most general case for adjustment lending is that it smoothes the transitional costs of structural reforms. Without external financing, the costs in terms of lower living standards, lower investments and future growth, and higher inflation may be excessive. Drawing down foreign exchange reserves, which is an alternative to external borrowing, is rarely a better option, especially if the transition lasts a number of years. Excessive use of reserves, even if they are large to begin with, may entail high costs by making the reform program less credible.

¹The Bank's current policy on adjustment lending is extensively discussed in the Operational Directive 8.60, Dec. 1992. The prerequisites for such lending are summarized in paragraphs 37-44 of that Directive, and disbursements policy in paragraph 52. This note complements two notes prepared as background to that Directive: "Adjustment Lending", by E. Grilli, M. Selowsky and L. Squire, June 5, 1992, and "Adjustment Lending: Some Analytical Issues", by T.N. Srinivasan, July 1992.

5. The case for adjustment lending may arise in many different ways. The classical case is of course that of a sharp external terms of trade shock, when external borrowing helps the country smooth the effects on aggregate consumption. But even if no external shocks have occurred, foreign borrowing may be justified to offset the current account deficits that are entailed by the policy reform programs being implemented by the country.

6. Policy reforms can lead directly to increased current account deficits, or the links may be indirect. In the event that the immediate impact of the policy changes falls entirely on the public budget, the method of non-inflationary financing of the increased deficit would be the issue: additional taxation, additional domestic borrowing, or additional foreign borrowing. The cost-benefit analysis of these alternative ways of financing the increase in the public deficit can in general be expected to lead to at least some additional foreign borrowing.² This is the fiscal case for adjustment lending, which helps smooth out the government's budgetary expenditures.³

Fiscal Motivations

7. Fiscal issues have become increasingly important in adjustment lending because many policy reforms involve significant increases in public expenditures or decreases in revenues in the short-run. Examples of fiscally important policy measures are the recapitalizations of banking systems, compensation for redundant employees of state enterprises, and increased public expenditures on the social sectors. Even reforms of the tax system, with revenue enhancement as a primary goal, may initially lower revenues for a few years before new taxes become established (as suggested in a recent Fund review). Also, while trade liberalization tends to enhance revenues in the first instance because of the tariffification of QRs and removal of exemptions, it may well lower revenues in subsequent phases.

8. When policy reform programs lead to temporary budget imbalances, as in the illustrations above, foreign borrowing will generally be one of the relevant options. The scope for increasing tax revenues in the short-run is typically quite limited because improvements in tax administration take time and the easiest ways of quickly raising revenues - by increasing import tariffs or export taxes, for example - are also likely to be highly distortionary. Once introduced on an *ad hoc* basis the costly short-term measures

² It may be helpful to note the national accounts identity: (current account deficit) = (private investments - private savings) + (public sector budget deficit). If the public sector deficit increases temporarily, this will show up immediately as a higher current account deficit except to the extent that the private sector deficit narrows (because of increased domestic borrowing, for example). In the limiting case in which exogenous shocks or policy changes do not affect the private sector savings/investment gap, the increase in the current account deficit would be exactly the same as the increase in the public sector deficit. Note also that one can distinguish between a "BOP" rationale, a "fiscal" rationale, and even a "private sector" rationale, on the basis of the source of the initial disturbance, but such distinctions get blurred in terms of effects because in general all three terms will be affected.

³ The incremental budget expenditure being financed by foreign borrowing is likely to have a large non-tradable component, and thus the absorption of the foreign funds will lead to some appreciation of the real exchange rate.

may be difficult to remove later. Cutting public expenditures is another option, and it is quite easy in many cases to quickly identify low-priority allocations. But experience suggests that the expenditures that are most useful from the long-run economic point of view are also often among the easiest to reduce. Finally, instead of raising taxes or cutting expenditures, a government can increase domestic borrowing. This option may however have high costs in terms of higher interest rates, or higher degrees of financial repression, and the resultant crowding out of private investments.

9. To illustrate how adjustment lending can help, consider the case of many African and Asian countries with very low domestic savings rates which limit the utilization of foreign project aid. Inability to utilize such aid because of the difficulties of generating local resources to go with it, and lack of access to free foreign exchange, can trap such countries in a low-growth equilibrium. The provision of free foreign exchange through adjustment lending can then help increase investment and growth, while reforms of the taxation and capital market systems are undertaken to raise domestic savings.

10. Another case concerns the substitution of domestic borrowing by foreign borrowing. Domestic borrowing options are of course limited in poor IDA countries, but even in the middle-income countries, such as Argentina, foreign borrowing have sometimes been the better option for the government. When domestic interest rates are higher than abroad and the stock of domestic debt is growing, increased foreign borrowing may help greatly. This would reduce domestic debt, lower interest rates and raise private investments and growth. After the increased primary surpluses (due to both public sector and tax reforms and the revenue effects of growth) allow the reduction of domestic debt to manageable proportions, they can be used to lower foreign borrowing. Adjustment loans in such cases help the management of domestic debt-dynamics and allow time for public sector reforms to become effective.

11. These considerations suggest that the scope of adjustment lending should not be restricted in any way on the basis of artificial distinctions between BOP and fiscal rationales. Adjustment lending is one of the most important means of supporting policy reforms, and the ultimate test is the quality of the reforms to be supported. At the same time, adjustment loans should be firmly grounded on the reality of the policy reform programs being undertaken.

12. Any proposal for fiscally motivated adjustment lending must explain the following:

- the coherence of the overall reform program within which the proposed loan is to be seen;
- the temporary increases in the public sector deficits that the reforms being supported would cause;

- how and when the increases in the deficits would be offset by the reform program; it is important to ensure that fiscal sustainability is restored as soon as possible..
- the costs and benefits of alternative ways of financing the increases in deficits. There should be assurance that the fiscal costs involved cannot be financed in the short-run by simply cutting back on obviously lower priority expenditures, such as unwarranted subsidies and state enterprise losses; similarly, a tax reform program should be in progress, with actions taken to eliminate various exemptions and privileges that may exist. The ability of the government to borrow from the domestic market without seriously crowding out the private sector should also be assessed.

Disbursement Policy

13. The size of the Bank loan should not be larger than that part of the incremental fiscal costs which is to be financed externally. Since the external funds must lead to higher import surpluses, even though they are converted by the government into local currency resources, disbursements can continue to be made against general imports, subject only to a negative list. It is important, however, that the disbursements are timed to coincide with the extra fiscal costs that need to be financed due to the reforms being supported.

Legal Aspects

14. The approach outlined above is consistent with the Articles of the Bank, as explained in the attachment, from the General Counsel.

Attachment

cc: Loan Committee Members

FISCAL RATIONALE FOR ADJUSTMENT LENDING: LEGAL ASPECTS

1. In his memorandum to the Board dated May 10, 1988, the General Counsel, after explaining the Bank's policy on adjustment lending as originally designed, indicated that:

"While the May 9, 1980 memorandum to the Executive Directors which considered the serious deterioration of the borrower's balance of payments a precondition for structural adjustment lending has not been formally revised, it is not clear whether the Bank still considers such a deterioration a prerequisite for making SALs. If the Executive Directors were to approve a loan of this type while the borrowing country has no major balance of payments problem (actual or anticipated), both the loan and its quick disbursement feature may still be justified under the circumstances of a specific case as a means to allow the borrowing country to address without delay the repercussions of its adjustment program. This would be the case when the loan is meant to enable the recipient government to cope with immediate cuts in its revenues resulting from the adjustment measures (e.g., the elimination or reduction of certain taxes or custom duties). It is also the case when the loan is meant to meet the costs associated with the policy changes involved (e.g., the cost of maintaining an appropriate exchange rate for the local currency following liberalization measures, or the cost of reducing the burden of adjustment on the poorest segment of the population)."

2. According to the General Counsel, the only legal limitation on adjustment lending for fiscal reasons would be the exceptional nature of this type of operation, both as an exception to the general rule of lending for specific projects (IBRD, Article III, Section 4(viii) and IDA, Article V, Section 7(b)), and for financing local costs if no imports are to be financed under the loan (IBRD, Article IV, Section 3 and IDA, Article V, Section 2(e), as broadly interpreted in practice by the Executive Directors).

By Special 10:00 am
J. W. Chon

THE WORLD BANK GROUP

ROUTING SLIP		DATE: June 2, 1995	
NAME		ROOM. NO.	
Mr. Greg Ingram		N9-033	
☐	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:			
Greg,			
Could you please handle and copy to Michael and EXC. Thanks.			
Kate			
Deadline 6/6; don't know why they've given us such a tight deadline on this.			
FROM Kate Oram		ROOM NO. S9-035	EXTENSION 31107

0057

E



Chorus

Correspondence Management for the President's Office

Correspondence
Normal

RECEIVED
ECONOMICS
DEVELOPMENT
ECONOMIST

June 12

☐ Edit ☐ Comment ☐ Response Letter
☐ Print Routing Slips ☐ Courtesy Letter

Reference #: EXC-00027

For Action: Bruno, Michael *Ingram, G*
VPU: ERROR: Server error: Entry not found in index Room #:
ERROR: Server error: Entry not found in index Telephone: ERROR:
Server error: Entry not found in index

Date: 05/30/95
Status: Open

Correspondence Description:

From: Naresh Kumar, New Delhi, India
To: Mr. Wolfensohn
Dated: 05/18/95
Topic: Research proposal "Dynamics of Growth in the Third World"

Action Instructions

Due Date: 06/06/95

Please handle/respond on behalf of Mr. Wolfensohn and provide a copy to EXC

Special Instructions

None

Information Copies:

Please return to:
Maree Aniba, EXC, E1227, 84138

Exc 27



NISTADS

संघीय विज्ञान, प्रौद्योगिकी और विकास अध्ययन संस्थान

डा० के० एस० कृष्णन् मार्ग, पूसा, नई दिल्ली-११००१२ (भारत)

NATIONAL INSTITUTE OF SCIENCE, TECHNOLOGY AND DEVELOPMENT STUDIES
(A CONSTITUENT ESTABLISHMENT OF CSIR)

DR. K.S. KRISHNAN ROAD. PUSA, NEW DELHI-110012 (INDIA)

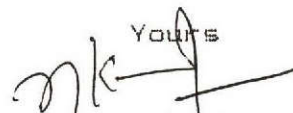
Naresh Kumar
'Scientist'

Dated:
18.05.95

No: NISTADS/TS/95

Sir,

National Institute of Science Technology & Development Studies, New Delhi is a pioneer national research institution under the aegis of Council of Scientific & Industrial Research. I am sending herewith a research proposal entitled '**DYNAMICS OF GROWTH IN THE THIRD WORLD**' for your kind consideration & perusal. I want to under take this study. As the whole world is facing an acute problem of economic crisis, I hope the outcomes of this study would be beneficial for both the developing & developed countries. Therefore, I am writing you to sponsor this project. Your early response will be highly appreciated. Thanks with regards.

Yours

(Naresh Kumar)

Enc: Research proposal.

To,
The President
The World Bank
1818 H. Street, N.Y.
Washington D.C., 20433
USA

Model Dynamics of Growth in the Third World

=====

NARESH KUMAR

**National Institute of Science
Technology & Development Studies
Dr. K.S. Krishnan Marg, Pusa,
New Delhi-110012 (INDIA)**

Introduction

=====

The purpose of the study is to present a critical evaluation of models of technological and economical change. This is intended primarily as an integrative work that will bring together the pertinent models of techno-economic change in the developing countries. Technological change is a dynamic and multidimensional phenomenon involving invention, innovation, transfer and diffusion of technology. It is taken for granted by society that technological change is a harbinger of economic development (1). The manifestation of technological change may be the development of new products and machines and better and easier ways of doing things and solving problems. Interest in technological change and economic development is not only intense in the developed countries but also in the developing world. Thus, it will bring together the models and theories of technoeconomic change to facilitate comparative and interdisciplinary research and study of technology in general and technological change in particular without being constrained by disciplinary constraints and loyalties.

Literature Review

Looking back at the history of future studies, the 1970s can be described as the decade of Global Modelling. These models are witnessed that there is a need for a new international economic order. This led to an impressive number of publications which are often called "Global Models". In particular, under the auspices of the Club of Rome- which has been an important stimulator of this project - a number of famous futures studies appeared, such as Limits to Growth by Meadows (2), Mankind at the Turning point by Mesarovic and Pestel (3), and Reshaping the International Order (RIO) by Jan Tinbergen (4). A Latin American Model, published as New-Society by the Argentinian bariloche Foundation (5).

Other important model studies of that decade were Leontief's The Future of the World Economy (6), Kahn's The Next 200 years (7) and his World Economic Development (8), the OECD study Facing the Future (9) and the books of the World Order Models Project (WOMP), of which Falk's A Study of Future Worlds (10), Galtung's The True World's (11), and Mendlovitz's On the Creation of Just World Order (12), are the most well known. In short, these studies had in common a long-term and global perspective with bold, creative, challenging and encompassing on the future of the plant. Moreover, they were based on the hope and expectations that these models could make a contribution to the solution of global problems. In that sense these models were explicitly policy oriented. On the other hand, these studies were also a reflection of the two most burning global problems of that decade- the perceived need for a new international economic order to change the North-South relationship by decreasing the gap between the rich and the poor nations, second, what has become known as "the global problematique", by which is meant the combined problems of non-renewable resources depletion, environmental deterioration, overpopulation and pollution which threaten the survival of human kind.

For many economists, models are associated with a mathematical representation of reality, and for them global modelling is a new field made possible by invention of advanced computers which based on the new technique of system analysis. What is meant here is something different. A model is seen here

as a way of grasping the essence of the complex reality by what the German sociologist Niklas Luhmann has called the "Reduction of Complexity" (13). This can be done in a quantitative way but also in a qualitative way. Thus, model dynamics in this context stands for the new mood of time in the scientific realm with deep concern for the burning problems of our time like the poverty gap between the North and the South and the ecological problematique.

After the 1970's, the golden age of global modelling seemed to be over, for during the 1980s, there was little action on this front, albeit with an emphasis on mathematical models. By 'global' is meant here an encompassing view on either the globe in totality or on a continent or region, if the relationship with rest of the globe is emphasized. In brief it can be said global models are characterized by a long-term perspective, and more than one model is generally presented, often in the form of a scenario (14). It is difficult to identify the exact reasons for this decline of political global models and of the global models movement. One could argue that the decline was an outcome of frustration, since the influence of these models was less than expected and hoped for. Another explanation for this decline is a change in the overall "mood of the time"(15).

In the UN discussion about global development, the world of global institution can be divided into three systems:

- first system consists of governments and intergovernment organizations.
- second system consists of business world and especially the transnational corporations.
- third system is represented by people acting collectively through social movements, voluntary institutions and association.

First system is described as old model, which was seen as the main 'shaping factor' for global reform. Second system may

be defined as the new models. This shift is not only visible in reshaping Europe, but also in studies which are carried out by governmental agencies. To give an example, in the European Challenges Post-1992, a report from an EC think tank (16), which deals with shaping factors and shaping actors. The views of the business community are given more prominence than the views of national governments.

Future Scope

=====

With the new front stage role of the second systems it is not surprising that a new ideology emerges, which states that sustainability and high economic growth go hand in hand, or, to put it even stronger, that high economic growth is a pre-requisite for a sustainable society. The argument for this high economic growth is that is necessary in order to 'Clean-up the mess' created by our environmentally unfriendly behavior, only when industry grows and companies make good profit, we are within to invest in environmental measures. In this context developing countries may be mentioned, where the environmental deterioration and resources exploitation is much worse than in developed countries, because of the backwardness of the means of production in that region. The reason is simple-with good profit, based on a high level of economic growth, industry will be much more willing to invest in environmental measures; different form of 'ecotax' will be more financial room for technological innovation. The general idea behind this is that business has to do the job and role of government is limited.

It is interesting that recent study Beyond the Limits (17) of the Meadows couple try to maintain that there is little room for optimism with regard to the global problematique. Contrary to most other recent models, the Meadows keep emphasizing the necessity to restructure the system. In his different models Meadows argues that to avoid collapse in economy we have to start restructure our economy today with the level of technological optimism and with the time perspective.

It is concluded that in some respects there is progress, in particular in the scientific realm. Scanning the Future (StF) is explicitly based on economic theories, and that is rather exceptional since most models, and certainly the old ones, are rather poor in this respect, on the other hand these new models make a rather 'Cold impression', as they do not reflect a deep concern for the burning issues of our time. The problems of the poor nations are almost completely absent and the ecological problematique is presented within an optimistic framework. Thus in the whole scenario the ideology of the second system is dominated everywhere. These are the decisive actors in the economy.

Nobody seems to have taken into account that India, because of its recent change in economic policy or even more problemable, China, with its extremely high level of economic growth, may become the fourth and fifth economic superpowers in the foreseeable future. India is the largest emerging market in the world even though India is economically backward. Thus, in the age of free market or competitiveness there is a need to study the dynamics of economy of the Third World or to develop a model for sustainability of techno-economic of the developing countries. This will conclude who will win the economic cat-race, the USA, Japan, Western Europe or the developing countries would become economic giant.

References:

1. Parayil, G., 'Models of Technological Change: A Critical Review of Current Knowledge: Journal of History and Technology Vol. 10 () (1993), 105-126.
2. Meadows, D.H., Meadows, D.I., Randers, J. and Behrens, W.W., The Limits to Growth (New York Universe Books, 1972).
3. Mesarovic, M. and Pestel E, Mankind at the Turning Point (New York, E.P. Dutton and Co, Readers Digest Press, 1974).
4. Tinbergen. J., Reshaping the International Order (Amsterdam, Elsevier, 1976).
5. Herrera, A.O., Catastrophe or New Society? A Latin American World Model (International Development Research Centre, 1976).
6. Leontief, W., The Future of the World Economy; A Study on the Impact of Prospective Economic Issues and Policies on the International Development Strategy (New York, United Nations, 1976).
7. Kahn, H., Brown, W., and Martel, L, The Next 200 years; A Scenario for America and the World (New York, William Morrow, 1976).
8. Kahn, H., World Economic Development, 1979 and Beyond (New York, Marrow Quill, 1979).
9. Facing the Future. Mastering the Probable and Managing the Unpredictable (Paris, OECD, (1979).
10. Falk, R.A., A Study of Future Worlds (Amsterdam, North Holland, 1975).
11. Galtung, J., The True Worlds, A Transnational Perspective (New York, the Free Press, 1980).
12. Mendlovitz, S.H., On the Creation of Just World Order (Amsterdam, North-Holland 1975).

13. Luhmann, N. and Habermas, J., Theorie der Gesellschaft order sozial technologie (Frankfurt, Suhrkamp, 1971)
14. Steenbergen, B.V., Global Modelling in the 1990s. Futures Vol. 26(1) 1994, 44-56.
15. Steenbergen, B.V., Op Cit, reference 15.
16. Jacquemin and wright, Lignes d'horizon (Paris, Artheme Fayard, 1990).
17. Central Planning Bureau, Scanning the Future, A long term Scenario Study of the World Economy 1990-2015 (The Hague, SDU Publishers, (1992).

Chris

ROUTING SLIP				Date 6-1-95	
Name				Room No.	
Mr. Michael Bruno					
	URGENT		Comment		Per Your Request
	Appropriate Disposition		Information		Returned
X	Clearance		Note and Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial
RE: FY96 Per Capita Income Guidelines for Operational Purposes					
REMARKS					
Michael,					
Mr. Kaji requested some minor changes in the guidelines. They are reflected in the attached memo.					
OK m3					
From Masood Ahmed		Room No. S-8055		Ext. 33800	

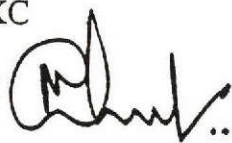
THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: June 1, 1995

TO: Mr. Gautam Kaji, EXC

FROM: Masood Ahmed, IEC



EXTENSION: 33800

SUBJECT: **FY96 Per Capita Income Guidelines for Operational Purposes**

Attached for your approval and initial is a revised memo from the President to the Executive Directors on the above subject. The revisions incorporated are as follows:

(a) A sentence relating to Argentina's per capita GNP figure has been added to the last paragraph, as discussed with you;

(b) The last sentence of the last paragraph has been modified to present the effective time period more precisely, as suggested by OPR; and

(c) Bosnia-Herzegovina has been deleted from the memo, as recommended by LEG, since it has not yet completed the formalities for membership.

Attachment

Cleared with and cc: Mr. Bruno (DEC)

Mr. G Caprio

6/1/95

Gerry,

Michael is asking if you'd like to have attached? If not, could you please return.

Thanks

Kate

Att.

6/2
Copy Cover,
R-Scip/my
note & put
in Chron. 12th

0606

ROUTING SLIP		Date
		June 1st
NAME		ROOM NO.
Michael Bruno		59035
Mr. Caprio		
URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	☒ Information ☐ Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial
RE:		
REMARKS		
Hi - Jessica Einhorn has encouraged us to keep you updated on our Continuing Professional Education Program in Finance. Attached are lecture notes on a weekly course on Derivative Securities (about 50 Bank participants) - I would be happy to discuss details at your convenience Regards - Lester		
From	Room No.	Ext
Lester Scigel	D5029	X80772

CPE PROGRAM

CONTINUING PROFESSIONAL EDUCATION

DERIVATIVE SECURITIES: LECTURE NOTES

LESTER SEIGEL

**FINANCIAL OPERATIONS DEPARTMENT
THE WORLD BANK**

Chron

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

May 30, 1995

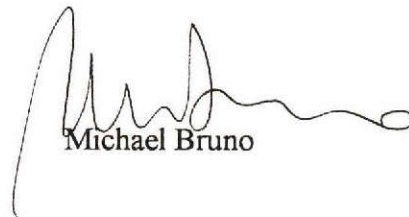
Richard Frank

DEC Policy Review Notes

Richard,

You posed an interesting question: how do we see current Bank system operations in the Bank measuring up to the principles set out in our paper on "Bank Recapitalization - If and When?" I asked Jerry Caprio, the author of that paper, to respond. His comments are attached. While we might debate how far we have come under individual operations, I believe his general conclusions on Bank incentives and staff skills are right on the money.

Thank you for your interest. Let me know if you need any further information or clarifications. We'd be happy to follow up.



Michael Bruno

Attachment

cc: Messrs. Rischard, Perlin, Baird, Squire, Caprio

OFFICE MEMORANDUM

DATE: May 15, 1995

TO: Michael Bruno, Chief Economist, DECVP

FROM: Gerard Caprio, Jr., Lead Economist, PRDFP 

EXTENSION: 3-7658

SUBJECT: **Do Recent Bank Restructuring Loans Measure Up?**

Michael,

1. I interpret the question of how recent banking system operations measure up to the criteria adumbrated in the Bank Recapitalization Note as a request for general comments, rather than a repeat of points that DEC and PRDFP staff have already made on specific loans. An honest answer to this question necessarily must be qualified, as it is too soon to tell, though as you will see below, I am not dodging a hard issue here.
2. To be sure, recent loans to restructure banks are better than the standard fare of 3-4 years ago, in the sense that the earlier loans delved far less into the details of restructuring, and instead recommended "improving supervision," studies of how banks would be restructured, and other quite general guidelines. More recent loans get more into the details of how to proceed with the restructuring, and this is appropriate, since if these operations do not ensure changes in institutions and incentives, they will be ineffective almost without exception.
3. That said, some of the recent operations sound better than in the past, but still omit quite a lot. The India loan, while far better than what was proposed in the past, left a number of issues unresolved, though in the negotiations we were able to help add some greater specificity. An important problem was that while the loan was going to lead to greater private ownership on paper, it could have been easily undermined in practice, for example by the government choosing or manipulating the number or rights of the "private" directors, or by continuing to compensate managers unrelated to their performance or that of their bank. Indeed, it is still unclear if the state-owned insurance companies are going to be allowed to bid for bank shares as part of the so-called privatization program!
4. More systematically, one can say that recent loans do a better job of addressing a current issue or crisis than the longer term problems which often, left unresolved, increase the likelihood that another crisis will reoccur in the future. For example, most experts, even those who endorse some deposit insurance, criticize the Mexican system

for guaranteeing an excessively wide range of liabilities. Yet this issue is not addressed in the current loan, but we are told that it will be a part of a future operation. The problem is that no one can tell if the Mexicans will be as disposed to listen to us then as they are now, though it is true that some signals that have been sent recently are consistent with a scaling back of guarantees. Nor does the loan provide any deadline for selling any of the banks that are intervened; those intervened last fall have not yet been sold.¹ Similarly, in Argentina, the previous absence of deposit insurance likely encouraged some banks to hold capital above the regulatory minimum in order to attract deposits, and this made the banking system safer than it otherwise would be.² Recently the Argentines announced a formal deposit insurance scheme, yet the Bank has not addressed the issue of how to make the banking system safe, or how the issuance of such a guarantee can be made compatible with a currency board.

5. Conditions for success. The Bank recapitalization note argued that successful recapitalization/restructuring exercises will require attention to detailed changes in institutions and incentives. So then the question becomes, will we look back in a few years and see that these changes have been made. Unfortunately, it is difficult to be optimistic on this score, primarily because to be successful, these loans would have to be followed up far more intensively than any Bank loan has, to my knowledge, been supervised. Indeed, precisely because these loans demand intense supervision by bank staff and very expensive consultants -- lawyers, supervisors, investment bankers, and other highly trained and much demanded professionals. -- *a clearly necessary but not sufficient condition for success is that they will need to be the most costly loans that the Bank makes.*
6. Yet it is difficult to perceive any change in incentives for Bank staff. Even well-intentioned (that is, the majority of) task managers of financial sector loans and the relevant (and also well-intentioned) division chiefs generally still are driven -- some say more than ever -- by the pressure to get money out the door, and loan supervision usually gets less attention than would be appropriate. Some task managers recently have been overheard to say that they see little change in these incentives, and indeed point to supervision time being reduced due to budget pressures. Staff often have no time to anticipate a crisis, so they are literally forced to respond to what arises, perhaps comforted with the belief that until a crisis appears, it will be difficult to get the authorities -- or their managers' -- attention. Also, it is difficult for the Bank to "walk away" from an important member country's financial sector, or a department of uniformly insolvent banking systems, even if officials refuse to close banks or to take other tough measures that are needed to ensure a change in the incentive system in the financial sector.

¹ Though a deadline could reduce government revenue from privatization, the object is to improve the financial system and return banks to the private sector. With no deadline at all, we have no leverage; an excessively generous period to sell these banks is better than none.

² In 1994, when the capital requirement was 9.5% for the first half of the year and 10.5% for the second half, many banks held 13-18% capital-asset ratios.

7. Part of the conflict with Bank incentives also may stem from the long time required for institutional changes in a country's banking system, compared with the short time horizon of most task managers, who are urged to move on in their career. To avoid exacerbating moral hazard problems, bank restructuring requires that disbursements be tied to specific progress in the areas of institutional and incentive system reform, and so would be better packaged as "slow-disbursement" adjustment loans, with a 5 year horizon being more realistic.³ And for many member countries, in particular those with lower income levels, a long-term (say 10-year or more) strategy for dealing with the financial sector is needed, as the problem is more one of financial sector development, rather than of reform.
8. Moreover, notwithstanding the financial skills housed in FSD, the task managers of financial sector loans -- who determine when and if to engage various specialists -- for the most part have amazingly little background in finance. Fewer than 10 task managers of financial sector loans have more than 6 years experience in a commercial or central bank, and in past training courses many have admitted to not feeling comfortable with the basics of money and banking. In part as a result of our compensation system, we cannot attract the best in finance: for the Ph.D. market, the one I know best, a new Ph.D. in finance starts at \$120,000 at a top 5 school (for 9-months). Superior commercial banks not only hire the best graduates -- mostly MBAs -- but then train them intensely and require successful completion of courses, exams, and special "mock" exercises, depending on the specialization chosen (a trading game for traders, assembling a financing package for bankers, etc.). Without a new incentive system and a much improved training program (such as the one FSD is preparing), it will be difficult to reverse the current minimal supervision of bank restructuring loans.
9. **Unresolved issues in finance.** One of the difficulties with reforming financial systems is that the issues are intricate, the stakes are high, and the role models are few. Developing and transitional economies explicitly or implicitly are striving to have financial systems similar to those in OECD countries today. Not only do these latter financial systems have unresolved problems of their own, but they require a rich institutional environment that cannot be transplanted overnight, or even in a few years, if at all. Our operations increasingly tell member countries to improve supervision and adopt the BIS capital guidelines, and all will be well. Yet even Mexico and Argentina find it difficult to upgrade supervision, and we know that supervisors can be overridden by politicians, as has occurred in numerous countries. More generally, it is my belief that we will have more financial crises, as we have had more countries make some superficial reforms, such as liberalizing interest rates or reducing government's role in credit allocation, but less progress as concerns institutional and incentive system reform.

³ Mr. Kaji's note (May 4, 1995) recommending the "back-loading" of the Mexican Bank Restructuring Loan is a welcomed step in this direction. Although financial sector loans can feature quick-disbursing money, they also need to reserve adequate funding for specific policy reforms, and given the long time needed to effect institutional change, it is rare for many of the institutional conditions to be implemented prior to Board presentation.

10. Thus, we need a new model, one that will increase the incentives of private banks to behave prudently, but most such models are from history and few are currently employed. Authorities in member countries need to know better what the choices and their implications are, and one priority of the Bank might be to acquaint them with the alternatives, rather than send in one expert who often recommends his home country's system. More TA and seminars in member countries, so that authorities could hear from a wide variety of experts, would be useful, and DEC certainly can help (though we may quickly become overstretched with only 4 positions for financial economists). One important member country expressed a desire for such a seminar in 1992, but it was perceived in the region that it might interfere with lending operations and in any event they did not have the funds for it, nor did the division originating the seminar (the predecessor of part of PRDFP and FSD, before their split). If we are to view the Bank as an organization that is there to help the member countries, then it seems clear that different methods of ensuring that their interests are put first are in order.
11. **Conclusions.** If Bank financial sector operations are to be upgraded, then management faces a number of choices. In particular, if these loans are to have the desired results, we need to prepare, appraise, and supervise them in a wholly different way from what has been done in the past: it is a difference in degree that is really a difference in kind. Most task managers are not prepared to undertake this activity nor do they have the incentives to do so. The current system -- sporadic inputs of advice, counsel, and prodding from a mix of experts from inside and outside the Bank -- is not sufficiently coherent or consistent to ensure that sound operations are prepared and implemented.
12. I am sure that there is no shortage of ideas regarding the institutional changes that should be attempted in the Bank; I have my own and would be glad to discuss them with you. FSD clearly is greatly concerned by these problems and also is interested in, and has ideas on, solutions. I believe that they would agree that an altered incentive system, more focused recruiting, and a greatly revamped training program, which potential task managers of financial sector loans would need to complete successfully before advancing to that position, are required for meaningful improvement of these loans. Major banks do not let their employees loose on their clients without significant training. If the Bank were to take a similar approach, it would be a significant indicator that our own incentive system is changing.

OFFICE MEMORANDUM

DATE: June 1, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: **The Fiscal Rationale for Adjustment Lending**

1. As a follow-up to the recent Loan Committee discussion on the Morocco loan, this note summarizes the economic issues that arise when adjustment loans are proposed for fiscal reasons. As you are aware, the Operational Directive on adjustment lending recognizes the legitimacy of fiscal motivations, but it also urges caution because of the difficulty of establishing a need for foreign borrowing in such cases.¹

2. As emphasized in that Directive, the rationale for quick-disbursing loans can be generally defined in terms of actual or anticipated current account deficits. The original motivation was that of coping with unexpected changes in external terms of trade, but the OD recognized that programs of policy reforms can themselves lead to current account deficits. In particular, it was noted that this rationale covered cases where policy reforms entailed higher budget deficits which need to be financed in part with additional foreign borrowing. The fiscal rationale for adjustment lending has been used in practice on several occasions.

3. This note elaborates upon the fiscal rationale, and explains the conditions under which fiscally motivated adjustment loans can be considered. No departures from the basic policy, as laid out in the Directive mentioned above, are required.

The General Rationale

4. The most general case for adjustment lending is that it smoothes the transitional costs of structural reforms. Without external financing, the costs in terms of lower living standards, lower investments and future growth, and higher inflation may be excessive. Drawing down foreign exchange reserves, which is an alternative to external borrowing, is rarely a better option, especially if the transition lasts a number of years. Excessive use of reserves, even if they are large to begin with, may entail high costs by making the reform program less credible.

¹The Bank's current policy on adjustment lending is extensively discussed in the Operational Directive 8.60, Dec. 1992. The prerequisites for such lending are summarized in paragraphs 37-44 of that Directive, and disbursements policy in paragraph 52. This note complements two notes prepared as background to that Directive: "Adjustment Lending", by E. Grilli, M. Selowsky and L. Squire, June 5, 1992, and "Adjustment Lending: Some Analytical Issues", by T.N. Srinivasan, July 1992.

5. The case for adjustment lending may arise in many different ways. The classical case is of course that of a sharp external terms of trade shock, when external borrowing helps the country smooth the effects on aggregate consumption. But even if no external shocks have occurred, foreign borrowing may be justified to offset the current account deficits that are entailed by the policy reform programs being implemented by the country.

6. Policy reforms can lead directly to increased current account deficits, or the links may be indirect. In the event that the immediate impact of the policy changes falls entirely on the public budget, the method of non-inflationary financing of the increased deficit would be the issue: additional taxation, additional domestic borrowing, or additional foreign borrowing. The cost-benefit analysis of these alternative ways of financing the increase in the public deficit can in general be expected to lead to at least some additional foreign borrowing.² This is the fiscal case for adjustment lending, which helps smooth out the government's budgetary expenditures.³

Fiscal Motivations

7. Fiscal issues have become increasingly important in adjustment lending because many policy reforms involve significant increases in public expenditures or decreases in revenues in the short-run. Examples of fiscally important policy measures are the recapitalizations of banking systems, compensation for redundant employees of state enterprises, and increased public expenditures on the social sectors. Even reforms of the tax system, with revenue enhancement as a primary goal, may initially lower revenues for a few years before new taxes become established (as suggested in a recent Fund review). Also, while trade liberalization tends to enhance revenues in the first instance because of the tariffification of QRs and removal of exemptions, it may well lower revenues in subsequent phases.

8. When policy reform programs lead to temporary budget imbalances, as in the illustrations above, foreign borrowing will generally be one of the relevant options. The scope for increasing tax revenues in the short-run is typically quite limited because improvements in tax administration take time and the easiest ways of quickly raising revenues - by increasing import tariffs or export taxes, for example - are also likely to be highly distortionary. Once introduced on an *ad hoc* basis the costly short-term measures

² It may be helpful to note the national accounts identity: (current account deficit)=(private investments - private savings) + (public sector budget deficit). If the public sector deficit increases temporarily, this will show up immediately as a higher current account deficit except to the extent that the private sector deficit narrows (because of increased domestic borrowing, for example). In the limiting case in which exogenous shocks or policy changes do not affect the private sector savings/investment gap, the increase in the current account deficit would be exactly the same as the increase in the public sector deficit. Note also that one can distinguish between a "BOP" rationale, a "fiscal" rationale, and even a "private sector" rationale, on the basis of the source of the initial disturbance, but such distinctions get blurred in terms of effects because in general all three terms will be affected.

³ The incremental budget expenditure being financed by foreign borrowing is likely to have a large non-tradable component, and thus the absorption of the foreign funds will lead to some appreciation of the real exchange rate.

may be difficult to remove later. Cutting public expenditures is another option, and it is quite easy in many cases to quickly identify low-priority allocations. But experience suggests that the expenditures that are most useful from the long-run economic point of view are also often among the easiest to reduce. Finally, instead of raising taxes or cutting expenditures, a government can increase domestic borrowing. This option may however have high costs in terms of higher interest rates, or higher degrees of financial repression, and the resultant crowding out of private investments.

9. To illustrate how adjustment lending can help, consider the case of many African and Asian countries with very low domestic savings rates which limit the utilization of foreign project aid. Inability to utilize such aid because of the difficulties of generating local resources to go with it, and lack of access to free foreign exchange, can trap such countries in a low-growth equilibrium. The provision of free foreign exchange through adjustment lending can then help increase investment and growth, while reforms of the taxation and capital market systems are undertaken to raise domestic savings.

10. Another case concerns the substitution of domestic borrowing by foreign borrowing. Domestic borrowing options are of course limited in poor IDA countries, but even in the middle-income countries, such as Argentina, foreign borrowing have sometimes been the better option for the government. When domestic interest rates are higher than abroad and the stock of domestic debt is growing, increased foreign borrowing may help greatly. This would reduce domestic debt, lower interest rates and raise private investments and growth. After the increased primary surpluses (due to both public sector and tax reforms and the revenue effects of growth) allow the reduction of domestic debt to manageable proportions, they can be used to lower foreign borrowing. Adjustment loans in such cases help the management of domestic debt-dynamics and allow time for public sector reforms to become effective.

11. These considerations suggest that the scope of adjustment lending should not be restricted in any way on the basis of artificial distinctions between BOP and fiscal rationales. Adjustment lending is one of the most important means of supporting policy reforms, and the ultimate test is the quality of the reforms to be supported. At the same time, adjustment loans should be firmly grounded on the reality of the policy reform programs being undertaken.

12. Any proposal for fiscally motivated adjustment lending must explain the following:

- the coherence of the overall reform program within which the proposed loan is to be seen;
- the temporary increases in the public sector deficits that the reforms being supported would cause;

- how and when the increases in the deficits would be offset by the reform program; it is important to ensure that fiscal sustainability is restored as soon as possible..
- the costs and benefits of alternative ways of financing the increases in deficits. There should be assurance that the fiscal costs involved cannot be financed in the short-run by simply cutting back on obviously lower priority expenditures, such as unwarranted subsidies and state enterprise losses; similarly, a tax reform program should be in progress, with actions taken to eliminate various exemptions and privileges that may exist. The ability of the government to borrow from the domestic market without seriously crowding out the private sector should also be assessed.

Disbursement Policy

13. The size of the Bank loan should not be larger than that part of the incremental fiscal costs which is to be financed externally. Since the external funds must lead to higher import surpluses, even though they are converted by the government into local currency resources, disbursements can continue to be made against general imports, subject only to a negative list. It is important, however, that the disbursements are timed to coincide with the extra fiscal costs that need to be financed due to the reforms being supported.

Legal Aspects

14. The approach outlined above is consistent with the Articles of the Bank, as explained in the attachment, from the General Counsel.

Attachment

cc: Loan Committee Members



Record Removal Notice



File Title Michael Bruno - Internal Chronological - May to June 1995		Barcode No. 30486494		
Document Date June 1, 1995	Document Type Board Paper			
Correspondents / Participants General Counsel				
Subject / Title Attachement: FISCAL RATIONALE FOR ADJUSTMENT LENDING: LEGAL ASPECTS				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by K. Brenner-Delp</td><td>Date June 24, 2025</td></tr></table>	Withdrawn by K. Brenner-Delp	Date June 24, 2025
Withdrawn by K. Brenner-Delp	Date June 24, 2025			



Record Removal Notice

File Title Michael Bruno - Internal Chronological - May to June 1995		Barcode No. 30486494		
Document Date 06/01/1995	Document Type Letter			
Correspondents / Participants To: Shahid Husain From: Michael Bruno				
Subject / Title Note to Mr. Shahid Husain				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			

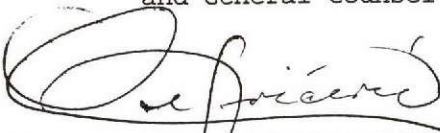
BOLIVIA

Capitalization Program Adjustment Credit

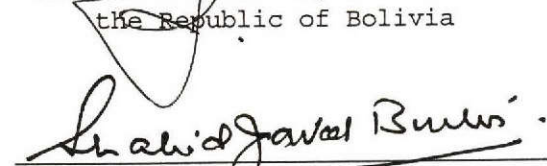
3. Accordingly, the Committee finds that said project merits financial assistance from the Association, and hereby recommends said project for such assistance.

COMMITTEE

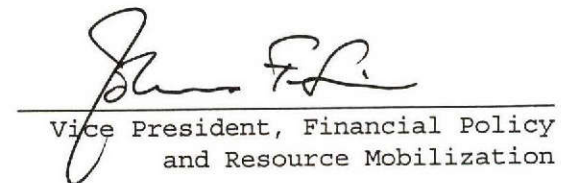
Senior Vice President
and General Counsel



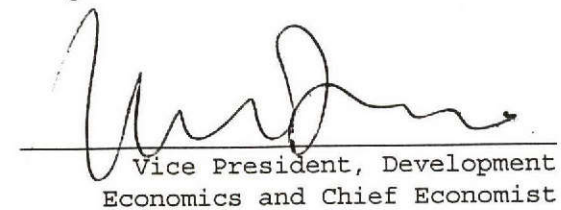
Nominee selected by Governor for
the Republic of Bolivia



Regional Vice President
Latin America and the Caribbean



Vice President, Financial Policy
and Resource Mobilization



Vice President, Development
Economics and Chief Economist

Dated at Washington, D. C.

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

OFFICE MEMORANDUM

DATE: May 30, 1995

TO: Distribution

FROM: Gautam Kaji, EXC 

EXTENSION: 81384

SUBJECT: Delegation of Authority

Due to Mr. Bruno's extended absence Mr. Masood Ahmed will continue to act until Mr. Bruno's return to the office mid-afternoon Wednesday, May 31st.

Distribution:

Mr. Richard Frank

Mr. Sven Sandstrom

Mr. Ibrahim Shihata

Ms. Orsalia Kalantzopoulos

Mr. Ignacio Mas

Mr. Masood Ahmed

Mr. Mark Baird

Mr. Gregory Ingram

Mr. Lyn Squire

Mr. Vinod Thomas

Mr. Paulo Vieira da Cunha

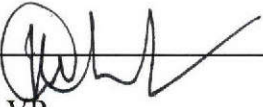
cc: ISC Files

TO → ANA MARIA

5/30

From Hilse

THE WORLD BANK GROUP
Office of the Vice President & Chief Economist
Development Economics Department

ROUTING SLIP		DATE: May 30, 1995	
NAME		ROOM. NO.	
Mr. Gautam Kaji, 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:			
REMARKS:			
Gautam, For medical reasons Michael's return to the office has been delayed until tomorrow afternoon. I'd appreciate it if you could sign the attached. Thanks, Masood 			
FROM Masood Ahmed, Acting, DEC VP		ROOM NO. S-8-055	EXTENSION 33800

70108 1990644

WB DECVF 2024770549

..... (AUTO)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
015	MEMORY TX		SQUIRE	01/01	OK

ERRORS

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

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

OFFICE MEMORANDUM

DATE: May 30, 1995

TO: Distribution

FROM: Gautam Kaji, EXC 

EXTENSION: 81384

SUBJECT: Delegation of Authority

Due to Mr. Bruno's extended absence Mr. Masood Ahmed will continue to act until Mr. Bruno's return to the office mid-afternoon Wednesday, May 31st.

Distribution:
Mr. Richard Frank

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION
017	MEMORY TX	

TEL NO.

EDI THOMAS

PAGE RESULT

01/01 OK

ERRORS

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

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

OFFICE MEMORANDUM

DATE: May 30, 1995

TO: Distribution

FROM: Gautam Kaji, EXC 

EXTENSION: 81384

SUBJECT: Delegation of Authority

Due to Mr. Bruno's extended absence Mr. Masood Ahmed will continue to act until Mr. Bruno's return to the office mid-afternoon Wednesday, May 31st.

Distribution:
Mr. Richard Frank

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
016	MEMORY TX		RAD INGRAM	01/01	OK

ERRORS

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

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

OFFICE MEMORANDUM

DATE: May 30, 1995

TO: Distribution

FROM: Gautam Kaji, EXC 

EXTENSION: 81384

SUBJECT: Delegation of Authority

Due to Mr. Bruno's extended absence Mr. Masood Ahmed will continue to act until Mr. Bruno's return to the office mid-afternoon Wednesday, May 31st.

Distribution:
Mr. Richard Frank

chem copy

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

DATE: May 4, 1995 04:22pm

TO: See Distribution Below

FROM: Michael Bruno, DECVP *MB*

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

I will be away on mission from Saturday, May 20 through Monday, May 29.
Mr. Masood Ahmed will act on my behalf.

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
TO: Gautam S. Kaji
TO: SVEN SANDSTROM
TO: RICHARD FRANK
TO: IBRAHIM SHIHATA
TO: ORSALIA KALANTZOPOULOS
TO: Ignacio Mas
TO: Masood Ahmed - IECDR
TO: Mark Baird
TO: Gregory Ingram
TO: Lyn Squire
TO: Vinod Thomas
TO: Michael Walton
TO: Paulo Vieira Da Cunha
TO: Lesley Davis
TO: Jean Bradier
CC: INSTITUTIONAL ISC FILES

(PAPER MAIL)
(GAUTAM KAJI)
(SVEN SANDSTROM @A1@WBWASH)
(RICHARD FRANK @A1@WBWASH)
(IBRAHIM SHIHATA @A1@WBWASH)
(ORSALIA KALANTZOPOULOS @A1@WBWA)
(IGNACIO MAS)
(MASOOD AHMED)
(MARK BAIRD)
(GREGORY INGRAM)
(LYN SQUIRE)
(VINOD THOMAS)
(MICHAEL WALTON)
(PAULO VIEIRA DA CUNHA)
(LESLEY DAVIS)
(JEAN BRADIER)
(INSTITUTIONAL ISC FILES @A1@WBW)

Maria - to send
this 5/23 ! I've
shown this again
to her today !

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

DATE: 23-May-1995 09:55am

TO: Bhuvan Bhatnagar

(BHUVAN BHATNAGAR)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

Sent By: Kate Oram

SUBJECT: Participation Sourcebook:Mr. Steer's memo of May 18

As Mr. Bruno is currently away, I am writing on his behalf to thank you for sending us the final draft of the Participation Sourcebook and to say that DEC has no further comments.

Kate Oram
Exec. Assistant

CC: Masood Ahmed - IECDF
CC: Lyn Squire
CC: Paulo Vieira Da Cunha

(MASOOD AHMED)
(LYN SQUIRE)
(PAULO VIEIRA DA CUNHA)

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

DATE: 02-Jun-1995 07:46am EST

TO: See Distribution Below

FROM: Gloria Davis - ENVSP, ENVSP (GLORIA DAVIS)

EXT.: 82750

SUBJECT: Participation Sourcebook: Review Reminder

1. On May 18, we circulated the final draft of the Participation Sourcebook for your review and comments by May 31.

2. To date, we have received only a few "official" comments on this draft. Although earlier drafts of the Sourcebook may have been reviewed in your Vice Presidency, some additional material has been added. For this reason, I would be grateful if you would confirm that you have no additional comments before we forward the document to the Board for their information.

3. Please forward comments directly to Bhuvan Bhatnagar, Room S 5019, by c.o.b. Monday, June 5. I apologize if you have already sent us this information.

4. Thank you.

Gloria

DISTRIBUTION:

TO: EDWARD V.K. JAYCOX	(EDWARD V.K. JAYCOX @A1@WBWAS
TO: D. Joseph Wood	(JOE WOOD)
TO: WILFRIED P. THALWITZ	(WILFRIED P. THALWITZ @A1@WBW
TO: CAIO KOCH-WESER	(CAIO KOCH-WESER @A1@WBWASH)
TO: Shahid Javed Burki	(SHAHID JAVED BURKI)
TO: IBRAHIM SHIHATA	(IBRAHIM SHIHATA @A1@WBWASH)
TO: Jean-Francois Rischard	(JEAN-FRANCOIS RISCHARD)
TO: Armeane Choksi	(ARMEANE CHOKSI)
TO: S. Shahid Husain	(S. SHAHID HUSAIN)
TO: ROBERT PICCIOTTO	(ROBERT PICCIOTTO @A1@WBWASH
TO: Michael Bruno	(MICHAEL BRUNO)
TO: RUSSELL CHEETHAM	(RUSSELL CHEETHAM @A1@WBWASH
TO: Ismail Serageldin	(ISMAIL SERAGELDIN)
TO: STEPHEN DENNING	(STEPHEN DENNING @A1@WBWASH)
TO: DUNSTAN M. WAI	(DUNSTAN M. WAI @A1@WBWASH)
TO: KATHERINE MARSHALL	(KATHERINE MARSHALL @A1@WBWAS
TO: MICHAEL CARTER	(MICHAEL CARTER @A1@WBWASH)
TO: FRANCISCO AGUIRRE-SACASA	(FRANCISCO AGUIRRE-SACASA @A1
TO: OLIVIER LAFOURCADE	(OLIVIER LAFOURCADE @A1@WBWAS
TO: JEAN LOUIS SARBIB	(JEAN LOUIS SARBIB @A1@WBWASH
TO: KEVIN M. CLEAVER	(KEVIN M. CLEAVER @A1@WBWASH

TO: Harinder Kohli
TO: Callisto Madavo
TO: Nicholas Hope
TO: Marianne Haug
TO: Robert S. Drysdale
TO: Paul Isenman
TO: Heinz Vergin
TO: Harold W. Messenger
TO: CLAUDE BLANCHI
TO: RACHEL LOMAX
TO: KEMAL DERVIS
TO: YUKON HUANG
TO: BASIL KAVALSKY
TO: TARIQ HUSAIN
TO: DANIEL RITCHIE
TO: RAM K. CHOPRA
TO: ANIL SOOD
TO: Myrna Alexander
TO: Gobind T. Nankani
TO: Edilberto L. Segura
TO: Yoshiaki Abe
TO: Sri-ram Aiyer
TO: MARK MALLOCH BROWN
TO: JOHANNES LINN
TO: K. Y. Amoako
TO: Vinod Thomas
TO: Michael Cohen
TO: Alexander McCalla
TO: ANTHONY PELLEGRINI
TO: James W. Adams
TO: David De Ferranti
TO: Ian Scott
TO: Lyn Squire
TO: Jan Wijnand
TO: Rest of Distribution Suppressed

(HARINDER KOHLI)
(CALLISTO MADAVO)
(NICHOLAS HOPE)
(MARIANNE HAUG)
(ROBERT S. DRYSDALE)
(PAUL ISENMAN)
(HEINZ VERGIN)
(HAROLD W. MESSENGER)
(CLAUDE BLANCHI @A1@WBWASH)
(RACHEL LOMAX @A1@WBWASH)
(KEMAL DERVIS @A1@WBWASH)
(YUKON HUANG @A1@WBWASH)
(BASIL KAVALSKY @A1@WBWASH)
(TARIQ HUSAIN @A1@WBWASH)
(DANIEL RITCHIE @A1@WBWASH)
(RAM K. CHOPRA @A1@WBWASH)
(ANIL SOOD @A1@WBWASH)
(MYRNA ALEXANDER)
(GOBIND T. NANKANI)
(EDILBERTO L. SEGURA)
(YOSHIAKI ABE)
(SRI-RAM AIYER)
(MARK MALLOCH BROWN @A1@WBWAS)
(JOHANNES LINN @A1@WBWASH)
(K. Y. AMOAKO)
(VINOD THOMAS)
(MICHAEL COHEN)
(ALEXANDER MCCALLA)
(ANTHONY PELLEGRINI @A1@WBWAS)
(JAMES W. ADAMS)
(DAVID DE FERRANTI)
(IAN SCOTT)
(LYN SQUIRE)
(JAN WIJNAND)

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

DATE: May 23, 1995 08:39pm

TO: Maria Chona Fernandez

(MARIA CHONA FERNANDEZ)

FROM: Airbill Processing, GSDMC

(AIRBILL PROCESSING)

EXT.: 81482

SUBJECT: Pre-Airbill# 1995052310223947 Acknowledgement

Sender: MARIA CHONA FERNANDEZ Dept/Div: 62205
Room: S 9-035 Ext: 33766
Date: 5/23/95

Recipient: MICHAEL BRUNO
Address: 2 MASARIK STREET

City: JERUSALEM State: Zip:
Province: Country: ISRAEL

Phone: 972 2 611 166

Airbill#: 8683677203
Contents: DOCUMENT
000000000000

Pieces: 1
Weight: 1
Cost: 18.90

→ MA ✓
cc: Anna Maria

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

DATE: May 23, 1995 10:45am

TO: See Distribution Below

FROM: Josie Bassinette, EXC (JOSIE BASSINETTE@A1@EDSEL)

EXT.: 80240

SUBJECT: Briefing for Mr. Wolfensohn on Multilateral Debt - May 31

This is to confirm that there will be a briefing with Mr. Wolfensohn on Multilateral Debt on Wednesday, May 31 from 11:30 to 12:00 in the President's Conference Room. Johannes is putting together a revised brief that we will send out to JDW in Wyoming.

<u>DISTRIBUTION:</u>	
TO: JOHANNES LINN	(JOHANNES LINN @A1@WBWASH)
TO: MICHAEL BRUNO	(MICHAEL BRUNO @A1@WBHQB)
TO: SVEN SANDSTROM	(SVEN SANDSTROM @A1@WBWASH)
TO: MARK MALLOCH BROWN	(MARK MALLOCH BROWN @A1@WBWASH)
CC: MASOOD AHMAD	(MASOOD AHMAD @A1@WBHQB)
CC: JANE ARMITAGE	(JANE ARMITAGE @A1@WBHQB)
CC: NANCY BARRETT	(NANCY BARRETT @A1@WBHQB)

✓

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

DATE: 20-May-1995 01:28pm

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Mail Postmaster, OBPME

(POSTMASTER)

EXT.:

SUBJECT: Automatic reply to mail addressed to ISMAIL SERAGELDIN

While I am away from the office, May 15 - June 9, 1995 I will NOT, REPEAT NOT, be picking up E-Mail. Please forward your messages to Andrew Steer (for May 15 to 26) or Michel Petit (for May 30 to June 9). If your communication is of a confidential nature, please address it to Ms. Adoracion Morao, my executive Assistant. Thank you.

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

DATE: 22-May-1995 10:51am

TO: Andrew Steer

(ANDREW STEER)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Quality etc.

Attached.

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

DATE: 20-May-1995 01:28pm EST

TO: Ismail Serageldin

(ISMAIL SERAGELDIN)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Quality etc

Dear Ismail,

Apologies for not responding earlier to your thought provoking paper. I fully agree with the worry and emphasis on quality in the paper, but also agree with Bob's point about the need to enhance incentives and accountability. If budget and staff incentives were linked to development impact and managers were accountable for both good and bad outcomes, and if we could clearly link outcomes with the quality of analysis (for which there now seems increasing evidence), then there would also be more built-in dynamics of quality improvement (and staff would in their own self-interest obtain better training).

There are also a few points that I would take exception to. One is the generalist versus specialist debate. We want quality staff and a well trained general economist, for example, is a very valuable as well as fungible asset. We should not trade-off long-term potential (which is fungible) for short-term specific experience, except in short-term staff. I also don't get excited about the need to trade macro for micro. The better professionals can do both and I see as much poor macro analysis in the Bank's documents. It all turns back to issues of incentives, rewards and penalties for good or bad quality.

Finally, you seem to subscribe to the view that credit operations are constrained by "political correctness" or the "party line" (second par. on p.3). We need a clear policy and a clear procedure for exceptions which otherwise can do (and have done) a lot of damage. It is the absence of clarity which creates the present confusion.

Hope this is helpful and thanks again for letting me participate in this exchange of views.

Michael

CC: Armeane Choksi

(ARMEANE CHOKSI)

CC: ROBERT PICCIOTTO

(ROBERT PICCIOTTO @A1@WBWASH)

CC: Jean-Francois Rischard

(JEAN-FRANCOIS RISCHARD)

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

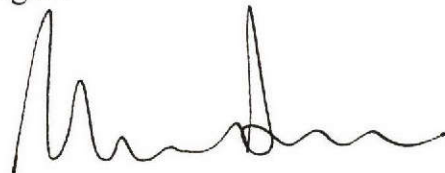
May 18, 1995

Mr. Ibrahim Shihata

Ibrahim,

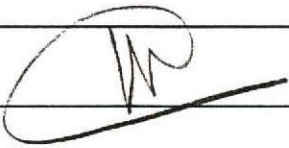
Thank you for your thoughtful response to the note on Trade Policy Reform and Industry. I agree with you wholeheartedly that the Bank should do everything possible to ensure that the conditions for an adequate supply response accompany the changes in economic incentives that occur during a trade reform. Improved incentives for an economy to produce those things it can make most efficiently cannot have their optimum effect if other barriers block the necessary changes from occurring. Likewise, removing these other barriers while trade restrictions remain high runs the risk of attracting investment and workers into activities from which they will eventually have to be dislodged to make the economy competitive. So while trade policy may form the cornerstone, it is not the only building block for a successful adjustment program.

I have, however, been struck by the fact that under a fairly wide range of conditions, economies have responded to trade reforms with resiliency through rejuvenation of some efficient existing enterprises and the birth of some new ones. This has been true of economies in Africa, which have both less developed industrial sectors and weak institutional capacity to manage a more interventionist trade policy, as well as those in other parts of the world with stronger industrial sectors and management capabilities, including Indonesia, Malaysia, Morocco, and recently a number of countries in Latin America. I hope that more evidence will be accumulated through research at the Bank and elsewhere on the microeconomics of this adjustment process, but I am heartened that, for whatever reason, the outcomes have been positive. Thank you again for the opportunity to have this dialogue.



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

THE WORLD BANK GROUP

ROUTING SLIP		DATE: May 18, 1995	
NAME			ROOM. NO.
Mr. Michael Bruno			S 9031
☐	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: Trade Policy Reform and Industry			
REMARKS: Michael, Attached is the note from you to Ibrahim responding to his note of May 4. Alan and I both felt it was important to set out these points in a low key way. Mark has already looked at an earlier draft. Masood			
FROM Masood Ahmed			ROOM NO. S 8055
			EXTENSION 33800

DK

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

Copied to JN

P. 4/4

A

(1000 1000 1000)

IBRAHIM F. I. SHIHATA
Senior Vice President & General Counsel

May 4, 1995

Mr. Michael Bruno

Michael,

Thank you very much for sending me the paper on Trade Policy Reform and Industry which is clearly written and persuasive.

My question was whether a small sub-saharan African country can aspire for industrialization without protection at least at the early stages. My earlier readings of many writings by non-Bank economists and conversations with some Korean officials suggested to me that this was extremely difficult, if not impossible. The experience of Mauritius with its relatively better educated people, greater institutional capacity and more stable macro-economic framework proved that it could be done under certain conditions. The more complex situation of countries which have achieved some degree of industrialization under heavy protection suggests that the long-term benefits liberalization can bring about may be overshadowed by the short-term problems associated with it for existing industries, especially if the conditions for adequate investment response are lacking. This leads me to conclude that while the Bank's push for liberalization is justified, it should be accompanied with, if not preceded by the other conditions needed to enable liberalization to produce its positive effects. I hope I am not wrong.

Ibrahim

cc: Messrs. Masood Ahmed, Mark Baird and Alan Winters

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

OFFICE MEMORANDUM

DATE: May 19, 1995

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

FROM: Michael Bruno, Vice President, DEC *MB*

EXTENSION: 33774

SUBJECT: **FY96 Per Capita Income Guidelines for Operational Purposes**

1. Attached for your clearance is a draft memorandum to the Executive Directors updating the per capita income guidelines for FY96. The Regional Vice Presidents have reviewed and cleared it.
2. Please note that Bosnia-Herzegovina is newly added to the FY96 Operational Guidelines.

Attachment

cc.: Regional Vice-Presidents, Messrs./Mmes. Linn (FPRVP); Baird (DECVP);
Ahmed, Badiie (IECDR); Adams (OPRDR); Blazic-Metzner (IECSE)

JPark:lh
n:\iecse\park\opexc2.doc

FROM: The President

SecM95-
June __, 1995

Per Capita Income Guidelines for Operational Purposes*

The per capita GNP guidelines covering the Civil Works Preference, IDA Eligibility, IBRD Terms (grace period and fixed maturities) and the initiation of the IBRD graduation process are updated every year, based on the annual rate of change of the SDR deflator [see, President's Memorandum to the Executive Directors dated September 27, 1983 (SecM83-924)]. The updated operational guidelines to be applied during FY96 are as follows:

<u>Operational Categories</u>	<u>FY96 Guidelines (1994 US\$)</u>
I. Civil Works Preference	Less than or equal to \$725
II. IDA Eligibility and 20-year IBRD Terms	\$726 - \$1,395
III. 17-Year IBRD Terms	\$1,396 - \$2,895
IV. 15-Year IBRD Terms	\$2,896 - \$5,055
V. IBRD Graduation	Over \$5,055 ¹

Per Capita GNP data (Attachment 1) for borrowing member countries for 1994 have been prepared in accordance with the procedures described in SecM89-73, SecM93-589, and SecM94-661.

Bosnia-Herzegovina has been newly added to the FY96 Operational Guidelines.

¹ Countries in this category are subject to 15-year IBRD terms before their actual graduation.

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

*Questions on this document
should be referred to
Mr. Boris Blazic-Metzner
(Ext. 33806)

With the updated 1994 per capita GNP estimates, the following countries will change their classification in the FY96 Operational Guidelines.

	<u>Classification in</u>	
	<u>FY95</u> <u>(1993 US\$)</u>	<u>FY96</u> <u>(1994 US\$)</u>
<u>Moving to a more</u> <u>preferential category</u>		
Estonia	IV	III
Venezuela	IV	III
Belarus	IV	III
Kazakhstan	III	II
Cameroon	II	I
Congo	II	I
Kyrgyz Republic	II	I
Senegal	II	I
Azerbaijan	II	I
 <u>Moving to a less</u> <u>preferential category</u>		
Czech Republic	III	IV
El Salvador	II	III

Attachment 2 shows growth rates, for 1994, in real terms of (i) per capita GNP and (ii) per capita Gross National Income (GNY) that takes account of changes in terms of trade.²

² Gross National Income (GNY), regularly reported in Economic Indicators tables attached to *Country Briefs*, is the sum of GNP in constant prices and a terms of trade adjustment. The terms of trade adjustment reflects a change in the country's export capacity to buy imports due to the change in the average export price in relation to average import price between the base year (1987) and current year. There are several countries for which GNY growth rates are shown as "NA" (not available) in Attachment 2 because of delays in availability of export and import price data.

For a number of countries, the per capita GNP can only be estimated as a range. These estimated ranges, while useful to place the countries in specific operational categories, are shown as "NA" (not available) in Attachment 1. Also, the estimates for some states of the former Soviet Union are preliminary. Therefore, their classification will be kept under review, and terms of Bank lending based on the latest available information will be indicated prior to specific operations. With this exception, I propose that we use the updated guidelines and per capita GNP estimates for current operational purposes during FY96, effective July 1, 1995.

James D. Wolfensohn

1994 GNP PER CAPITA

Ranked by 1994 GNP per capita
(US dollars)

Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita
V (over \$5,055)		III (\$1,396-\$2,895)		II (\$726-\$1,395)		I (\$725 or less)	
Argentina	8,060	Russian Federation /1	1,910	Indonesia	790	Nicaragua	330
Slovenia	7,140	Peru	1,890	Macedonia, FYR of	790	Lao PDR	320
Seychelles	6,210	Tunisia	1,800	Bolivia	770	Togo	320
Antigua and Barbuda /2	NA	Algeria	1,690	Angola /2	NA	India	310
IV (\$2,896-\$5,055)		Colombia	1,620	Djibouti /2	NA	Burkina Faso	300
Uruguay	4,650	Paraguay	1,570	Kiribati /2	NA	Nigeria	280
Mexico	4,010	Ukraine /1	1,570	Solomon Islands /2	NA	Yemen, Republic of	280
Hungary	3,840	El Salvador	1,480	Swaziland /2	NA	Mali	250
Trinidad and Tobago	3,740	Jamaica	1,420	Syrian Arab Republic /2	NA	Sao Tome and Principe	250
Chile	3,560	Dominica /2	NA	Turkmenistan /2	NA	Guinea-Bissau	240
Gabon	3,550	Grenada /2	NA	I (\$725 or less)		Bangladesh	230
Malaysia	3,520	Iran, Islamic Republic /2	NA			Madagascar	230
Brazil	3,370	Lebanon /2	NA			Niger	230
Czech Republic	3,210	Marshall Islands /2	NA	Egypt, Arab Rep.	710	Haiti	220
Mauritius	3,180	Micronesia, Fed. Sts. /2	NA	Cameroon	680	Nepal	200
South Africa	3,010	St. Vincent and the Grenadines /2	NA	Armenia /1	670	Uganda	200
St. Kitts and Nevis /2	NA	Tonga /2	NA	Congo	640	Chad	190
St. Lucia /2	NA	II (\$726-\$1,395)		Sri Lanka	640	Viet Nam	190
III (\$1,396-\$2,895)				Kyrgyz Republic /1	610	Burundi	150
Estonia /1	2,820	Jordan	1,390	Senegal	610	Sierra Leone	150
Botswana	2,800	Lithuania /1	1,350	Honduras	580	Malawi	140
Venezuela	2,760	Dominican Republic	1,320	China	530	Ethiopia	130
Panama	2,670	Ecuador	1,310	Guyana	530	Mozambique	80
Belize	2,550	Romania	1,230	Comoros	510	Afghanistan /2	NA
Croatia	2,530	Guatemala	1,190	Cote d'Ivoire	510	Bhutan /2	NA
Poland	2,470	Bulgaria	1,160	Guinea	510	Bosnia-Herzegovina /2	NA
Turkey	2,450	Papua New Guinea	1,160	Azerbaijan /1	500	Cambodia /2	NA
Costa Rica	2,380	Morocco	1,150	Zimbabwe	490	Eritrea /2	NA
Fiji	2,320	Vanuatu	1,150	Mauritania	480	Georgia /2	NA
Latvia /1	2,290	Kazakhstan /1	1,110	Pakistan	440	Kenya /2	NA
Slovak Republic	2,230	Western Samoa	970	Equatorial Guinea	430	Lesotho /2	NA
Thailand	2,210	Philippines	960	Ghana	430	Liberia /2	NA
Belarus /1	2,160	Uzbekistan /1	950	Benin	370	Myanmar /2	NA
Namibia	2,030	Cape Verde	910	Central African Republic	370	Rwanda /2	NA
		Maldives	900	Albania	360	Somalia /2	NA
		Moldova /1	870	Gambia, The	360	Sudan /2	NA
		Suriname	870	Tajikistan /1	350	Tanzania /2	NA
				Zambia	350	Zaire /2	NA
				Mongolia	340		

/1 Estimates for these countries are preliminary, and their classification will be kept under review.

/2 Estimates are available only in ranges.

1994 GROWTH RATE PER CAPITA GNP AND GNY

Ranked by 1994 GNP per capita
(percent)

Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate	
V (over \$5,055)	GNP	GNY	III (\$1,396-\$2,895)	GNP	GNY	II (\$726-\$1,395)	GNP	GNY	I (\$725 or less)	GNP	GNY
Argentina	5.2	5.6	Russian Federation /1	-14.1	NA	Indonesia	4.6	5.3	Nicaragua	-4.5	-2.0
Slovenia	6.3	NA	Peru	12.3	NA	Macedonia, FYR of	-6.0	NA	Lao PDR	5.2	NA
Seychelles	-2.5	-3.5	Tunisia	2.6	1.9	Bolivia	2.1	NA	Togo	3.8	4.8
Antigua and Barbuda	NA	NA	Algeria	-1.6	-2.3	Angola	NA	NA	India	4.3	4.9
			Colombia	6.5	5.5	Djibouti	NA	NA	Burkina Faso	-2.2	NA
IV (\$2,896-\$5,055)			Paraguay	1.0	2.1	Kiribati	NA	NA	Nigeria	-0.1	-3.3
Uruguay	5.3	6.0	Ukraine/1	-26.6	NA	Solomon Islands	NA	NA	Yemen, Rep.	7.2	NA
Mexico	1.2	3.0	El Salvador	4.5	5.9	Swaziland	NA	NA	Mali	-1.4	-1.3
Hungary	4.3	3.9	Jamaica	-3.1	NA	Syria Arab Republic	NA	NA	Sao Tome and Principe	-4.0	-4.8
Trinidad and Tobago	2.4	-1.3	Dominica	NA	NA	Turkmenistan	NA	NA	Guinea Bissau	4.7	2.9
Chile	5.9	10.0	Grenada	NA	NA				Bangladesh	2.4	2.1
Gabon	-25.9	-32.7	Iran, Islamic Rep.	NA	NA	I (\$725 or less)			Madagascar	-2.1	-2.1
Malaysia	5.8	0.4	Lebanon	NA	NA				Niger	0.4	NA
Brazil	2.5	2.9	Marshall Islands	NA	NA	Egypt, Arab Rep.	-0.9	-0.8	Haiti	-12.5	-12.1
Czech Republic	2.6	NA	Micronesia, Fed. Sts.	NA	NA	Cameroon	-6.9	-4.4	Nepal	4.2	NA
Mauritius	3.6	2.9	St. Vincent and the Grenadines	NA	NA	Armenia/1	1.9	NA	Uganda	1.8	0.6
South Africa	1.1	2.9	Tonga	NA	NA	Congo	-19.6	NA	Chad	1.0	NA
St. Kitts and Nevis	NA	NA				Sri Lanka	4.4	4.5	Viet Nam	6.4	NA
St. Lucia	NA	NA	II (\$726-\$1,395)			Kyrgyz Republic /1	-27.7	NA	Burundi	-14.3	-8.1
			Jordan	3.1	NA	Senegal	-1.4	-0.7	Sierra Leone	0.7	NA
III (\$1,396-\$2,895)			Lithuania/1	2.1	NA	Honduras	-2.8	NA	Malawi	-11.0	-10.0
Estonia/1	6.8	NA	Dominican Republic	2.3	NA	China	10.6	10.8	Ethiopia	-1.2	NA
Botswana	1.0	NA	Ecuador	1.5	2.1	Guyana	14.3	NA	Mozambique	-0.6	-0.8
Venezuela	-4.9	-5.9	Romania	2.3	4.1	Comoros	-2.6	-5.6	Afghanistan	NA	NA
Panama	2.1	0.8	Guatemala	1.9	3.5	Côte d'Ivoire	-6.5	-6.2	Bhutan	NA	NA
Belize	-1.1	NA	Bulgaria	-1.9	-1.8	Guinea	1.2	2.1	Bosnia-Herzegovina	NA	NA
Croatia	1.1	NA	Papua New Guinea	1.5	1.9	Azerbaijan/1	-22.8	NA	Cambodia	NA	NA
Poland	5.5	5.4	Morocco	9.2	9.0	Zimbabwe	-0.1	1.8	Eritrea	NA	NA
Turkey	-12.3	-12.8	Vanuatu	-0.5	NA	Mauritania	3.5	6.2	Georgia	NA	NA
Costa Rica	2.3	3.5	Kazakhstan/1	-25.3	NA	Pakistan	0.2	1.0	Kenya	NA	NA
Fiji	1.9	NA	Western Samoa	-6.1	NA	Equatorial Guinea	2.3	NA	Lesotho	NA	NA
Latvia/1	1.1	NA	Philippines	2.9	3.7	Ghana	0.3	2.3	Liberia	NA	NA
Slovak Republic	3.8	6.9	Uzbekistan/1	-8.6	NA	Benin	0.2	1.6	Myanmar	NA	NA
Thailand	5.6	3.2	Cape Verde	1.5	NA	Central African Republic	2.5	0.9	Rwanda	NA	NA
Belarus/1	-21.3	NA	Maldives	-0.2	NA	Albania	2.6	NA	Somalia	NA	NA
Namibia	7.2	NA	Moldova/1	-22.4	NA	Gambia, The	-3.8	6.6	Sudan	NA	NA
			Suriname	-1.7	NA	Tajikistan /1	-17.4	NA	Tanzania	NA	NA
						Zambia	-7.1	-5.7	Zaire	NA	NA
						Mongolia	4.9	5.3			

/1 Estimates are preliminary.

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

OFFICE MEMORANDUM

DATE: May 18, 1995

TO: Ms. Pilar San Jose, Director, GSD

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Food Services Survey

Thank you for sending me the questionnaire on food services. However, I do not feel qualified to reply as I rarely eat in the Bank. Under the category why do I eat outside the Bank, I guess the answer is for a change of pace and scenery.

OFFICE MEMORANDUM

DATE: May 16, 1995

TO: Mr. Sven Sandstrom

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: **Mongolia: CAS**
Loan Committee

We are broadly in agreement with the base-case strategy outlined in paragraph 63, but this version could be clearer on the stabilization program, and on private sector development. There is a general tendency to refer the reader to the PFP for important details, which is unfortunate given that a CAS is supposed to be a self-sufficient document. We suggest the following issues for the agenda:

- the base-case conditionality in para. 63 rightly includes a continuation of the privatization program, but no further details are given. Para. 15 provides a formidable list of actions that the Government needs to take soon, but then refers the reader to the PFP for the specific measures being recommended. Apart from the need to be self-sufficient here, it is disconcerting to learn that a program for closing uneconomic public enterprises has not yet been defined, after being told (in para. 12) that the inflation target for 1997 is extremely challenging because some 30% of total credit goes as subsidized credit to the state enterprises. Would the Region clarify the priorities in terms of privatization and private sector development, and the realism of the stabilization targets that have been set by the Fund? Would the Region also explain if the proposed banking reforms can meaningfully proceed without parallel reforms of public enterprises?

cc: Messrs./Mmes. Kalantzopoulos, Mas, Pieters, Ray

Chon

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

OFFICE MEMORANDUM

DATE: May 15, 1995

TO: Mr. Sven Sandstrom

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Kyrgyz Republic: Country Assistance Strategy

1. We have given extensive comments on previous versions of the CAS and reviewed the drafts of the upcoming CEM. We are broadly in agreement with the strategy laid out in this latest version based on: (a) medium-term fiscal consolidation through a structural reduction in government support to enterprises and a strengthening of the system of expenditure assignments at different levels of government; (b) agricultural and agromanufacturing restructuring supported by a firm commitment to land reform; and (c) financial sector reform and privatization.

2. The latest version of the CAS incorporates some of our suggestions and addresses many of our previous comments. However, there are still several issues which warrant further discussion:

- Progress in resolving the management impasse at the ERRA is critical. It would seem that the present management has been "captured" by the very enterprise managers they were supposed to "put in jail". If this is the case, shouldn't it be replaced? The pre-Board conditions set out in the APEAC (now under negotiations for scheduled Board presentation on June 27) are quite stringent, as specified in item 11, page 4 of the Appraisal Mission's BTOR of April 4, 1995. Have the authorities complied and, in particular, have they fired 400 employees in each one of the three targeted enterprises?
- In your memo of April 13, 1995 you added an important clarification on what should be a critical and explicit condition for second tranche release; namely "a significant change in rural property rights ... [that] will require passage of all necessary legislation that ensures transferability of land without undue restrictions." We fully support this position. The implication, however, may be a possible delay in the disbursement of the second tranche. As is shown in Table 1 of the CAS, the Kyrgyz Republic will continue to have significant fiscal deficits for the next two to three years, *even under the most optimistic assumptions*. What is not shown in the CAS, but is clear from the CEM, is

that these deficits *are entirely foreign financed*.¹ The short-term macroeconomic outlook is heavily dependent on IDA's actions—and this may put IDA in a difficult choice between funding a failing program or walking out from a program in a moment of crisis.

- The CAS acknowledges that neither the government nor us have developed a viable strategy for financial sector reform, despite on-going TA from a variety of sources (see Paras 30 and 34). An FSAC is planned for FY96. On the section on ESW there is reference to “informal studies” to prepare for this operation. Para. 13 of the Cover Memo elaborates on this point indicating that the Region's strategy in general is to focus ESW on “less formal, ... quick turnaround, strategic think pieces and policy notes.” We of course strongly endorse any measure to increase the efficiency of ESW. However, is there not a concern that doing ESW as part of project preparation may prematurely lock IDA into a potentially sub-optimal approach? Given the very difficult issues facing the financial sector, and the limited political capital of the government, is it advisable to pre-commit IDA to an FSAC without having done reliable, analytically strong and empirically adequate preparatory work?

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

¹ An important addition to the CAS would be to show that presently in the Kyrgyz Republic: (a) the costs of borrowing from abroad are at the margin lower than the costs of increases in public savings or domestic borrowing; (b) there is little scope for further fiscal adjustment through higher short-term cuts in fiscal expenditure; (c) the adjustment program will result in sustainable higher public savings and deeper domestic resource mobilization.

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

DATE: 15-May-1995 09:38pm

TO: Daniel Kaufmann

(DANIEL KAUFMANN @A1@KIEV)

FROM: Michael Bruno, DECVP

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: A couple of work related issues.
Informal for you.

Dani,

Many thanks for both the thankyou note and this one. The one advantage of the em technology is the proximity feeling it gives inspite of the distance travelled.

I like your idea of focused Bank-led projects. It falls well within the general philosophy that I and DEC have been espousing. I talked to Mark Baird who is my expert on those things and he definitely agrees (hope you don't mind my showing him your note). He points out that an idea like yours lies behind AFR's initiative to move towards sector investment operations and that I might want to talk to Steve Denning or get some of his papers, even though ECA may be very different.

Mark also pointed out that your proposed approach implies need for discipline:

- on the part of donors, to accept the Bank's lead on sector investment decisions (in the case of Kenya, for example, it implies no agreement to an airport that the President wants to build in his village)
- on the part of the Bank, to accept other donors' taking the lead in some countries and sectors
- on part of the client, to accept the risks of coordinated donor action while giving up the option of "playing games" with the donors (games they too like to play)

Hope this is helpful for your further thinking.

Best,

Michael

OFFICE MEMORANDUM

DATE: May 11, 1995

TO: Regional Vice Presidents

THROUGH: Michael Bruno, Vice President, DEC 

FROM: Masood Ahmed, Director, IEC 

EXTENSION: 33800

SUBJECT: **Per Capita GNP for 1994**

1. Attached for your information is a draft Board paper updating the per capita income guidelines for FY96.
2. Following established procedures, we have updated the Operational Guidelines and computed the 1994 per capita GNP figures for borrowing member countries. Bosnia-Herzegovina and West Bank & Gaza have been newly added. The figures for individual countries have been already cleared by your staff.
3. Please note that nine countries will move to more preferential categories, two countries to less preferential categories and two countries¹ to the "operational" category of effective IDA eligibility (\$865 or less).
4. We plan to send the *FY96 Per Capita Income Guidelines for Operational Purposes* to the Board through the Secretary's on May 29 in order to make the new *Guidelines* effective from July 1, 1995. To meet the deadlines, it would be helpful if you would contact Boris Blazic-Metzner (ext.33806) or myself for any further comments you may have, by c.o.b. May 18.

Attachment

cc: Messrs/Mmes. Kaji (EXC); Shihata (LEGVP); Linn (FPRVP); Nishimizu (FRSDR); Donovan (FRMDR); Adams (OPRDR); Baird (DECVP); Badiie (IECDR), Blazic-Metzner (IECDD); Regional Chief Economists

JPark:lh
N:\IECSE\park\opvp3.doc

¹ These economies are Bosnia-Herzegovina and Congo.

FROM: The President

SecM95-
June __, 1995

Per Capita Income Guidelines for Operational Purposes*

The per capita GNP guidelines covering the Civil Works Preference, IDA Eligibility, IBRD Terms (grace period and fixed maturities) and the initiation of the IBRD graduation process are updated every year, based on the annual rate of change of the SDR deflator [see, President's Memorandum to the Executive Directors dated September 27, 1983 (SecM83-924)]. The updated operational guidelines to be applied during FY96 are as follows:

<u>Operational Categories</u>	<u>FY96 Guidelines (1994 US\$)</u>
I. Civil Works Preference	Less than or equal to \$725
II. IDA Eligibility and 20-year IBRD Terms	\$726 - \$1,395
III. 17-Year IBRD Terms	\$1,396 - \$2,895
IV. 15-Year IBRD Terms	\$2,896 - \$5,055
V. IBRD Graduation	Over \$5,055 ¹

Per Capita GNP data (Attachment 1) for borrowing member countries for 1994 have been prepared in accordance with the procedures described in SecM89-73, SecM93-589, and SecM94-661.

Bosnia-Herzegovina and West Bank & Gaza have been newly added to the FY96 Operational Guidelines.

¹ Countries in this category are subject to 15-year IBRD terms before their actual graduation.

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

*Questions on this document
should be referred to
Mr. Boris Blazic-Metzner
(Ext. 33806)

With the updated 1994 per capita GNP estimates, the following countries will change their classification in the FY96 Operational Guidelines.

	<u>Classification in</u>	
	<u>FY95</u> <u>(1993 US\$)</u>	<u>FY96</u> <u>(1994 US\$)</u>
<u>Moving to a more</u>		
<u>preferential category</u>		
Estonia	IV	III
Venezuela	IV	III
Belarus	IV	III
Kazakhstan	III	II
Cameroon	II	I
Congo	II	I
Kyrgyz Republic	II	I
Senegal	II	I
Azerbaijan	II	I
 <u>Moving to a less</u>		
<u>preferential category</u>		
Czech Republic	III	IV
El Salvador	II	III

Attachment 2 shows growth rates, for 1994, in real terms of (i) per capita GNP and (ii) per capita Gross National Income (GNY) that takes account of changes in terms of trade.²

² Gross National Income (GNY), regularly reported in Economic Indicators tables attached to *Country Briefs*, is the sum of GNP in constant prices and a terms of trade adjustment. The terms of trade adjustment reflects a change in the country's export capacity to buy imports due to the change in the average export price in relation to average import price between the base year (1987) and current year. There are several countries for which GNY growth rates are shown as "NA" (not available) in Attachment 2 because of delays in availability of export and import price data.

For a number of countries, the per capita GNP can only be estimated as a range. These estimated ranges, while useful to place the countries in specific operational categories, are shown as "NA" (not available) in Attachment 1. Also, the estimates for some states of the former Soviet Union are preliminary. Therefore, their classification will be kept under review, and terms of Bank lending based on the latest available information will be indicated prior to specific operations. With this exception, I propose that we use the updated guidelines and per capita GNP estimates for current operational purposes during FY96, effective July 1, 1995.

James D. Wolfensohn

1994 GNP PER CAPITA

Ranked by 1994 GNP per capita

(US dollars)

Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita	Income group and country	1994 GNP per capita
V (over \$5,055)		III (\$1,396-\$2,895)		II (\$726-\$1,395)		I (\$725 or less)	
Argentina	8,060	Russian Federation /1	1,910	Indonesia	790	Mongolia	340
Slovenia	7,140	Peru	1,890	Macedonia, FYR of	790	Nicaragua	330
Seychelles	6,210	Tunisia	1,800	Bolivia	770	Lao PDR	320
Antigua and Barbuda /2	NA	Algeria	1,690	Angola /2	NA	Togo	320
		Colombia	1,620	Djibouti /2	NA	India	310
		Paraguay	1,570	Kiribati /2	NA	Burkina Faso	300
		Ukraine /1	1,570	Solomon Islands /2	NA	Nigeria	280
		El Salvador	1,480	Swaziland /2	NA	Yemen, Republic of	280
Uruguay	4,850	Jamaica	1,420	Syrian Arab Republic /2	NA	Mali	250
Mexico	4,010	Dominica /2	NA	Turkmenistan /2	NA	Sao Tome and Principe	250
Hungary	3,840	Grenada /2	NA	West Bank and Gaza /2	NA	Guinea-Bissau	240
Trinidad and Tobago	3,740	Iran, Islamic Republic /2	NA			Bangladesh	230
Chile	3,560	Lebanon /2	NA			Madagascar	230
Gabon	3,550	Marshall Islands /2	NA			Niger	230
Malaysia	3,520	Micronesia, Fed. Sts. /2	NA			Haiti	220
Brazil	3,370	St. Vincent and the Grenadines /2	NA			Nepal	200
Czech Republic	3,210	Tonga /2	NA			Uganda	200
Mauritius	3,180					Chad	190
South Africa	3,010					Viet Nam	190
St. Kitts and Nevis /2	NA					Burundi	150
St. Lucia /2	NA					Sierra Leone	150
		II (\$726-\$1,395)				Malawi	140
		Jordan	1,390			Ethiopia	130
		Lithuania /1	1,350			Mozambique	80
		Dominican Republic	1,320			Afghanistan /2	NA
Estonia /1	2,820	Ecuador	1,310			Bhutan /2	NA
Botswana	2,800	Romania	1,230			Bosnia-Herzegovina /2	NA
Venezuela	2,760	Guatemala	1,190			Cambodia /2	NA
Panama	2,670	Bulgaria	1,160			Eritrea /2	NA
Belize	2,550	Papua New Guinea	1,160			Georgia /2	NA
Croatia	2,530	Morocco	1,150			Kenya /2	NA
Poland	2,470	Vanuatu	1,150			Lesotho /2	NA
Turkey	2,450	Kazakhstan /1	1,110			Liberia /2	NA
Costa Rica	2,380	Western Samoa	970			Myanmar /2	NA
Fiji	2,320	Philippines	960			Rwanda /2	NA
Latvia /1	2,290	Uzbekistan /1	950			Somalia /2	NA
Slovak Republic	2,230	Cape Verde	910			Sudan /2	NA
Thailand	2,210	Maldives	900			Tanzania /2	NA
Belarus /1	2,160	Moldova /1	870			Zaire /2	NA
Namibia	2,030	Suriname	870				

/1 Estimates for these countries are preliminary, and their classification will be kept under review.

/2 Estimates are available only in ranges.

1994 GROWTH RATE PER CAPITA GNP AND GNY

Ranked by 1994 GNP per capita
(percent)

Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate		Income group and country	1994 per capita growth rate	
V (over \$5,055)	GNP	GNY	III (\$1,396-\$2,895)	GNP	GNY	II (\$726-\$1,395)	GNP	GNY	I (\$725 or less)	GNP	GNY
Argentina	5.2	5.6	Russian Federation /1	-14.1	NA	Indonesia	4.6	5.3	Mongolia	4.9	5.3
Slovenia	6.3	NA	Peru	12.3	NA	Macedonia, FYR of	-6.0	NA	Nicaragua	-4.5	-2.0
Seychelles	-2.5	-3.5	Tunisia	2.6	1.9	Bolivia	2.1	NA	Lao PDR	5.2	NA
Antigua and Barbuda	NA	NA	Algeria	-1.6	-2.3	Angola	NA	NA	Togo	3.8	4.8
IV (\$2,896-\$5,055)			Colombia	6.5	5.5	Djibouti	NA	NA	India	4.3	4.9
Uruguay	5.3	6.0	Paraguay	1.0	2.1	Kiribati	NA	NA	Burkina Faso	-2.2	NA
Mexico	1.2	3.0	Ukraine/1	-26.6	NA	Solomon Islands	NA	NA	Nigeria	-0.1	-3.3
Hungary	4.3	3.9	El Salvador	4.5	5.9	Swaziland	NA	NA	Yemen, Rep.	7.2	NA
Trinidad and Tobago	2.4	-1.3	Jamaica	-3.1	NA	Syria Arab Republic	NA	NA	Mali	-1.4	-1.3
Chile	5.9	10.0	Dominica	NA	NA	Turkmenistan	NA	NA	Sao Tome and Principe	-4.0	-4.8
Gabon	-25.9	-32.7	Grenada	NA	NA	West Bank and Gaza	NA	NA	Guinea Bissau	4.7	2.9
Malaysia	5.8	0.4	Iran, Islamic Rep.	NA	NA	I (\$725 or less)			Bangladesh	2.4	2.1
Brazil	2.5	2.9	Lebanon	NA	NA	Egypt, Arab Rep.	-0.9	-0.8	Madagascar	-2.1	-2.1
Czech Republic	2.6	NA	Marshall Islands	NA	NA	Cameroon	-6.9	-4.4	Niger	0.4	NA
Mauritius	3.6	2.9	Micronesia, Fed. Sts.	NA	NA	Armenia/1	1.9	NA	Haiti	-12.5	-12.1
South Africa	1.1	2.9	St. Vincent and the Grenadines	NA	NA	Congo	-19.6	NA	Nepal	4.2	NA
St. Kitts and Nevis	NA	NA	Tonga	NA	NA	Sri Lanka	4.4	4.5	Uganda	1.8	0.6
St. Lucia	NA	NA	II (\$726-\$1,395)			Kyrgyz Republic /1	-27.7	NA	Chad	1.0	NA
III (\$1,396-\$2,895)			Jordan	3.1	NA	Senegal	-1.4	-0.7	Viet Nam	6.4	NA
Estonia/1	6.8	NA	Lithuania/1	2.1	NA	Honduras	-2.8	NA	Burundi	-14.3	-8.1
Botswana	1.0	NA	Dominican Republic	2.3	NA	China	10.6	10.8	Sierra Leone	0.7	NA
Venezuela	-4.9	-5.9	Ecuador	1.5	2.1	Guyana	14.3	NA	Malawi	-11.0	-10.0
Panama	2.1	0.8	Romania	2.3	4.1	Comoros	-2.6	-5.6	Ethiopia	-1.2	NA
Belize	-1.1	NA	Guatemala	1.9	3.5	Côte d'Ivoire	-6.5	-6.2	Mozambique	-0.6	-0.8
Croatia	1.1	NA	Bulgaria	-1.9	-1.8	Guinea	1.2	2.1	Afghanistan	NA	NA
Poland	5.5	5.4	Papua New Guinea	1.5	1.9	Azerbaijan/1	-22.8	NA	Bhutan	NA	NA
Turkey	-12.3	-12.8	Morocco	9.2	9.0	Zimbabwe	-0.1	1.8	Bosnia-Herzegovina	NA	NA
Costa Rica	2.3	3.5	Vanuatu	-0.5	NA	Mauritania	3.5	6.2	Cambodia	NA	NA
Fiji	1.9	NA	Kazakhstan/1	-25.3	NA	Pakistan	0.2	1.0	Eritrea	NA	NA
Latvia/1	1.1	NA	Western Samoa	-6.1	NA	Equatorial Guinea	2.3	NA	Georgia	NA	NA
Slovak Republic	3.8	6.9	Philippines	2.9	3.7	Ghana	0.3	2.3	Kenya	NA	NA
Thailand	5.6	3.2	Uzbekistan/1	-6.6	NA	Benin	0.2	1.6	Lesotho	NA	NA
Belarus/1	-21.3	NA	Cape Verde	1.5	NA	Central African Republic	2.5	0.9	Liberia	NA	NA
Namibia	7.2	NA	Maldives	-0.2	NA	Albania	2.6	NA	Myanmar	NA	NA
			Moldova/1	-22.4	NA	Gambia, The	-3.8	6.6	Rwanda	NA	NA
			Suriname	-1.7	NA	Tajikistan /1	-17.4	NA	Somalia	NA	NA
						Zambia	-7.1	-5.7	Sudan	NA	NA
									Tanzania	NA	NA
									Zaire	NA	NA

/1 Estimates are preliminary.

MARK BAIRD

May 15, 1995

To: Michael Bruno

Mexico CAS

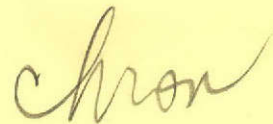
Michael:

Attached, for your signature, are our comments on the Mexico CAS. These are due to Richard Frank by cob today (May 15). You are scheduled to attend the review meeting on Thursday, May 18 at 4.00pm.

These comments were prepared by Holger, with inputs from Klaus. Holger notes that, since the CAS was prepared, the projected decline in interest rates has in fact occurred. The 14-day Cetes rates have come down substantially, from 72 to 62 percent. More importantly, the yield curve is now significantly negatively sloped, with 180-day Cetes rates at 49 percent. There is thus a growing sense of optimism. However, the tone of our comments is cautious. The recovery in the equity, bond and forex markets from the overshooting levels of early March may in turn be excessive, and we may yet see a swing back of the pendulum in the near future.



Mark



Attachment

OFFICE MEMORANDUM

DATE: May 14, 1995

TO: Mr. Richard Frank

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: **Mexico: Country Assistance Strategy**

1. The Mexican economy seems to be responding well to the emergency program. But we should not underestimate the short-term risks that remain or the longer-term challenges to Mexico's development. The ultimate outcome of the crisis depends on how well the Mexican Government will in fact implement the range of structural and social reforms currently discussed, an objective which will provide the cornerstone for Bank policy over the next few years. We would therefore like to raise the following issues for discussion.

2. More detail on the downside. The CAS states that a downside scenario with an extended banking crisis is not considered "particularly probable". Given that information about the magnitude of the problem is still quite partial and that a rather broad set of historical episodes suggests that the costs, extent and duration of banking crises tend to be systematically underestimated initially, isn't this assessment overly optimistic at this stage? As we indicated at the Regional review, we would like to see an expanded treatment of the downside scenario (at least in the cover note, if not the CAS itself). In the context of downside risk, we would also like to see a discussion of the potential for a wage-price-depreciation spiral, with reference to the role of the envisaged labor market reforms as well as the absence of a nominal anchor.

3. How realistic is the base case? Even without an extended banking crisis, we wonder whether the CAS is not too bullish on the short-term evolution of the Mexican economy. The cumulative inflation from December 1994 to April 1995 stands at 23.7 percent. To achieve the base-case inflation forecast, monthly inflation for the rest of the year has to be around 2 percent. Given that pass-through of the devaluation is in full swing, this appears quite low. At the same time, the increase in unemployment appears to show no sign of abating, casting doubt on whether the output drop can be contained at 4.8 percent. Based on the evidence to date, we would not be surprised with (indeed, would expect) a substantially more stagflationary 1995 outcome than envisaged in the base-case scenario.

4. Trade performance. Exports are expected to provide the driving force of the recovery. Given the structural changes imposed by NAFTA and the prevailing uncertainty about the future nominal and real exchange rate, the income contraction in Mexico and the softness of the US landing, the projected trend export growth rate of 10 percent after 1996 is necessarily the midpoint of a rather considerable confidence interval. What are the realistic ranges and the implied effects on the GDP growth rate?

5. Growth without investment? In our comments at the Regional review, we expressed concern about the projected levels of investment. We appreciate the upward revisions undertaken but continue to be concerned about the long-term sustainability of a significant growth acceleration without higher investment ratios. According to the CAS projections, the investment to GDP ratio is set to decline from 23.6 percent in 1990-94 to 21.5 percent in 1995-99, with only a modest increase in private investment and a rather puzzling decline of investment in stocks. This appears to place a severe burden on total factor productivity growth if significant per capita growth is to be achieved. While structural reforms and NAFTA do provide scope for such gains, one would also expect them to increase the return on investment. Therefore, why doesn't investment respond more forcefully?

6. Serious structural reform? As the CAS notes, the lackluster performance of Mexico reflects the potpourri of market imperfections and shortcomings of the legal and institutional infrastructure. A sustained turnaround of the Mexican economy will not take place unless these constraints are removed. While the Government has indicated its support for reforms, and has indeed moved on some fronts as outlined in the CAS, its current efforts are understandably concentrated on crisis management. As opposition to rent-reducing distortions will reassert itself once the crisis is passed, and Bank/Fund leverage will decline, What is the Region's view on the Government's long-term commitment--and political ability--to pursue the needed structural reforms?

7. Serious social reform? Similarly, the CAS stresses the Government's longer-term commitment to human capital development and poverty reduction. The proposed Bank loan for essential social services is intended to protect basic social services for the poor and provide training and employment opportunities for unemployed workers. The CAS also identifies a number of poverty-related concerns in the areas of agriculture, rural development and human resources. How receptive is the Government to Bank advice and support in these sensitive areas? Is there a risk that the Government will postpone action on social reform until the immediate crisis is passed, and then accord them lower priority when things are going well? What can the Bank do to keep these issues high on the agenda and at the center of the assistance strategy?

CC: Messrs./Mmes. Kalantzopoulos, Mas, Pieters, Baird, Wolf, Schmidt-Hebbel.

Bruno
Chun

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

OFFICE MEMORANDUM

DATE: May 11, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **Cameroon: SAC Initiating Memorandum**

This is obviously a very difficult case. For the reasons given in the cover note, we endorse the judgment of the Regional Loan Committee that this operation is not yet ready for appraisal. The Loan Committee will obviously want to think through the implications of a possible default for the Bank, Cameroon and the CFA zone. But, in our view, providing additional funding in the absence of adequate policy performance and a viable financing program is unlikely to provide a lasting solution. Less clear are the alternatives the Region would like the Loan Committee to consider. We therefore propose the following issues for the Loan Committee agenda:

- In the absence of a recent Country Assistance Strategy, could the Region explain how it proposes to proceed in Cameroon? The latest CAS, discussed in June 1994, included three sector adjustment credits. Now the Region proposes to replace them with two broad structural adjustment credits. What has changed in the interim--besides policy slippage and the imminent risk of default--to warrant this change in strategy? How does the proposed operation fit into the Bank Group's evolving strategy and its relationship to other major players like the IMF, European Union and Paris Club? What is the strategy to close the large financing gap (which, if not covered, would seriously undermine the reform program)?
- The proposed reform program is both broad and diverse. It is doubtful if it can be fully owned and implemented by a regime that is "weak and increasingly isolated", and when officials and politicians are indulging in "pervasive rent seeking" behavior. The real challenge, therefore, is to find a set of core measures which would signal strong commitment while being consistent with the government's limited implementation capacity. In our view, these core measures should focus on strengthening the country's public finances. Other issues--such as domestic debt, public enterprise reform and financial sector reform--would be covered to the extent that they contribute to this core objective. Does the Region agree? What specific actions would be included in the core agenda? What more can the Bank do to help build commitment and capacity in Cameroon?

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

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

DATE: May 3, 1995 01:47pm

TO: See Distribution Below

FROM: Michael Bruno, DECVF (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Workshop with UNDP Staff on Human Development Report 1996

Next year's Human Development Report is to be on the broad topic of the two-way linkages between human resource development and economic growth. Mahbub ul-Haq and Sakiko Fukuda-Parr from the HRO Office will be visiting Washington next week to discuss their preliminary ideas with Bank staff and to find out about related work ongoing in the Bank. I plan to host a workshop for this purpose on Friday, May 12 at 11:00AM in S9-021. I hope you will be able to attend. Also, feel free to invite interested staff working on these issues within your units.

DISTRIBUTION:

TO: Sebastian Edwards	(SEBASTIAN EDWARDS)
TO: RAVI KANBUR	(RAVI KANBUR @A1@WBWASH)
TO: ISHRAT HUSAIN	(ISHRAT HUSAIN @A1@WBWASH)
TO: JOHN PAGE	(JOHN PAGE @A1@WBWASH)
TO: JOANNE SALOP	(JOANNE SALOP @A1@WBWASH)
TO: MARCELO SELOWSKY	(MARCELO SELOWSKY @A1@WBWASH)
TO: Armeane Choksi	(ARMEANE CHOKSI)
TO: K. Y. Amoako	(K. Y. AMOAKO)
TO: David De Ferranti	(DAVID DE FERRANTI)
TO: Nimrod Raphaeli	(NIMROD RAPHAELI)
TO: Lyn Squire	(LYN SQUIRE)
TO: Vinod Thomas	(VINOD THOMAS)
TO: Masood Ahmed - IECDR	(MASOOD AHMED)
TO: Mark Baird	(MARK BAIRD)
TO: Gregory Ingram	(GREGORY INGRAM)
TO: Emmanuel Jimenez	(EMMANUEL JIMENEZ)
TO: William Easterly	(WILLIAM EASTERLY)
TO: Paulo Vieira Da Cunha	(PAULO VIEIRA DA CUNHA)

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Wilfried Thalwitz, ECAVP

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Vito Tanzi on *Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. M. Ismail Serageldin, ESDVP

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Pranab Bardhan on *Research on Poverty and Development Twenty Years after Redistribution with Growth*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Albert Fishlow on *Inequality, Poverty, and Growth: Where Do We Stand?* If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Ms. Joanne Salop, SASVP

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Nancy Folbre on *Engendering Economics: New Perspectives on Women, Work, and Demographic Change*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Jean-François Rischard, FPDVP

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Dani Rodrik on *Why is there Multilateral Lending?* If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Robert Picciotto, DGO

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Elinor Ostrom on *Incentives, Rules of the Game, and Development*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Ravi Kanbur, AFRCE

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

I want to thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for discussing Pranab Bardhan's paper, *Research on Poverty and Development Twenty Years after Redistribution with Growth*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

We are now starting the process of putting together the *Proceedings* volume for the conference. I would appreciate your cooperation in getting this process off to a timely start. The revised version of your comments is due by Friday, June 16, 1995. Please send the paper to Boris Pleskovic of the Research Advisory Staff (Room N-9037).

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Ms. Estelle James, PRDPH

FROM: Michael Bruno 

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

I want to thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for discussing Peter Diamond's paper, *Economic Support in Old Age*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

We are now starting the process of putting together the *Proceedings* volume for the conference. I would appreciate your cooperation in getting this process off to a timely start. The revised version of your comments is due by Friday, June 16, 1995. Please send the paper to Boris Pleskovic of the Research Advisory Staff (Room N-9037).

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Stijn A. Claessens, EMTPS

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

I want to thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for discussing Dani Rodrik's paper, *Why is there Multilateral Lending?* If you have any comments on the conference or on your specific session, I would be interested in hearing them.

We are now starting the process of putting together the *Proceedings* volume for the conference. I would appreciate your cooperation in getting this process off to a timely start. The revised version of your comments is due by Friday, June 16, 1995. Please send the paper to Boris Pleskovic of the Research Advisory Staff (Room N-9037).

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

don MB

Michael Bruno
Vice President and Chief Economist

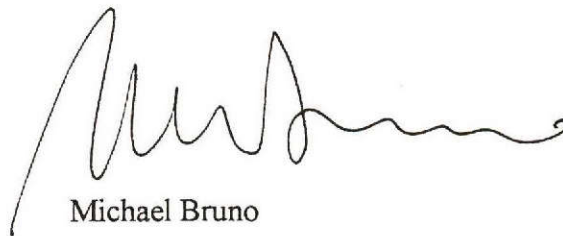
May 8, 1995

Mr Gobind Nankani

Visit to Brazil

Gobind,

Thank you for your note. Unfortunately, I will not be able to travel to Brazil in either May or June. As you know, the new President assumes on June 1 and, given other outstanding commitments, it would be very difficult for me to be away from the office for more time than I already have to. I agree that our visit could be helpful in the current context. However, realistically, there is little that I can do in a day of meetings, especially when I would have had little time to prepare for. The issues of de-indexation are themselves complex and the more so when they appear super-imposed on a difficult decision on how to manage the exchange rate. I would be glad to discuss alternatives with you and with Pedro or Persio should they wish to call me, or should they happen to be in Washington in the near future. To be honest, I would require some prior briefing to make these contacts productive and responsible but I am willing to invest the time. It is just that the combination of an over-crowded agenda with a very complex set of issues makes a one-day visit both unusually costly and ex-ante with low expected returns. I hope you can understand and please do convey to Pedro my offer and my sincere apologies. I expect that Mr Wolfensohn will be visiting Brazil in July. Let us plan for that, and please keep me informed of developments.


Michael Bruno

cc: Messrs Baird, Kharas, Vieira da Cunha.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Ms. Mieko Nishimizu, FRSDR

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Richard Cooper on *Is Growth in Developing Countries Beneficial to Developed Countries?* If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Shahid Javed Burki, LACVP

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Rudolf Hommes on *Conflicts and Dilemmas of Decentralization*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Ms. Jessica P. Einhorn, TREVP

FROM: Michael Bruno

EXTENSION: 33774

SUBJECT: Seventh Annual Bank Conference on Development Economics

Jessica

Thank you for your participation in the World Bank's Seventh Annual Bank Conference on Development Economics and for chairing the session on the paper by Peter Diamond on *Economic Support in Old Age*. If you have any comments on the conference or on your specific session, I would be interested in hearing them.

Once again, thank you very much for your contribution to the Annual Bank Conference on Development Economics.

like your chairing

Michael

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Michael Bruno

FROM: Mark Baird 

EXTENSION: 31666

SUBJECT: **CAMBODIA: Economic Recovery Credit (ERC)**

1. Attached for your signature is a memo on the Cambodia: Economic Recovery Credit (ERC) which indicates our suggestions for the agenda. Our comments are due to Mr. Kaji by Wednesday, May 10.

2. The Region is proposing to appraise an Economic Recovery Credit of US\$54 million and process it as a hybrid operation with a quick-disbursing, positive list, component and an investment component. The proposed credit objectives are to: (i) finance (up to about \$40 million) general critical imports for the public and private sectors; and (ii) reinforce rehabilitation efforts in the transport and water supply sectors. Counterpart funds generated by the project would be utilized in budgets to facilitate increased expenditures on social sectors, enhance counterpart contribution to development projects and finance priority investments to be carried out by the Government, without donor assistance, in the provinces. It's conditionality would be limited to what is necessary for the realization of its immediate objectives stated above and the establishment of the project implementation unit together with preparation of laws governing public enterprises, public procurement, etc. The credit comes on the heels of an earlier Economic Rehabilitation Project (ERP) in the amount of \$62.7 million. The proposed project is being presented as a central part of the CAS for Cambodia.

3. This operation is consistent with the CAS, which we discussed and endorsed last week. Given the nature of the proposed operation and absence of conditionality, we do not have questions that usually arise in the context of adjustment operations. However, there are a few areas of budget management where further clarification/elaboration would be useful:

- Since the civil and military personnel absorb almost 50 percent of recurrent expenditures and crowd out needed expenditures, a cut in the civilian staff by 20 percent and military staff by about one-third by end-1997 are recommended. However, several points are not clear: (a) what would be the cost of "departure packages" and severance payments, (b) how would these be financed, and (c) is IDA well qualified to help the Government prepare "wide-ranging programs to restructure the Civil Service and the armed forces". If not, how is this whole program being handled?

- The Priority Investment Program (PIP) is quite elaborate. However, it looks like its implementation would be mainly done by the line ministries. Given the lack of skilled personnel in the public sector, cannot the construction industry in the private sector be quickly promoted on the basis of: (a) coalition of domestic entrepreneurs; and (b) joint ventures between domestic and foreign enterprises, to carry out the repair and rehabilitation works? Public works department and line ministries are notoriously inefficient to accomplish quality works in a timely fashion.
- The document states that "the Government's rehabilitation program depends heavily on improvements in investment programming at the national level (para. 2.7). Should not the approach be the other way around--local governments and communities identifying the most pressing needs and subsequently the national government integrating them into a national program and implementing it with the involvement of the sponsors of the programs?"

cc: Mr. Chaudhri

OFFICE MEMORANDUM

DATE: May 10, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: **CAMBODIA: Economic Recovery Credit (ERC)**
Loan Committee

Consistent with the CAS for Cambodia, we support the objectives of the ERC and the policy agenda bid out in the statement of Development Policy. Given the nature of the proposed operation and absence of conditionality, we do not have questions that usually arise in the context of adjustment operations. However, there are a few areas of budget management where further clarification/elaboration would be useful:

- Since the civil and military personnel absorb almost 50 percent of recurrent expenditures and crowd out needed expenditures, a cut in the civilian staff by 20 percent and military staff by about one-third by end-1997 are recommended. However, several points are not clear: (a) what would be the cost of "departure packages" and severance payments, (b) how would these be financed, and (c) is IDA well qualified to help the Government prepare "wide-ranging programs to restructure the Civil Service and the armed forces". If not, how is this whole program being handled?
- The Priority Investment Program (PIP) is quite elaborate. However, it looks like its implementation would be mainly done by the line ministries. Given the lack of skilled personnel in the public sector, cannot the construction industry in the private sector be quickly promoted on the basis of: (a) coalition of domestic entrepreneurs; and (b) joint ventures between domestic and foreign enterprises, to carry out the repair and rehabilitation works? Public works department and line ministries are notoriously inefficient to accomplish quality works in a timely fashion.
- The document states that "the Government's rehabilitation program depends heavily on improvements in investment programming at the national level (para. 2.7). Should not the approach be the other way around--local governments and communities identifying the most pressing needs and subsequently the national government integrating them into a national program and implementing it with the involvement of the sponsors of the programs?

Chris 1/3

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

May 09, 1995

Henry,

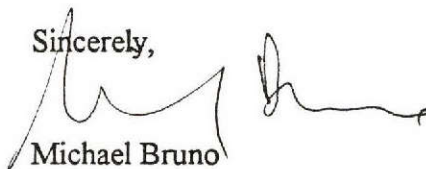
Ref.: The G-7 and The Bretton Woods Institutions

Thank you for sending me your note. Concerning the World Bank, I agree and endorse all of your points, notably on the importance of non-lending services and of selectivity in our actions. I would urge you to make your position known for these are issues under debate and we should strive to influence the outcome.

There are two issues which I would like to bring up, more as points of emphasis and presentation than of substance. First, in arguing for a "positive list" of areas where Bank loans "will be needed in emerging market economies." I agree with your list, but there are other areas one could mention, for example, basic infrastructure which, as argued in the 1994-WDR bears a strong link with sustained growth. Broadly speaking, the rationale for World Bank action rests on two conditions: one, in addressing persistent poverty in the developing world, and two, in counteracting failures in international capital and information markets. The second issue concerns your proposal for increased coordination among the MDBs and relevant NGOs in meeting the challenges of development in a particular country context. The World Bank already hosts Consultative Group meetings for most IDA-eligible countries. These meetings could be made more effective and more inclusive. However, the main issue here is to increase the degree of "ownership" of the programs by the country themselves. This ties in very much with selectivity: we should be selective in our actions and one of the criteria for selection must be country commitment.

I hope this is helpful. It is a good note and I am glad you took the time to write it.

Sincerely,



Michael Bruno

Mr. Henry Owen
Consultant
Salomon Brothers Inc.
1616 H Street, N.W.
Suite 400
Washington, D.C. 20006

0480

MARK BAIRD

95 MAY -9 PM 1:50
RECEIVED
DEVELOPMENT ECONOMICS
1995 MAY 9 PM 1:50

May 9, 1995

Mr. Michael Bruno

Tanzania CAS

Michael,

Attached for your signature is a note on the Tanzania CAS, which was prepared by Anondo Ray. This is due to Gautam by cob May 11. I will attend the Loan Committee meeting on May 19 at 11 a.m.



Mark

Attachment

cc: Anondo Ray

OFFICE MEMORANDUM

DATE: May 9, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno *MB*

EXTENSION: 33744

SUBJECT: **Tanzania CAS**

As the CAS makes clear, we are operating in the low-case mode, and the prospects for significant improvements in the near future do not seem bright at this time. We are satisfied with the way in which this draft, plus the cover note to you, takes our earlier comments (which are attached for information) into account. We would like to suggest only the following issues:

- The annex to the cover note refers to a target for the fiscal deficit, and suggests that a "movement towards" that target would be needed, inter alia, for increasing lending to the base case level (and for resuming adjustment credits). The Region may wish to elaborate upon what it has in mind more precisely. What actions can be expected in the short run, and how would we judge progress?
- The Region may also wish to clarify what it will take to establish "strong track records" in controlling tax and duty exemptions and in implementing a hard budget constraint on parastatal enterprises.
- Given that we are now in the low mode, the Committee might consider whether the proposed lending level of \$80 million per year is appropriate. In other cases, lending levels of the order of \$20 million or so have sufficed to keep the dialogue going. Moreover, is there a presumption that direct poverty-reducing activities and infrastructure preservation can be meaningfully and sustainably done in the present policy environment?

cc: Messrs./Mmes. Baird, Ray, Gooptu, Kalantzopoulos, Mas, Pieters

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 05:36pm

TO: RAVI KANBUR

(RAVI KANBUR @A1@WBWAS

FROM: Mark Baird, DECVF

(MARK BAIRD)

EXT.: 31666

SUBJECT: Tanzania CAS: RLC Meeting

1. We would like to suggest the following issues for your agenda:

- Macroeconomic policies. With accelerating inflation, the current situation is quite unsettled. The Fund's informal deficit targets could not be met, and the ESAF program remains interrupted. Would the Department explain what specific macro-targets it has recommended to the Government and what the near-term prospects are for a turnaround in performance?
- Structural reforms. We note that the impact of the action plan to implement the hard budget constraint remains uncertain; moreover, restructuring NBC appears to be a "daunting" task. Since both these are crucially important elements of the structural reform program, what is the likelihood of meaningful reforms, and of the base scenario, being realized? What is the status of the upfront conditionality for the SAC?
- Triggers. Paragraph 4.2 provides a long list of triggers to move to the proposed base case lending program. Are these triggers defined with sufficient specificity for us to monitor them? Can we set up some quantitative monitors and benchmarks?
- Civil service. In particular, the list of triggers includes civil service reforms in rather general terms. While the three elements of civil service reforms are mentioned, the CAS does not provide much detail on how they are to be defined in practice, and what the future expectations are. What progress has been made on the CAS agenda? Have the fiscal implications of alternative methods of personnel control and pay reform been explored?
- Project loans. Will the proposed new loans be adversely affected by malfeasance? What specific

measures might be taken to "protect" investments we finance?

- Low-case lending. All things considered, it seems to us that we are in the "low-case" scenario at the moment, and the situation will improve, if at all, at a slow pace. As a fallback position, the proposed lending amount of \$60 million for the low-case seems rather high: in the other cases much smaller amounts, of the order of \$20 million, have sufficed.

2. Since Tanzania is a SILIC country, we have sent a copy to Ms. Kamel in IEC to review the debt sustainability analysis.

CC: FRANCIS X. COLACO
CC: MOHSEN FARDI
CC: Anandarup Ray
CC: Nawal Kamel
CC: Institutional ISC Files

(FRANCIS X. COLACO @A1
(MOHSEN FARDI @A1@WBWA
(ANANDARUP RAY)
(NAWAL KAMEL)
(INSTITUTIONAL ISC FIL

MARK BAIRD

May 8, 1995

Michael Bruno

India: Coal Sector Rehabilitation Project

Michael,

We have been asked by EXC for our view on this project and the need for a Loan Committee meeting. While in principle a large and important project of this type might be seen by the Committee, we have no major issues to raise in this case. A draft response is attached for your signature. This is due to Mr. Kaji by cob today.

DEC has not been involved in earlier review of this project, nor did we have a lot of time to review the project at this stage. However, quick reactions from Garry Pursell and Maureen Cropper are attached. On balance, and given the urgency of the proposed rehabilitation and liberalization, we agree that any needed environmental remedial actions at the old mining dumps should be addressed pari passu with project implementation. We also support the proposed upfront policy actions.



Mark

Attachment

cc: Anandarup Ray

OFFICE MEMORANDUM

DATE: May 8, 1995

TO: Mr. Gautam Kaji

FROM: Michael Bruno *MB*

EXTENSION: 33744

SUBJECT: **India: Coal Sector Rehabilitation Project**

1. This is a large and important project. While in principle it would be a good idea for the Loan Committee to review projects of this type, we do not have any major issues to raise in this particular case. If, however, the Committee meets on this proposal, following are some suggestions for the agenda.

2. We have not looked at the project from the environmental point of view in any detail. However, we do support the proposal that any needed remedial actions at old mining dumps take place pari passu with the project so that the rehabilitation and deregulation of the sector is not delayed. The document might also draw out the implications of the proposed changes in pricing/distribution policies for the environment, if they are significant. For example, would higher coal prices encourage more environment-friendly practices among the users?

3. We welcome the pre-Board conditions being proposed, all of which would be significant moves in the right direction, viz. deregulation of prices and distribution for the 40% or so of users (outside the electricity generation sector), insistence on the state electricity boards actually paying for the coal they receive (supply on a "cash and carry" basis), and phase-out of cross-subsidies to loss-making mines. However, these actions would still leave a long way to go. The Committee might consider whether it would be desirable to insist on a letter of sector policy that spells out a time-bound medium-term program, and if so, the extent to which that program should stress private entry and privatization.

4. Finally, questions may be raised on the size of the severance payments to redundant labor: five-year handshakes in a situation where the miners' wages are already much higher than market wages. If such high payments are the best one can do because of the unions then this is all right, but we should satisfy ourselves that this is indeed so.

cc: Messrs./Mlles. M. Baird, A. Ray, G. Pursell, M. Cropper, O. Kalantzopoulos, I. Mas, H. Pieters.

Lili

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

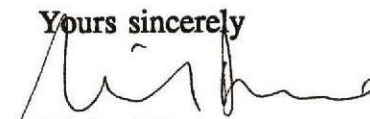
May 8, 1995

Mr Vito Tanzi
IMF

Dear Vito,

I enclose the promised paper. As I told you it is a joint paper with Martin Ravallion and Lyn Squire. I would appreciate if you could appropriately note the joint authorship in the final program, even though I will present it.

Yours sincerely



Michael Bruno

OFFICE MEMORANDUM

DATE: May 5, 1995

TO: Mr. Sven Sandstrom

FROM: Michael Bruno *mb*

EXTENSION: 31666

SUBJECT: **HUNGARY - Country Assistance Strategy
Executive Review Meeting**

1. We have the following comments for the EXC Review Meeting on Monday, May 15, 1995.
2. Hungary has had the mantle of a country that was steadily moving towards a market economy. It has never faced a hard budget constraint in international financial markets; in fact, this may have contributed to the lack of urgency in addressing excessive public spending. The Government is now seen as too large while the fiscal and current account imbalances are not sustainable. At the same time, Hungary's maneuverability is constrained by the large overhang of external debt. Recent initiatives by the authorities seek to contain the problem but these may also encounter implementation difficulties.
3. While the Government makes many of the right noises about policy reform, the track record and political realities suggest that performance will fall short of promise. These points are discussed in the CAS. In order to assess strategy it is important to understand the current milieu and especially which key features have changed. In particular the Region might like to indicate:
 - the status of political support for the March initiatives and the likelihood that the measures proposed will be fully implemented and how soon one can expect further action along these lines.
 - the likelihood that external resources will continue at sufficient levels to meet financing needs especially the figure of close to US\$5 billion annually for FDI and private flows in Table 6 (page 15). What is current market thinking on Hungary?
 - the present state of relations with the IMF and the Fund's assessment of the macro situation.

Economic Scenarios

4. Three scenarios are considered:

- **High Case.** This would be based on a major shift towards a more active policy stance that would come to grips with the major imbalances and would be supported by an IMF program. While highly desirable, this is not yet the "most likely" scenario. Is it therefore the appropriate base for considering the Bank's lending program? Are we satisfied with the project-by-project approach to lending triggers?
- **Muddling Through.** Basically more of the same, so that sluggish growth will continue. This would also require an IMF program. Given the past record this seems a more likely scenario. The driving force for growth will have to come primarily from gains in real net exports. However, there are significant risks in this area, given the apparent decline in the cost competitiveness of exports (even after the recent devaluation), and the country's need for continued access to foreign capital markets and FDI. A further deterioration in creditworthiness perceptions could easily tip the balance from "muddle through" to "crisis." What has driven Hungary's strong FDI response and will it continue? What more can be done to improve export competitiveness?
- **Crisis.** Triggered by insufficient external flows and resulting in a balance of payments crisis. Given the current level of reserves and also Hungary's past payments record this is not likely to happen overnight. Can the Bank do anything to avoid drifting in this direction?

Bank's Assistance Program

5. The Bank has had a minimal lending program in Hungary since 1993. This is partly due to the slow progress on policy reforms. However, it also reflects to some extent the Government's focus on mobilizing private capital resources and its closer ties with European institutions (EIB, EBRD). Given the arguments above, it would seem that the Bank's base lending program should remain small until there is significant progress on the policy side. But, even then, is there much likelihood that demand for Bank resources will increase significantly? If not, will we be able (for budgetary or access reasons) to continue to support reform through analysis and policy advice?

6. The CAS does a good job of laying out the remaining agenda to support a strong and healthy private sector. Clearly, much remains to be done in the areas of public finance, enterprise and financial sector reforms. Many of the constraints seem to be political; the Government continues to pursue a marginalist approach to reform. There are also real thorny problems to be solved. Even though banks have been recapitalized three times the financial sector is problematic. Similarly the pension system is in need of reform. Are we confident that we have all the answers? If not, what areas require more work? And how will this be done (through the ESW or research programs, or by others)?

cc: Messrs./Mss. Baird, Kalantzopoulos, Mas, Pieters, Riordan, Kaminski, McCarthy

THE WORLD BANK GROUP

ROUTING SLIP		DATE: May 5, 1995	
NAME			ROOM. NO.
Mr. Alan Winters			R2-033
	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: Alan, If you think it's worth it, could you or someone in your shop attend? Thanks. Michael			
FROM Michael Bruno		ROOM NO. S9-035	EXTENSION 33774

1196



EUROPEAN CENTRE
for ADVANCED RESEARCH
in ECONOMICS

DIRECTORS

Mathias DEWATRIPONT
Philippe WEIL

RESEARCH PROGRAMMES

BANKING AND FINANCE
Mathias DEWATRIPONT
Ailsa ROELL

CAPITAL MARKETS
Ronald ANDERSON
Ariane SZARFARZ

EASTERN EUROPE
Philippe AGHION
Gerard ROLAND

EUROPEAN INTEGRATION
André SAPIR
Khalid SEKKAF

INDUSTRIAL ORGANISATION
Patrick BOLTON
Jacques LAMARREE

LAW AND ECONOMICS
Erik BERGLÖF
Ernst-Ludwig VON THADDEN

MACROECONOMICS
Lucrazia REICHLIN
Philippe WEIL

BY FAX: 1 202 477-0549

April 30, 1995

Professor Michael Bruno
Vice-President
The World Bank
Washington, D.C.

Dear Michael:

I know that you will not be able to attend the conference on "Foreign Investment and Growth" that we are organizing in June with the RAND European-American Center for Policy Analysis with the support of the US Mission to the European Union and the European Commission. But I would like to ask you whether you could recommend (or send...) us, as a second best, someone from the Bank who could present to the conference participants a perspective more global than the mainly US and European views of the other speakers. The presence of a WB speaker would add balance to the conference.

I apologize for bothering you with this, and I thank you in advance for your help.

I look forward to seeing you in at the CEPR conference Perugia at the end of June. Thanks a lot for attending!

With best regards,

Philippe Weil
Professor of Economics

1171

95 APR 19 AM 9:22
European-American Center for Policy Analysis

RAND

RECEIVED
DEVELOPMENT ECONOMICS
V.P. CHIEF ECONOMIST

p/a TU Delft
Landbergstraat 6
2628 CE DELFT
The Netherlands
Tel: 31-15-785411
Fax: 31-15-781788

FAXCOPY COVER SHEET

Fax number : 1-202-4770549

To : Vice President and Chief Economist/World Bank

Attention : Mr. Michael Bruno

Date : 18 April 1995

Our Reference : EAC/95.181

Remarks :

Regretted BY Phone
4/19

From : John van Oudenaren

Number of pages : 6

(including cover page)



European-American Center for Policy Analysis

05 APR 19 AM 9:23

RECEIVED
DEVELOPMENT ECONOMICS
THE ECONOMICEUROPEAN CENTRE
FOR ADVANCED RESEARCH
IN ECONOMICS

Mr. M. Bruno
Vice President and
Chief Economist
World Bank
1818 H. Street, N.W.
WASHINGTON, D.C. 20433
U.S.A.

EAC/95.181

April 18, 1995

Dear Mr. Bruno,

The European Centre for Advanced Research in Economics (ECARE) of the Institut d'Etudes Européennes, Université de Bruxelles, and the RAND European-American Center for Policy Analysis are pleased to invite you to a conference on "Foreign Direct Investment and Economic Growth in Europe and North America: European and American Perspectives" sponsored by the European Commission and the United States Mission to the European Union. The conference will take place on June 21-22, 1995 at the Cercle de Nations in Brussels.

It is generally recognized that foreign direct investment is one of the most dynamic factors in the international economy and an important force for growth and the creation of jobs. OECD, UN and national studies indicate that such investment is important to host country economies because it brings assets and skills and helps these countries mobilize their own resources. Despite these well-documented benefits, there are still many fiscal, regulatory, and administrative barriers to investment, even among the developed economies of North America and the European Union.

Against this background, the objective of the conference will be to highlight the importance of investment and the nature of barriers to it, and thereby to contribute to more effective policies regarding investment at the global, regional, and national levels.

As you can see from the enclosed agenda, the conference is divided into six sessions, each of which covers a different aspect of the subject. We would be most grateful if you would be able to serve as a speaker in Session 5, "Broadening the Scope of Agreement".

European-American Center for Policy Analysis
p/a TU Delft
Landbergstraat 6
2628 CE Delft
The Netherlands
Tel: 31 15 785411
Fax: 31 15 781788

European Centre for Advanced Research in Economics
39 av. F.D. Roosevelt
1059 Brussels
Belgium
Tel: 32 2 6503075
Fax: 32 2 6503068

EAC/95.181-2

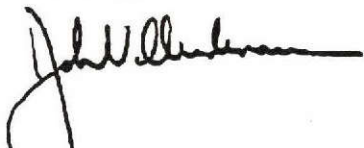
The purpose of the conference is to stimulate policy-relevant discussion among government officials, scholars, and the business community. Accordingly, we are asking speakers to prepare, instead of academic papers, remarks of approximately twenty minutes in order to open the discussion. Discussants are asked to speak for approximately ten minutes. A conference proceedings will be produced and will be distributed to the international community involved in policies and decisions relating to international investment.

Please inform us as soon as possible if you will be able to attend the conference and speak on the topic we have suggested.

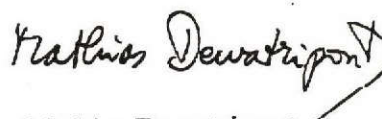
We will be pleased to cover the costs of your travel to and from the conference and your local costs in Brussels. For questions regarding travel and accommodation, please contact Loes Romeijn at the EAC (31-15-78-54-11).

We look forward to hearing from you, and hope to see you in June for what promises to be an interesting and productive event.

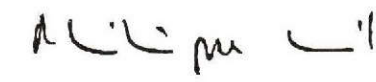
Sincerely,



John Van Oudenaren
Director EAC



Mathias Dewatripont
Director ECARE



Philippe Weil
Director ECARE

Enclosure: preliminary agenda conference

**Foreign Direct Investment and Economic Growth in Europe and North America:
European and American Perspectives**

Brussels, June 21-22, 1995

Sponsored by the European Commission, Directorate-General for External Affairs
United States Mission to the European Union

Organized by European Centre for Advanced Research in Economics (ECARE),
Institut d'Etudes Européennes,
Université de Bruxelles
European-American Center for Policy Analysis/RAND
Delft, the Netherlands

in cooperation with:

The European-American Chamber of Commerce in Washington, D.C.

Preliminary Agenda

Wednesday June 21

DAY 1: DEFINING THE INVESTMENT AGENDA

9:00-9:30 Introduction

Stuart E. Eizenstat, U.S. Ambassador to the European Union

9:30-11:15 Session 1: Introduction -- The Relationship Between Foreign Direct
Investment, Growth and Trade

Opening speakers:

Nicolas Vanston, Head, Division for Foreign Trade and Investment, Department of
Economics, Organisation for Economic Co operation and Development, Paris *
André Sapir, President, Institut d'Études Européennes, Université Libre de Bruxelles,
Brussels

Discussants:

AFL-CIO chief economist
Karl Sauvant, Head, Research and Analysis Unit, UNCTAD, Geneva

11:30-13:15 Session 2: A Practical Look at The Current Investment Regime

Opening speakers:

Academic or legal expert

Adrien Otten, Director, Intellectual Property and Investment Division, World Trade Organisation, Geneva

13:15-14:45 Lunch

Luncheon speech: French Minister of Economics*

14:45-17:00 Session 3: Business Views of Impediments to Foreign Direct Investment and Improvements Needed

Opening speakers:

European industry speaker

U.S. industry speaker

Discussants:

Stefano Micossi, Director General, DG III, European Commission

Kevin G. Lynch, Associate Deputy Minister, Industry Canada, Ottawa*

Julius Katz, Former Deputy U.S. Trade Representative*

19:00 Dinner

After Dinner Speech: Sir Leon Brittan, Commissioner for External Economic Affairs

Thursday June 22

DAY 2: ACHIEVING AN INVESTMENT AGREEMENT

9:00-11:00 Session 4: Issues and Prospects in the OECD Negotiations

Opening speakers:

David Aaron, United States Permanent Representative to the OECD*

Representative of the European Commission

William Berrada, Deputy Assistant Secretary, U.S. Department of the Treasury*

Discussants:

European industry representative

U.S. industry representative

11:15-13:15 Session 5: Broadening the Scope of Agreement

Opening speakers:

Michael Bruno, Vice President and Chief Economist, The World Bank*
Richard Portes, Professor of Economics, London Business School; Director, Centre
for Economic Policy Research

Discussants:

Developing country representative
European perspective

13:15-14:45 Lunch

Luncheon speech: Peter Sutherland, Former Director General, GATT

14:45-17:00 Session 6: Conclusions and Policy Recommendations

Panel Discussion: Chairman, Willy De Clerq*

Panel participants:

Hugo Pacman, European Commission*
Don Abelson, Assistant U.S. Trade Representative, Office of the United States Trade
Representative (USTR), Washington
Daniel Price, European-American Chamber of Commerce, Washington
U.S. industry representative
European industry representative

* To be confirmed.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

May 4, 1995

Dear Teresa,

I thought you might like to have a copy of my tribute to your father which I gave at the recent Annual Bank Conference on Development Economics on May 1.

Kind regards,



Michael Bruno

Ms Teresa Seamster
24 Herrada Road
Sante Fe, NM 87505
Fax. 505/466-1445 (66)

I don't have Ann's address. I'd be grateful if you could forward my letter and tribute to her. Thanks.

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

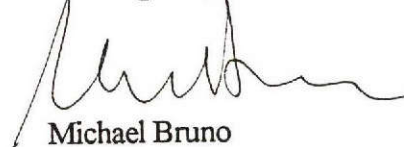
MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

May 4, 1995

Dear Ann,

I thought you might like to have a copy of my tribute to your father which I gave at the recent Annual Bank Conference on Development Economics on May 1.

Kind regards,



Michael Bruno

I am asking Teresa to forward this to you as I do not have your address.

Tribute to Hollis Chenery

Hollis Chenery, who died 8 months ago at the age of 76, was a central figure in Development Economics for a period of at least 25 years, first coming to prominence towards the mid 1950s. He would have deserved dedication of this Annual Bank Conference to his memory even if he had not devoted 13 years to the building up and running of the economics research complex of the World Bank..

Hollis Chenery's best known pioneering contributions mainly lay in two central areas. One is the quantitative design of development policy for open economies (this is an area in which I first came to admire and be helped by his seminal work early in my own career as budding development economist). The other is the cross-country analysis of development patterns. In the first area he gave operational content and greatly expanded into the development field an approach first pioneered by the Dutch Nobel Prize winning economist Jan Tinbergen. In the other he built on and considerably further developed an approach initiated by another great Nobel Prize winner Simon Kuznets from Harvard University, where Hollis himself spent the latter part of his academic career.

Hollis also had important contributions in a variety of related and other areas, notably in the area of engineering and CES production functions (the C in ACMS or SMAC as it was sometimes called was Chenery's, along with the initials of Arrow, Solow and Minhas); he wrote on economies of scale, complementarity and timing of investment decisions, on investment criteria and shadow pricing, dynamic comparative advantage, and last not least worked on issues of income distribution and growth to which the commemorative sessions on redistribution with growth are devoted.

Hollis came to economics with the practical approach of an engineer (in engineering he did indeed earn his undergraduate degree, before joining the army for the second world war) coupled with the keen sense of awareness for social issues, no doubt bolstered by his wartime experience. His first practical involvement, coming out with a Harvard PhD in 1950, was in the postwar development and reconstruction effort, primarily of war-ravaged Italy. He subsequently applied his development policy design work to the Latin American scene (in the context of ECLA) as well as in other developing regions. While intellectually curious as well as open minded and willing to absorb and facilitate the development of new ideas, he had little patience for pure doctrinal debates or pure theoretical constructs unless they could be used for practical policy purpose. He did, however, provide a good intellectual bridge between the world of practical policy design and between the academic community, which came to the forefront in his involvement with the World Bank.

Hollis came to the Bank in 1970 at the request of Robert McNamara, in the midst of a distinguished academic career which was started at Stanford, continued at Harvard, and mixed in between with several years of further exposure to the real world of development as Assistant Administrator of AID. First as Economic Advisor

to the President and then as Vice President for Development Policy he turned the Bank's economist group into the world's leading research center on economic development. Among his many institutional accomplishments are the initiation of the broadly based Bankwide Research committee and not least the launching of the Bank's flagship World Development Reports. He led the set of studies on poverty and distributional issues represented inter alia in the work on *Redistribution with Growth*. With his own staff the emphasis he put was on the maintenance of the highest professional standards, yet insisted on their continued involvement with Bank's operations. With his departure in 1983, at the end of 13 very fruitful years, he returned to Harvard and for some years devoted further very fruitful work on patterns of economic development, work that he did in collaboration with Moshe Syrquin.

I cannot but end with a personal note of gratitude. Hollis was my first mentor and tutor in development economics. I first met him when I was a very junior economist at the Research Department of the Bank of Israel in the late 1950s. He was invited to come as UN expert to help us design long-term development policy under a projected foreign aid constraint (an unlikely job for a present day Central Bank but very natural in those days). Soon after his arrival he made me construct a quick and dirty 20x20 sector input-output table in a week's time, which subsequently led to much more extended work on input-output and other related programming frameworks. Hollis was responsible for my first published paper in economics, jointly written on the basis of a two-gap model for Israel and a precursor of further work that he and other students of his subsequently did along similar lines. He was also responsible for my going to do a PhD at Stanford, in the midst of my early Bank of Israel career. His personal devotion to his students was best exemplified by the hospitality that he and his delightful first wife Louise, a southerner like him and the mother of their two daughters, extended to me and my wife and small baby girl when we stayed in their beautiful Stanford house during the first week of my visit to Stanford. Very soon afterwards he was called to serve at AID. During the 1970s and 1980s when our research and policy interests no longer intersected much we did nonetheless meet and talk every now and then, and he kept his keen interest in Israeli and more general Middle Eastern economic and political developments and in talking about the macro issues that dominated the world scene.

I saw Hollis last in his Cambridge house, visiting together with Lance Taylor, during the January 1994 Boston Annual Meetings, shortly after his beloved second wife, Mary, died. Due to his prolonged illness and deep depression Hollis had been a shadow of himself and Mary's death must have given him the last blow. With great physical and mental strain he still tried to show interest in what we, his former students, were up to and a remnant of the old friendly Hollis smile was still there on his pale face. All of us, I am sure, will remember him for all the great contributions of his better days - to the profession at large, to the Bank and to each one of us individually. May his soul rest in peace.

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

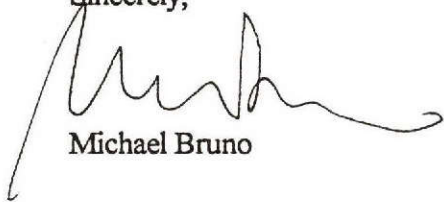
MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

May 3, 1995

Dear Mr. Tan:

Thank you for your kind invitation to the international conference on "Enterprise Training Strategies and Productivity", on June 12-13. Unfortunately, due to prior commitments, I must regret. You may wish to extend this invitation directly to Mr. Lyn Squire in PRD.

Sincerely,



Michael Bruno

Mr. Hong W. Tan
Senior Economist
Competition & Strategy Group
Private Sector Development Department

0403

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
Washington, D.C. 20433
U.S.A.(202) 477-1234
Cable Address: INTBAFR
Cable Address: INDEVAS95 MAY -1 AM 10:23
April 27, 1995RECEIVED
DEVELOPMENT ECONOMICS
SECTIONMr. Michael Bruno
Vice President & Chief Economist
DEC
S9-035

Dear Mr. Bruno:

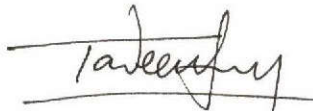
It is my pleasure to invite you, or your designee, to participate in an international conference on Enterprise Training Strategies and Productivity, sponsored by the Private Sector Development Department of the World Bank. The conference will be held on Monday and Tuesday, June 12-13, 1995, in Conference Room JB1-080 of the World Bank, 701 18th Street, N.W., Washington, D.C. Given space constraints, attendance will be by invitation only.

The conference will highlight new policy research on firm-led training, technology, and their productivity and wage outcomes in five developing and industrialized countries--Mexico, Colombia, Malaysia, the United States, and Japan. These country reports, based on broadly comparable surveys of firms and (in some countries) their workers, will be complemented by cross-national comparisons of training and their productivity outcomes, and by evaluations of specific training policies used in several countries. The conference will be attended by experts in the field, policymakers from industrialized and developing countries, private sector leaders, and World Bank staff with interests in human resources, technology and productivity growth, and private sector development.

I enclose some background information on the cross-country Enterprise Training Strategies and Productivity project, the tentative conference agenda, and a participant profile and registration form. Please respond at your earliest convenience but no later than Friday May 5, 1995, using the enclosed participant profile/registration form. In the last week of May, you will receive a package of conference materials and papers to be presented.

I hope to host a memorable event with your participation, and look forward to seeing you in Washington, DC.

Yours sincerely,


Hong W. Tan
Senior EconomistCompetition & Strategy Group
Private Sector Development Department

6/12: (1) request
1. Roundy - picnic
2. Africa 6/15 p.m.

World Bank Conference
ENTERPRISE TRAINING STRATEGIES AND PRODUCTIVITY:
June 12-13, 1995, Washington DC.

Background

Enterprise-led training is believed to be critical to industrial and technological development and to productivity growth. However, despite its policy importance, extant knowledge about the topic--in both developing and industrialized countries--is limited by the paucity of relevant data on firms and workers, rigorous research, and cross-national comparisons. The Enterprise Training Strategies and Productivity (ETS) project, directed by Hong Tan, was initiated to address this knowledge gap. With support from the World Bank's Research Committee and the Competition & Strategy Group, Private Sector Development Department (PSD), teams from five countries--Colombia, Mexico, Malaysia, Japan, and the United States of America--were organized in a two-year collaborative effort of surveys and studies.

Broadly comparable surveys of manufacturing enterprises were fielded in each country. All country surveys elicited detailed information on the company, its attributes, technology, exports, workers, training practices, compensation, production constraints, and production inputs and outputs. These firm-level surveys, linked in some countries to worker-level surveys, afford a unique opportunity to study the incentives of employers to invest in worker training, the linkages between training, technology, export strategies and productivity outcomes, and their implications for design of training policies appropriate to different national environments.

A brief description of each country collaborator, and the surveys that they have fielded, is provided below:

Countries Participating in the ETS Project

Country	Survey	Country Collaborators
Colombia	500 firms, 2,500 workers	SENA (national training agency) and consultants
Mexico	6,000 firms, 8,000 workers	Secretariat of Labor and Social Welfare (STPS) and ILO
Malaysia	2,200 firms	Economic Planning Unit (EPU) and Universiti Kebangsaan
Japan	500 firms, 2,500 workers	Japan Institute of Labor (JIL) and economists from Keio and Tokyo Gakugei Universities
United States	1,600 firms	National Center on the Educational Quality of the Workforce (EQW), University of Pennsylvania.

Tentative Agenda
Conference on Enterprise Training Strategies and Productivity
June 12-13, 1995

Monday, June 12

- 8:30 am Coffee, JB1-080, 701 18th Street, NW
- 9:00 am Opening Remarks
- 9:15 am **Overview of Issues in Enterprise-led Training**

Hong W. Tan. PSD, World Bank
- 9:30 am **Enterprise Training in Developing Countries, Session I**

"Enterprise Training in Malaysia: Evidence from the MITP Study".
Rajah Rasiah and Osman Rani, Universiti Kebangsaan Malaysia.
"Training in Mexico: Evidence from the ENESTYC Survey".
Roberto Flores Lima, Secretariat of Labor, Mexico.
- 11:00 am Coffee Break
- 11:15 am **Enterprise Training in Developing Countries, Session II**

"Training, Technology and Firm-level Efficiency in Sub-Saharan Africa"
Tyler Biggs, Manju Shah, Pradeep Srivastava, AFTPS (RPED),
World Bank.
"Enterprise Training and Productivity: Evidence from Colombia,
Indonesia, Malaysia, Mexico, and Taiwan (China)." Hong Tan
and Geeta Batra, PSD, World Bank.
- 1:00 pm Lunch
- 2:00 pm **Enterprise Training in Industrialized Countries, Session III**

"Firm-based Training in U.S. Manufacturing Firms: A Summary of
Findings from a Survey of Establishments". Lisa Lynch, Tufts
University and EQW, University of Pennsylvania.
"Enterprise Training in Japan: A Summary of Findings". Shunichiro
Umetani, Tokyo Gakugei University and Japan Institute of Labor.
- 3:45 pm Coffee Break

4:00 pm **Round Table Discussion by Panel of Experts, Session IV.**

5:15 pm End of session.

Tuesday, June 13

8:30 am Coffee, JB1-080, 701 18th Street, NW.

9:00 am **Enterprise Training--Some Cross-National Perspectives, Session V**

“Training, Technology and Industry Wage Differentials in Developing Countries”. Hong Tan, PSD, World Bank.

“Firm-level Efficiency in Developing Countries: Its Determinants and Distribution by Firm Size”. Geeta Batra, PSD, World Bank.

10:30 am Coffee Break

10:45 am **Selected Country Experiences with Training Policies, Session VI**

“Malaysia’s Human Resource Development Fund”. Yau Di-Piyau, Director General, HRDF, Malaysia.

“An Evaluation of Mexico’s CIMO Program of Training and Industrial Extension to SMEs”. Secretariat of Labor, Mexico.

“The Australian Training Guarantee Scheme: An Evaluation”. Bruce Chapman, Australian National University, Australia.

12:45 pm Lunch

2:00 pm **Enterprise Training: Lessons and Policy Implications, Session VII**

Round Table Discussion by panel of experts, policymakers, and key private sector leaders from developing and industrialized countries.

4:00 pm End of session

4:15 pm Closed meeting of ETS Country Teams (revisions and next steps)

World Bank Conference
ENTERPRISE TRAINING STRATEGIES AND PRODUCTIVITY

June 12-13, 1995, Conference Room JB1-080
701 18th Street, N.W., Washington, D.C.

1. Attendance at conference: Attending ____ Not attending ____

2. Participant Profile:

Name: _____ Title: _____

Affiliation: _____

Address: _____

Telephone: _____ Fax: _____

3. Additional Particulars: (Speakers, country team members only):

Nationality: _____ Date of Birth: _____

4. Travel Plans (Only for overseas visitors, speakers, and country team members)

Date of Arrival _____ Arrival Time: _____ am/pm

Date of Departure _____ Departure Time: _____ am/pm

5. Hotel Accomodations:

I will require hotel accomodations: Yes ____ No ____

If hotel is requested, please provide a credit card number and its expiration date to guarantee your reservation.

Visa/AMEX/Master Card/Diners Club/JCB/Others: _____

Card Number: _____ Expiration Date: _____

Signature: _____

Please complete and return this form by fax at your earliest convenience
but no later than Friday May 5, 1995, to:

Zai Fanai, The World Bank, Room G-4091,
1818 H Street, N.W., Washington D.C. 20433, U.S.A.
Fax: (202) 522-3183 Tel: (202) 473-3605

OFFICE MEMORANDUM

DATE: May 2, 1995

TO: Mr. Richard Frank

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: **Guatemala: Country Assistance Strategy**

We have the following comments:

1. Implementation capacity. Given increasing concerns about the deleterious effects of debt on growth, as well as concerns about general debt sustainability, we need to ensure that the "expected return" from new loans is high. On the basis of the analysis presented in the CAS, it is not obvious that the proposed lending program passes this hurdle. Specifically: (a) implementation in the public sector is "exceptionally weak" with "widespread institutional inadequacies"; (b) recent experience with using NGOs to implement projects does not seem to be much better; (c) there has been poor progress in implementing the existing portfolio, and very poor disbursement performance; and (d) the political support for reforms is highly uncertain.
2. The CAS provides little evidence that administrative capacity has improved, so that hopes for better implementation capacity in the future rest rather heavily on the success of the ongoing public sector management loan. However, given the track record in Guatemala, as well as the importance of incentive-grounded reasons for poor administration, the results from the PSML are likely to be limited and gradual. Therefore, shouldn't we take a cautious approach to approving new projects, with a clear understanding that the pace of new lending would be tied to improvements in implementation capacity?
3. Fiscal contraction. We have two concerns about the fiscal scenario: its likelihood and its desirability. The CAS projections assume that the government will be able to keep real public sector wages constant and thereby reduce the share of current expenditure in GDP by one fifth (from 8.8% to 6.7%). Is this realistic in the absence of a crisis? As noted in the CAS, fiscal slippage is common in Guatemala and the present government has had difficulty getting fiscal measures by the Supreme Court. More fundamentally, is the wage-based contraction desirable? The CAS itself points to low public sector wages in the health and education ministries as one of the reasons for poor implementation.
4. The low-case scenario. The CAS regards the low-case scenario--breakdown of the peace process, macro deterioration and backtracking on structural reforms-- as unlikely. This seems somewhat optimistic in light of the long history of policy backsliding so well

documented in the CAS. It would also appear, as acknowledged in the CAS, that attainment of peace has important effects on macro performance, hopefully yielding a peace dividend but also likely creating intense pressure for compensating social spending. An alternative low-case scenario, in which the peace process is successfully concluded, but at the cost of macro instability, would thus seem to be a distinct possibility.

5. Inequality. Research suggests that distributional starting conditions, notably in terms of land ownership, are a major determinant of growth and social performance. Guatemala scores at the very bottom in this regard, with the lowest Gini coefficient for land ownership in Latin America and the third highest income inequality. The CAS notes that "the land issue is central to any rural poverty alleviation strategy." Yet the reforms suggested--legal reform, institutional reform, technology transfer--are limited to improving the efficiency of the current allocation rather than changing the allocation itself. While this is obviously a difficult and highly political issue, it is on the table in the peace negotiations (Accord No. 6). Given the potential payoffs over the longer term, shouldn't we match our diagnosis of land ownership issues with our strategy in the policy section of the CAS?

6. The environment. The CAS talks briefly about land management issues. However, it does not convey the impression that we have the same depth of knowledge of natural resource and environmental problems as we do in other areas. In particular, the report is silent on deforestation, which the World Resources Annual Report suggests is quite high (around 30% loss of cover in ten years). How active has the Bank been on environmental issues? What is planned? If very little, is it because we (or the government) don't see this as a problem or simply because the current agenda is dominated by immediate economic and social concerns?

cc: Messrs./Mmes. Kalantzopoulos, Mas, Pieters, Baird, Wolf, McCarthy.

Please send FAX

301 468 9454

sent ✓

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

**OFFICE OF THE VICE PRESIDENT DEVELOPMENT ECONOMICS
AND CHIEF ECONOMIST (Rm S9-035)**

No. of pgs.
(including this)

DATE: April 28, 1995
TO: Amit Mor
FAX: 301-468-9454
FROM: Michael Bruno
FAX: 202/477-0549
TEL.: 202/473-3774

SUBJECT:

2/6 LSN

MESSAGE:

1 ppe - 10/1/95

to yara 2/6/95 10/1/95

! 2/6 LSN - 10/1/95

10/1/95 10/1/95 10/1/95

10/1/95 10/1/95 10/1/95

2/6 L

10/1/95

WB DECVP 2024770549

(AUTO)

THE FOLLOWING FILE(S) ERASED

FILE	FILE TYPE	OPTION	TEL NO.	PAGE	RESULT
024	TRANSMISSION		93014689454	01	OK

ERRORS

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

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

DATE: 03-Apr-1995 06:16pm

TO: See Distribution Below

FROM: Amit Mor, AF4IE

(AMIT MOR@A1@WBWASH)

EXT.: 34945

SUBJECT: Ofek

Etty and I are glad to announce the birth of Ofek (horizon in Hebrew). He was born in a speedy delivery on Thursday night. He is tiny (2.5 kg) but loud and clear. Ofek and Etty feel well.

Cheers, Amit

Tel. 301-468-6533

Fax. 301-468-9454

DISTRIBUTION:

TO: MARC HEITNER
TO: Miguel Schloss
TO: JAMES BOND
TO: Anil Chandramani
TO: Abdel El-Mekkawy
TO: ELEODORO MAYORGA-ALBA
TO: CHARLES FEINSTEIN
TO: MOHSEN SHIRAZI
TO: SHIGERU KUBOTA
TO: WILLIAM PORTER
TO: Harold E. Wackman
TO: Mary Oakes Smith
TO: Istvan Dobozi
TO: Victoria F. Duncan
TO: JOS VERBEEK
TO: Vildan Demiraydin
TO: DENNIS ANDERSON
TO: BENT R. SVENSSON
TO: BJORN HAMSO
TO: CHAKIB KHELIL
TO: Lee Swapp
TO: THOMAS OCONNOR
TO: SANJAY SINHA
TO: JAKOB ALTHUIS
TO: MOIFFAK HASSAN
TO: Tina Duson
TO: GEORGE RAPHAEL KHOURY-HADAD
TO: 6=Glantz@7=Robin@IFC
TO: ERIC S. DAFFERN
TO: EVALYNE TANDON
TO: MONICA LABICHE
TO: MICHAEL BRUNO

(MARC HEITNER@A1@WBWASH)
(MIGUEL SCHLOSS@A1@WBWASH)
(JAMES BOND @A1@WBHQB)
(ANIL CHANDRAMANI@A1@WBWASH)
(ABDEL EL-MEKKAWY@A1@WBWASH)
(ELEODORO MAYORGA-ALBA @A1@WBHQB)
(CHARLES FEINSTEIN @A1@WBHQB)
(MOHSEN SHIRAZI @A1@WBHQB)
(SHIGERU KUBOTA @A1@WBHQB)
(WILLIAM PORTER @A1@WBHQB)
(HAROLD E. WACKMAN@A1@WBWASH)
(MARY OAKES SMITH@A1@WBWASH)
(ISTVAN DOBOZI@A1@WBWASH)
(VICTORIA F. DUNCAN@A1@WBWASH)
(JOS VERBEEK @A1@WBHQB)
(VILDAN DEMIRAYDIN@A1@WBWASH)
(DENNIS ANDERSON @A1@WBHQB)
(BENT R. SVENSSON @A1@WBHQB)
(BJORN HAMSO @A1@WBHQB)
(CHAKIB KHELIL @A1@WBHQB)
(LEE SWAPP@A1@WBWASH)
(THOMAS OCONNOR @A1@WBHQB)
(SANJAY SINHA @A1@WBHQB)
(JAKOB ALTHUIS @A1@WBHQB)
(MOIFFAK HASSAN @A1@WBHQB)
(TINA DUSON@A1@WBWASH)
(GEORGE RAPHAEL KHOURY-HADAD @A1@WBHQB)
(ERIC S. DAFFERN @A1@WBHQB)
(EVALYNE TANDON @A1@WBHQB)
(MONICA LABICHE @A1@WBHQB)
(MICHAEL BRUNO @A1@WBHQB)

TO: David Bigman
TO: David Yuravlivker
TO: JACOB YARON
TO: Loan Dommen
TO: Irfan Aleem
TO: Deepak Bhattasali
TO: Jessica Wilkins
TO: Mark Segal
TO: Patrick Connolly
TO: Jean-Jacques Raoul
TO: Monica Snyder
TO: Sunil Bhattacharya
TO: Jasdip Singh
TO: Angeles Almalel
TO: SHAWKI BARGHOUTI
TO: Rama Skelton

(DAVID BIGMAN@A1@WBWASH)
(DAVID YURAVLIVKER@A1@WBWASH)
(JACOB YARON @A1@WBHQB)
(LOAN DOMMEN@A1@WBWASH)
(IRFAN ALEEM@A1@WBWASH)
(DEEPAK BHATTASALI@A1@WBWASH)
(JESSICA WILKINS@A1@WBWASH)
(MARK SEGAL@A1@WBWASH)
(PATRICK CONNOLLY@A1@WBWASH)
(JEAN-JACQUES RAOUL@A1@WBWASH)
(MONICA SNYDER@A1@WBWASH)
(SUNIL BHATTACHARYA@A1@WBWASH)
(JASDIP SINGH@A1@WBWASH)
(ANGELES ALMALEL@A1@WBWASH)
(SHAWKI BARGHOUTI @A1@WBHQB)
(RAMA SKELTON@A1@WBWASH)

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

DATE: 03-Apr-1995 08:46pm

TO: Amit Mor

(AMIT MOR@A1@WBWASH)

FROM: Miguel Schloss, PBDCP

(MIGUEL SCHLOSS@A1@WBWASH)

EXT.: 30118

SUBJECT: RE: Ofek

As we say in Chile (from where I just returned today) Mazal
Tov ... to the three of you!!!

CC: MARC HEITNER	(MARC HEITNER@A1@WBWASH)
CC: JAMES BOND	(JAMES BOND @A1@WBHQB)
CC: Anil Chandramani	(ANIL CHANDRAMANI@A1@WBWASH)
CC: Abdel El-Mekkawy	(ABDEL EL-MEKKAWY@A1@WBWASH)
CC: ELEODORO MAYORGA-ALBA	(ELEODORO MAYORGA-ALBA @A1@WBHQB)
CC: CHARLES FEINSTEIN	(CHARLES FEINSTEIN @A1@WBHQB)
CC: MOHSEN SHIRAZI	(MOHSEN SHIRAZI @A1@WBHQB)
CC: SHIGERU KUBOTA	(SHIGERU KUBOTA @A1@WBHQB)
CC: WILLIAM PORTER	(WILLIAM PORTER @A1@WBHQB)
CC: Harold E. Wackman	(HAROLD E. WACKMAN@A1@WBWASH)
CC: Mary Oakes Smith	(MARY OAKES SMITH@A1@WBWASH)
CC: Istvan Dobozi	(ISTVAN DOBOZI@A1@WBWASH)
CC: Victoria F. Duncan	(VICTORIA F. DUNCAN@A1@WBWASH)
CC: JOS VERBEEK	(JOS VERBEEK @A1@WBHQB)
CC: Vildan Demiraydin	(VILDAN DEMIRAYDIN@A1@WBWASH)
CC: DENNIS ANDERSON	(DENNIS ANDERSON @A1@WBHQB)
CC: BENT R. SVENSSON	(BENT R. SVENSSON @A1@WBHQB)
CC: BJORN HAMSO	(BJORN HAMSO @A1@WBHQB)
CC: CHAKIB KHELIL	(CHAKIB KHELIL @A1@WBHQB)
CC: Lee Swapp	(LEE SWAPP@A1@WBWASH)
CC: THOMAS OCONNOR	(THOMAS OCONNOR @A1@WBHQB)
CC: SANJAY SINHA	(SANJAY SINHA @A1@WBHQB)
CC: JAKOB ALTHUIS	(JAKOB ALTHUIS @A1@WBHQB)
CC: MOIFFAK HASSAN	(MOIFFAK HASSAN @A1@WBHQB)
CC: Tina Duson	(TINA DUSON@A1@WBWASH)
CC: GEORGE RAPHAEL KHOURY-HADAD	(GEORGE RAPHAEL KHOURY-HADAD @A1
CC: 6=Glantz@7=Robin@IFC	
CC: ERIC S. DAFFERN	(ERIC S. DAFFERN @A1@WBHQB)
CC: EVALYNE TANDON	(EVALYNE TANDON @A1@WBHQB)
CC: MONICA LABICHE	(MONICA LABICHE @A1@WBHQB)
CC: MICHAEL BRUNO	(MICHAEL BRUNO @A1@WBHQB)
CC: David Bigman	(DAVID BIGMAN@A1@WBWASH)
CC: David Yuravlivker	(DAVID YURAVLIVKER@A1@WBWASH)
CC: JACOB YARON	(JACOB YARON @A1@WBHQB)
CC: Loan Dommen	(LOAN DOMMEN@A1@WBWASH)
CC: Irfan Aleem	(IRFAN ALEEM@A1@WBWASH)
CC: Deepak Bhattasali	(DEEPAK BHATTASALI@A1@WBWASH)
CC: Jessica Wilkins	(JESSICA WILKINS@A1@WBWASH)
CC: Mark Segal	(MARK SEGAL@A1@WBWASH)

CC: Patrick Connolly
CC: Jean-Jacques Raoul
CC: Monica Snyder
CC: Sunil Bhattacharya
CC: Jasdip Singh
CC: Angeles Almalel
CC: SHAWKI BARGHOUTI
CC: Rama Skelton

(PATRICK CONNOLLY@A1@WBWASH)
(JEAN-JACQUES RAOUL@A1@WBWASH)
(MONICA SNYDER@A1@WBWASH)
(SUNIL BHATTACHARYA@A1@WBWASH)
(JASDIP SINGH@A1@WBWASH)
(ANGELES ALMALEL@A1@WBWASH)
(SHAWKI BARGHOUTI @A1@WBHQB)
(RAMA SKELTON@A1@WBWASH)

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

DATE: 13-Apr-1995 11:05am

TO: Amit Mor

(AMIT MOR @A1@WBWASH)

FROM: Shawki Barghouti, SA2AG

(SHAWKI BARGHOUTI)

EXT.: 84010

SUBJECT: RE: Ofek

To you and to Etty MABROOK and alf MABROOK. Translated from Arabic means Mazal Tov and a thousand Mazal Tov.

CC: MARC HEITNER	(MARC HEITNER @A1@WBWASH)
CC: Miguel Schloss	(MIGUEL SCHLOSS @A1@WBWASH)
CC: JAMES BOND	(JAMES BOND)
CC: Anil Chandramani	(ANIL CHANDRAMANI @A1@WBWASH)
CC: Abdel El-Mekkawy	(ABDEL EL-MEKKAWY @A1@WBWASH)
CC: ELEODORO MAYORGA-ALBA	(ELEODORO MAYORGA-ALBA)
CC: CHARLES FEINSTEIN	(CHARLES FEINSTEIN)
CC: MOHSEN SHIRAZI	(MOHSEN SHIRAZI)
CC: SHIGERU KUBOTA	(SHIGERU KUBOTA)
CC: WILLIAM PORTER	(WILLIAM PORTER)
CC: Harold E. Wackman	(HAROLD E. WACKMAN @A1@WBWASH)
CC: Mary Oakes Smith	(MARY OAKES SMITH @A1@WBWASH)
CC: Istvan Dobozi	(ISTVAN DOBOZI @A1@WBWASH)
CC: Victoria F. Duncan	(VICTORIA F. DUNCAN @A1@WBWASH)
CC: JOS VERBEEK	(JOS VERBEEK)
CC: Vildan Demiraydin	(VILDAN DEMIRAYDIN @A1@WBWASH)
CC: DENNIS ANDERSON	(DENNIS ANDERSON)
CC: BENT R. SVENSSON	(BENT R. SVENSSON)
CC: BJORN HAMSO	(BJORN HAMSO)
CC: CHAKIB KHELIL	(CHAKIB KHELIL)
CC: Lee Swapp	(LEE SWAPP @A1@WBWASH)
CC: THOMAS OCONNOR	(THOMAS OCONNOR)
CC: SANJAY SINHA	(SANJAY SINHA)
CC: JAKOB ALTHUIS	(JAKOB ALTHUIS)
CC: MOIFFAK HASSAN	(MOIFFAK HASSAN)
CC: Tina Duson	(TINA DUSON @A1@WBWASH)
CC: GEORGE RAPHAEL KHOURY-HADAD	(GEORGE RAPHAEL KHOURY-HADAD)
CC: 6=Glantz@7=Robin@IFC	
CC: ERIC S. DAFFERN	(ERIC S. DAFFERN)
CC: EVALYNE TANDON	(EVALYNE TANDON)
CC: MONICA LABICHE	(MONICA LABICHE)
CC: MICHAEL BRUNO	(MICHAEL BRUNO)
CC: David Bigman	(DAVID BIGMAN @A1@WBWASH)
CC: David Yuravlivker	(DAVID YURAVLIVKER @A1@WBWASH)
CC: JACOB YARON	(JACOB YARON)
CC: Loan Dommen	(LOAN DOMMEN @A1@WBWASH)
CC: Irfan Aleem	(IRFAN ALEEM @A1@WBWASH)
CC: Deepak Bhattasali	(DEEPAK BHATTASALI @A1@WBWASH)
CC: Jessica Wilkins	(JESSICA WILKINS @A1@WBWASH)

CC: Mark Segal
CC: Patrick Connolly
CC: Jean-Jacques Raoul
CC: Monica Snyder
CC: Sunil Bhattacharya
CC: Jasdip Singh
CC: Angeles Almalel
CC: Rama Skelton

(MARK SEGAL @A1@WBWASH)
(PATRICK CONNOLLY @A1@WBWAS
(JEAN-JACQUES RAOUL @A1@WBW
(MONICA SNYDER @A1@WBWASH)
(SUNIL BHATTACHARYA @A1@WBW
(JASDIP SINGH @A1@WBWASH)
(ANGELES ALMALEL @A1@WBWASH
(RAMA SKELTON @A1@WBWASH)

C

May 1, 1995

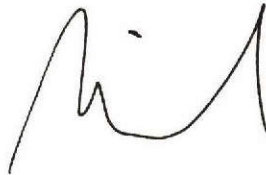
Note to Mr. Ibrahim Shihata

Ibrahim,

Trade Liberalization

Some weeks ago, you had asked Mark Baird for a note setting out the empirical evidence on the impact of trade liberalization on economic growth and industrialization in developing countries. Attached is a short piece that summarizes this evidence. I would welcome any comments or reactions you might have to this material and my colleagues in the International Economics Department would be happy to provide additional information or respond to any queries.

Regards,



Michael Bruno

Attachment

cc: Messrs. Masood Ahmed
Alan Winters

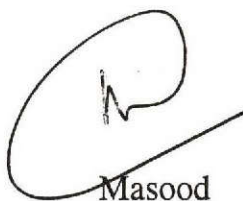
April 28, 1995

Note to Mr. Michael Bruno

Michael,

Trade Liberalization

You may recall that a few weeks ago Ibrahim asked for a note on the empirical evidence on the impact of trade liberalization on both long-term growth and short-term transition costs. Attached is such a note prepared by IECIT which has benefitted from comments by Mark Baird and Ravi Kanbur, among others. If you approve of it, we suggest that you send it over to Ibrahim with an informal cover note, a draft of which is also attached.

A handwritten signature in black ink, consisting of a large, stylized 'M' with a horizontal line extending to the right, and the name 'Masood' printed below it.

Attachment

cc: Messrs. Mark Baird
John Nash
Nader Majd
Alan Winters

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

April 28, 1995

Mr. S. Shahid Husain

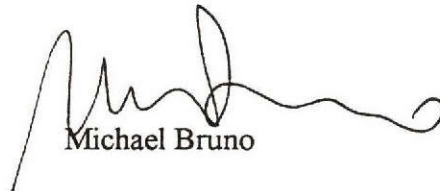
Re: Chief Economist Vacancy

Shahid,

I agree that we should move quickly while preserving the integrity of the clearance procedure.

I therefore propose to ask the Economist Panel to review the latest crop of candidates for clearance to level 27 on a priority basis. I have asked Barbara Travis to send me the complete list of candidates from the PMP process (including Messrs. Kharas and Walton). I will also ask the Panel to look at any pre-identified external candidates (including Mr. Havrylyshyn). As long as the list is not too long, and there are no major issues, we should be able to complete this process in about two weeks. I will then be able to give you a longer list of cleared candidates, and hopefully a strong one, to choose from.

For this purpose, I propose to work with the Economist Review Panel as currently constituted plus Ravi Kanbur (as a new Chief Economist). We will revisit the composition of the Panel before the next full round of clearances.



Michael Bruno

cc: Members of Economist Review Panel
Mr. Kanbur

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

Chen

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

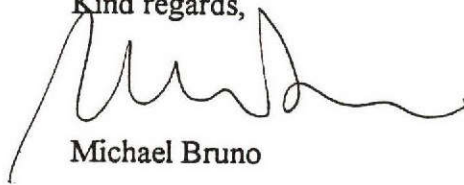
April 28, 1995

Mr. Ismail Serageldin

Ismail,

Thank you for inviting me to participate in this conference. I will be pleased to chair the roundtable on October 5 at 2:00 p.m. and to host a lunch for the roundtable participants on the same day. Please forgive my tardiness in replying which was caused by extended travel. However, I understand our respective offices have already been in touch.

Kind regards,



Michael Bruno

Ismail,

I was able to mail this when
your letter arrived. Apologize for being
slow in replying
M.

To M Board
0237
ca. D.R.S.

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

ISMAIL SERAGELDIN
Vice President
Environmentally Sustainable Development

95 MAR 30 PM 2:03
March 27, 1995
RECEIVED
DEVELOPMENT ECONOMICS
ECONOMIST

Mr. Michael Bruno, DECV

Dear Michael,

The Third ESD Conference will take place October 4, 5, and 6, 1995. The theme "Effective Financing of Environmentally Sustainable Development," is a subject of utmost importance to our client countries. The Conference will address issues linked to the effective use of existing resources and innovative forms of financing to include, for example, fiscal and monetary instruments; existing economic and financial incentives; privatization and improved market organization, structure and performance; technology creation, transfer and adoption; national and global expansion of capital markets; reducing inherent risks from long-term financing; increasing effective partnerships and define new roles for governments and community based organizations. I am inviting you, and all your staff, to actively participate in this forthcoming conference.

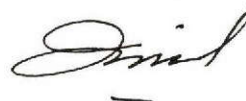
As with the two previous conferences, there will be the main event and a number of associated events. The plenary sessions are scheduled for October 4 and the morning of October 6. Regional and thematic roundtables are scheduled for October 5. The sessions will examine the constraints and opportunities facing most decision-makers including the private and public sectors, communities, NGOs, and international donors. The intent is to focus on regional and thematic dimensions to avoid generalities, and to concentrate on experience and best practices with regard to the application of existing funds and approaches, so as to advance environmentally sustainable development.

Within the roundtables program, I would be most grateful if you would agree to chair a roundtable Thursday, October 5 at 02:00 p.m. following the lunch break. This will be a roundtable dealing with the issues of financing ESD in relation to macroeconomic policies and incentives. Background papers dealing with trade and fiscal dimensions, and implications for policy changes will be the subject of discussions during the morning preceding your session. These papers will have been prepared and distributed in advance. The morning sessions will be chaired by someone from outside the Bank to assure the fullest engagement between the Bank and others. During your session, we will have a major speaker to focus on best practices and practical procedures. I would hope that a Senior Staff member from your vice presidency would be willing to be a discussant. It would be greatly appreciated if you could host a luncheon for some of the roundtable participants on October 5.

Mr. Alfredo Sfeir-Younis will be the Task Manager and Coordinator of the Conference. As the substance and organizational arrangements begin to unfold, I have asked Alfredo to contact you, or whomever you would designate, to explore alternative ways to integrate the Bank experience into each event. I will assume the same person can become a member of the ESD Conference Steering Committee.

I look forward to your early reply. Thank you.

Sincerely,



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

DATE: 31-Mar-1995 01:06pm

TO: Alfredo Sfeir-Younis

(ALFREDO SFEIR-YOUNIS)

FROM: Kate Oram, DECVP

(KATE ORAM)

EXT.: 31107

SUBJECT: **ESD Conference**

Thank you for your invitation to Mr. Bruno who is away until April 25. I will be pleased to bring Mr. Serageldin's invitation to his attention on his return, or before, should the opportunity present itself. I have also given a copy of the invitation to our Acting Vice President, Mr. Mark Baird.

Kate Oram
Exec. Asst.

(I should mention that, as of now, Mr. Bruno is in Washington on the dates of the conference.)

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

DATE: May 4, 1995 04:22pm

TO: See Distribution Below

FROM: Michael Bruno, DECVP *MB*

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Delegation of Authority

I will be away on mission from Saturday, May 20 through Monday, May 29.
Mr. Masood Ahmed will act on my behalf.

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
TO: Gautam S. Kaji
TO: SVEN SANDSTROM
TO: RICHARD FRANK
TO: IBRAHIM SHIHATA
TO: ORSALIA KALANTZOPOULOS
TO: Ignacio Mas
TO: Masood Ahmed - IECDR
TO: Mark Baird
TO: Gregory Ingram
TO: Lyn Squire
TO: Vinod Thomas
TO: Michael Walton
TO: Paulo Vieira Da Cunha
TO: Lesley Davis
TO: Jean Bradier
CC: INSTITUTIONAL ISC FILES

(PAPER MAIL)
(GAUTAM KAJI)
(SVEN SANDSTROM @A1@WBWASH)
(RICHARD FRANK @A1@WBWASH)
(IBRAHIM SHIHATA @A1@WBWASH)
(ORSALIA KALANTZOPOULOS @A1@WBWA)
(IGNACIO MAS)
(MASOOD AHMED)
(MARK BAIRD)
(GREGORY INGRAM)
(LYN SQUIRE)
(VINOD THOMAS)
(MICHAEL WALTON)
(PAULO VIEIRA DA CUNHA)
(LESLEY DAVIS)
(JEAN BRADIER)
(INSTITUTIONAL ISC FILES @A1@WBW)