

THE WORLD BANK GROUP ARCHIVES

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Folder Title: Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993

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THE WORLD BANK

Washington, D.C.

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The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

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Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993

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MB

**INTERNAL
CHRON**

OCT. 1993

NOV. 1993

DEC. 1993

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: December 21, 1993

TO: Armeane Choksi

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Summary of the Evaluation of the Trade Liberalization Study

The summaries of the various research evaluation activities were discussed at the December 1st review of the FY92-93 Report on the World Bank's Research Program. In response to comments made at the meeting and for purposes of consistency with the approach used in previous reports, summaries of the individual Comparative Study evaluations will not be included in the final Report. Rather, the existing section which presents the general lessons on process and program management, has been slightly expanded to reflect the diversity of experience across the various individual studies. I attach a copy of the current (draft) for your information.

Your point about the role of the Publications Committee is well taken. The evaluator commented on "the inordinate amount of time to reach the final publications stage...presumably in part due to the often lengthy process involving the Publications Committee at the Bank." The 'presumption' was not reflected in the summary statement. A series of memoranda concerning the review and publication of the series, and most particularly your October 17, 1987 memorandum which specifies the respective roles of the Director and Editorial Subcommittee were included in the material sent to the evaluator. In addition, he was provided with a large amount of project output and information on the dissemination effort. Thus comments on the adequacy of dissemination and the broader contribution of the study appear to be matters of judgment.

As indicated at the time the evaluation was sent to you, we would be pleased to circulate your responses to the evaluation with the report itself were these to be requested by Bank staff. Such responses could also be included when the evaluations are circulated to the Research Committee. We expect to do so in the next two months after supervisors of the other Comparative Studies have had the opportunity to respond to those evaluations.

The approach we are taking of presenting the general lessons derived from the program in the Research Report and circulating the individual project reports along with responses from the supervisors enhances the learning from the evaluation exercise. I hope that we are in agreement on this.

cc: M. Michaely, EC4DR; D. Papageorgiou, LA1CO; S. Yusuf, RAD

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

Chen

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

December 22, 1993

Mr. Caio Koch-Weser

Caio,

Re: Arab-Israeli Settlement

I attach an invitation to a seminar at the Council on Foreign Relations that may be of interest to you. Unfortunately, I will not be able to attend.



Michael Bruno

COUNCIL ON FOREIGN RELATIONS

93 DEC 20 AM 6:01

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DEVELOPMENT ECONOMICS
SECTION8962
→ HW

INTERNATIONAL ECONOMICS AND FINANCE PROGRAM
58 EAST 68TH STREET NEW YORK NY 10021
TEL 212-734-0400 FAX 212-861-1916

ATTENTION: MR. MICHAEL BRUNO
AFFILIATION: The World Bank
FACSIMILE: 202-477-0549

FROM: SHAFIQUL ISLAM, SENIOR FELLOW

DATE: Dec 16, 1993

2 PAGES INCLUDING THIS COVER PAGE

MESSAGE: Dear Michael: I thought you might be interested in joining this group at the Council or have someone from the Bank attend some of the meetings. I am also sending a copy of the sample invitation letter to Ibrahim Shihata. Please have your office contact me if you have any interest. (I just discovered that they have not invited a single person from the Bank or the Fund.)

December 8, 1993

1?~

Dear 2?~:

On behalf of the Council on Foreign Relations, I would like to invite you to the second meeting of the Council's study group on "The Shape of the Arab-Israeli Settlement: Humanitarian and Demographic Issues," chaired by Rita Hauser. This meeting will focus on the concepts of "right of return" and "right of compensation" in international law, and their potential relevance and application in the Arab-Israeli arena. The speaker will be Professor Alan Dowty of the University of Notre Dame, who will prepare a background paper on the topic. Professor Ian Lustick of the University of Pennsylvania will act as commentator.

The meeting will be held at the Harold Pratt House (58 E. 68th Street) on January 10, 1994. It will begin at 4:00 PM. Cocktails - but not dinner - will be served at 6:30 PM following the meeting. The Council regrets that it is unable to reimburse participants for travel expenses.

We plan five meetings of the study group in all. The final three are tentatively set for February 7, March 7, and April 18, 1994. Separate invitations will be sent to you for each session, as arrangements are confirmed.

Your timely response to this invitation will be greatly appreciated. Please indicate your response by sending the enclosed facsimile response sheet or by telephoning my assistant, Riva Richmond, at (212) 734-0400, ext. 714, by Monday December 27, 1993. The background reading for the meeting will be sent to you upon receipt of your positive response.

Yours sincerely,

F. Gregory Gause, III
Fellow for Arab and Islamic Studies

Chom
+ CFA Box

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

December 22, 1993

Strictly Confidential

Mr. E.V.K. Jaycox,

DECLASSIFIED

Kim,

APR 29 2025

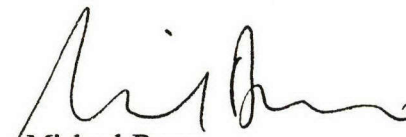
Re: CFA

WBG ARCHIVES

I would like to draw your attention to the attached note, prepared by Jerry Caprio, concerning the kinds of action that would and would not make sense should there be a devaluation. I thought it would be useful to share this with you at this stage, while the Region's views are still in a formative stage. I strongly support the view that it would be a mistake to provide resources for the banking system in the immediate aftermath of a devaluation (whether the resources are intended for recapitalization or on-lending for investment). The evidence indicates that much of the banking sector has already provisioned for the devaluation. It is indeed important to avoid either a financial collapse or a financial squeeze on the private sector, but the real threat to the future solvency and liquidity of the banking system comes from fiscal indiscipline (including the practice of budgetary financing through arrears) and losses in the state enterprise sector.

Foreign assistance, including from the World Bank, to the countries would make sense to support a devaluation of sufficient magnitude, but this should be in the form of balance of payments support linked to a range of measures that complemented devaluation and provided the basis for structural reform. Such measures should clearly include action on the fiscal and state enterprise front, and changes in publicly set wages and prices that would underpin the desired relative price changes while at the same time being politically realistic.

I will be away from the office after today until January 6th, but feel free to contact me in the event you would like to discuss the design of stabilization and adjustment in the CFA further.



Michael Bruno

cc: Messrs. Husain, Lafourcade, Ms. Marshall

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APR 29 2025

WBG ARCHIVES
UMOA Financial Sector: A strategy for reform

When a devaluation of the CFA Franc occurs, the Bank will come under intense pressure to help "make it work," in the sense of ensuring that a positive supply response occurs. One argument, which focuses on the financial restructuring of banks, asserts that, as a devaluation will produce or uncover losses in the banking system, and since a healthy banking system will be needed if banks are to support investment, then banks should be restructured and recapitalized as soon as possible following the exchange rate change. It is also be argued that the banks will need a large line of credit, especially to ensure an adequate supply of long term finance. This note -- based on an evaluation of the UMOA financial system but believed broadly applicable to BEAC -- argues that a preferred strategy is to tackle public enterprise reform and the fiscal situation, without which any temporary bandages applied to the banking sector will quickly become undone.

The "restructure banks first" strategy has been tried elsewhere without success. In the CFA zone, it is not likely to be the key to a successful devaluation. First, the Bank has not found a sure-fire way to guarantee a positive supply response. The last two reviews of adjustment lending cited excessively optimistic predictions of investment as a consistent feature of post-adjustment periods. Research has shown, not surprisingly, that nominal devaluations that are accompanied by fiscal programs and incomes policies designed to prevent a pass-through to higher wages and prices lead to greater response by entailing a larger real exchange rate devaluation. Thus a key factor behind the success or failure of a rate change lies in the fiscal policy domain. Several reviews of adjustment lending also stress the need for credibility in a reform program before private investors will commit their capital to the newly-favored (export) sector.

In the UMOA region the fiscal situation is critical. While the zone rules were intended to place a firm limit on credit to governments, the authorities have largely evaded this restriction by running arrears and lending to loss-making state-owned enterprises not covered by this restriction. The 1986-91 restructuring of the commercial banking system involved a "carve out" of bad debts and central bank refinancing lines, some bank closures, and the central bank was left holding bonds that have paid 3% interest only for the first 5 years. Few expect the governments to begin paying principal on schedule in June 1994. At present, financial institutions will voluntarily buy central bank paper, but not that from the Treasury.

Second, the UMOA region has been in a state of widespread financial distress -- virtually a depression -- since at least the mid-1980s, with about half of the banks (by number) either in liquidation or in the process of being restructured, as of late 1991. Most of the remaining banks are reasonably liquid and, assuming that the government meets its obligations, solvent. Additionally, virtually all of the large banks are foreign owned. The French banks were forced by their home authorities to provision themselves fully for their

CFA exposure since 1988-89; these provisions could be converted into equity to cover the foreign exchange losses linked to the devaluation. Hence, the French banks should be able and willing to lend to viable borrowers *providing* that the concomitant reforms are credible and that the projects are sound.¹ Immediately following a devaluation, an increase in the demand for short-term credit (to finance working capital) can be expected, and the banks appear to have the resources to respond. Major new investment projects likely will wait for several years to see if any program is maintained.

That financial distress has been ongoing for a significant number of years and affects such a large part of the banking system should temper post-adjustment forecasts: bankers living with a weak portfolio and great uncertainty for a significant period of time may be disinclined to accept new economic policies no matter how long the devaluation was anticipated and how readily credit is made available. Foreign banks will continue lend to foreign multinationals, but the repayment climate has deteriorated to the point that it is difficult to get local borrowers to repay. While the judicial process works with reasonable alacrity in matters of debt collection, banks report that it is difficult to get decisions implemented, so that collateral can either disappear or become worthless.² In recent months, the liquidity situation of the UMOA banking system has strengthened, and interest rates set on a money market auction have declined. So today, in addition to the unfavorable competitive situation, it is the poor incentive environment, not the availability of funds, that restricts lending.

Third, the last bank recapitalization was rather expensive, at close to \$3 billion, and it appears to have contributed to the decline in a willingness to repay debt. For example, in Senegal, where at least some banks were closed, the bad loans have been sitting in the "Collection" Agency, but only about 5% of these loans have been collected, with many prominent names on the list of defalcators, and large sums have been squandered on the overhead of this agency (e.g., \$ 8 million to refurbish a building, with no evidence of any significant improvements). Another recapitalization or, indeed, the artificial encouragement of lending, might arguably be taken as an endorsement of present practices.

In sum, for UMOA countries, a bank recapitalization has already been done, and bank solvency in many cases hinges on the government's ability to repay its obligations. Foreign banks naturally will want to be compensated for a devaluation, but there is no clear rationale for UMOA countries to borrow either to pay off foreign institutions or to increase public ownership of these banks. Rather than on the banking system, any attention to restructuring should center on public enterprises and on reforming the fiscal situation. If

¹ Some foreign banks may threaten their departure in order to secure more favorable treatment, but it is not expected that any will actually carry out this threat, nor would it be disastrous if any did.

² Recently the person who stole the national lottery funds was interviewed on television with the Justice Minister, who stated that he was not prosecuting in this case as he thought that the embezzler had "suffered enough" from the public revelation of his crime!

APR 29 2025

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3

WBG ARCHIVES

these problems are corrected, the banks' difficulties will be negligible, while if the banks are recapitalized without addressing the root problems, another recapitalization, and most likely another devaluation, would be needed in the near future.

A line of credit appears unnecessary at this point, and likely would be counterproductive. Banks are liquid, and if the policy package is a good one, will gain resources after the devaluation with a reflow of deposits from abroad. Flight capital according to one conservative estimate is at least \$ 4 billion, though this includes only bank funds; considerable holdings are believed to be in bonds, real estate, and equities. Moreover, part of recent loans are said to have been precisely to speculate on a devaluation, and will thus become available to support more productive investment. Lastly, a line of credit would tempt authorities to pressure the banks to make more loans to inefficient SOEs, precisely the firms that should be starved of resources if the devaluation is to succeed.

The Bank's long run concern in the financial sector should be to make the banking system safe and sound -- i.e., to make sure that banks do not have to be repeatedly rescued - - suggesting that some basic problems have to be addressed regardless of the exchange rate decision. These include increasing the skills and independence in the areas of banking and bank supervision, keeping the government out of the credit allocation decisions of the banks, as well as ensuring adequate profitability of banking in the CFA zone, so that bank managers will have more incentive to insure that their own institutions are operating in a safe and sound manner.³

In a year or two, assuming that a credible package has been implemented, the demand for longer term credit can be expected to increase, so that it may make sense now to begin exploring ways to increase term finance and the reflow of flight capital, including the lessons to be learned from the Latin American experience. However, other than perhaps some tax holiday, and possibly debt-equity swaps and outright forgiveness of foreign debt, sound government policies conducive to investment are the sine qua non of investment by locals and foreigners.

Finally, one problem that has not received much attention here -- though perhaps the IMF and/or the French authorities are taking care of it -- concerns the possible restructuring of the BCEAO. The dominance of the BCEAO balance sheet by the bad debts of the earlier restructuring inhibits the movement to more market-based methods of monetary policy

³ While efforts to improve the supervisory system are underway, supervision alone -- judging from experience in industrial economies -- is not sufficient to assure a safe banking system, especially in small economies in which it is difficult for banks to hold a diverse portfolio. Attempts to allow for increased profitability of banking, both through the licensing process as well as by avoiding excessively high taxation of financial intermediaries, would help to increase the franchise value of bank licenses and thus improve incentives facing bankers. Attention also should be focussed on removing restrictions that make banks unsafe, such as requirements that banks hold only domestic assets in what are very specialized economies.

implementation, as much of its balance sheet is effectively frozen.⁴ The devaluation will produce further losses which, depending on post devaluation monetary policy, might take several years to recover. With an impaired central bank balance sheet and the commitment of the French treasury in doubt, investors will expect that the central bank may in the future attempt to cover losses by raising reserve requirements or an inflation tax. In the interests of promoting a successful devaluation, the Bank may want to encourage the restructuring of the BCEAO if, as appears likely, its net worth is perilously low.

In short, the Bank should support:

- a post-devaluation SAL, given sufficiently prudent macro policies. A sustainable fiscal stance is important, to lessen the incentives for governments to create arrears. The financial sector would benefit by the improved macro environment, even though some of its clients will be hurt;
- an effort to restructure and where possible privatize SOEs. The fiscal scenario should allow for a realistic amount of direct budget support, to be phased out as rapidly as is feasible;
- technical assistance to the central bank and banking commission, if the IMF is not addressing all of the monetary policy and supervisory needs; and
- a study of ways to increase the reflow of flight capital, based on the success observed in Latin America.

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APR 29 2025

WBG ARCHIVES

⁴The BCEAO's tightening of capital controls and encouraging the interest rate downwards at least in part is an attempt to offset its weak balance sheet position.

Chen
12/22

RECOMMENDATION OF STATUTORY COMMITTEE

TO: The President, International Development Association

Recommendation of the Committee under Section 1 (d) of Article V of the Articles of Agreement on the Proposed Third Agreement Amending the Development Credit (Structural Adjustment Credit) to the Republic of Bolivia.

The undersigned Committee constituted under Section 1 (d) of Article V of the Articles of Agreement of International Development Association (the Association) hereby submits its recommendation pursuant to said Section in respect of the proposal that the Association grant to the Republic of Bolivia a supplemental development credit in an amount in various currencies equivalent to six million seven hundred and forty thousand Special Drawing Rights (SDR 6,740,000). The purpose of said supplemental development credit is to provide additional funds to supplement the financial assistance furnished by the Association under the Development Credit Agreement (Structural Adjustment Credit), dated September 20, 1991, between the Republic of Bolivia and the Association.

1. The Committee has carefully studied the merits of the proposal to grant such a supplemental development credit, and of the purposes to which the proceeds of the supplemental development credit are to be applied.
2. The Committee is of the opinion that the project toward the financing of which the proceeds of such supplemental development credit are to be applied continues to come within the purposes of the Association as set forth in Article I of said Articles of Agreement, and the said project is designed to promote the economic development of the Republic of Bolivia, and is of high developmental priority in the light of the needs of the Republic of Bolivia.

(Republic of Bolivia)

(Structural Adjustment Credit)

3. Accordingly, the Committee finds that said project continues to merit financial assistance from the Association, and hereby recommends said project for such additional assistance.

COMMITTEE

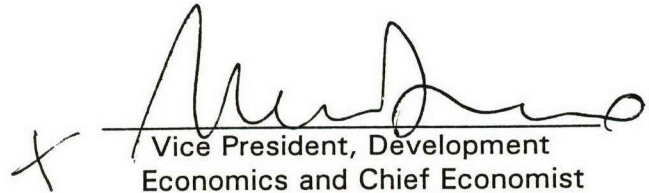
Vice President and General Counsel

Nominee selected by Governor for
the Republic of Bolivia



Regional Vice President
Latin America and the Caribbean

Vice President, Financial Policy
and Risk Management

x 

Vice President, Development
Economics and Chief Economist

Dated at Washington, D. C.

OFFICE MEMORANDUM

DATE: December 22, 1993

TO: Mr. Eric V. Swanson, IECSD

FROM: Michael Bruno, Vice President, DEC

EXTENSION: 33774

SUBJECT: **Re-entry Guarantee**

At the end of your term as chair of the Staff Association, you will have a guaranteed re-entry into the International Economics Department, at your current level.

Best wishes in your new assignment.

cc: R. Voight, C. Cardona, PMDCU; L. Davis, DECVP; M. Ahmed, Y. Calleja, IECDR;
S. Badice, IECSD

EVS:ka

OFFICE MEMORANDUM

Chron Copy
cc. File

FILE

DATE: December 17, 1993

TO: Attila Karaosmanoglu, EXC

FROM: Michael Bruno, DECVF MB

EXTENSION: 82349

SUBJECT: Report on the World Bank Research Program

I am attaching the draft of the 1993 Report on the World Bank Research Program for your review. Board discussion is scheduled for February 3rd and the report will be circulated to Board members once we have responded to your comments.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

December 17, 1993

Guy Pierre Pfeffermann

Guy,

Many thanks for the very illuminating chart.


Michael Bruno

Guy,

Many thanks for
the very illuminating
chart.

Also,

Michael

Mr. M. Bruno

12/14

International Finance Corporation

IFC

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

With the compliments of
Guy Pierre Pfeffermann
Director, Economics Department
& Economic Adviser of the Corporation

You might be amused by this
chart created by Larry Brainard.
The grey area represents the
Maastricht criteria -
Best, Jz

OFFICE MEMORANDUM

DATE: December 16, 1993

TO: Mr. Harold Messenger

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: **Space**

1. One of the first things I learned before officially joining the Bank was that my vice presidency was split between four buildings. It was a five minute walk to my main research department (PRD) in the N-Building, and almost fifteen minutes to EDI in the M-Building. This was incomprehensible to me, and I immediately asked my staff to investigate the possibility of bringing DEC closer together. It did not seem practicable to move EDI closer, because of their specialized space requirements for training. For the rest of DEC, however, since plans had already been made to move my office and RAD from the S-Building to the N-Building as part of the post-reorganization moves, the obvious solution seemed to be to bring IEC also north of Pennsylvania Avenue, rather than have it remain isolated from the rest of DEC in the S-Building.

2. The proposal to move IEC north of Pennsylvania Avenue was discussed with ITF on September 1, at which time two options were put forward for consideration. Since that time, however, because of the many uncertainties associated with the Main Complex occupancy, we have been unable to come to closure with ITF on how to proceed.

3. Two changes within DEC now make IEC's move critical. First, PRD's Trade Policy Division will merge in the next few months with IEC's International Trade Division. Eight positions will transfer from PRD to IEC together with related long- and short-term consultants. Even at its current staffing level, IEC is so tightly packed on the 7th and 8th floors of the S-Building that its new Director is seriously concerned about fire hazards. There is absolutely no question of accommodating the transferred positions and consultants in this space.

4. Second, IEC is working on a restructuring plan that will be implemented in mid-1994. This plan will involve a significant number of intra-IEC moves. There would be considerable efficiency gains if these moves could be combined with the move of IEC to a new location north of Pennsylvania Avenue.

5. The most practicable option is for IEC to move into the 6th and 8th floors of the Q-Building. ITF planning staff have confirmed that this space will accommodate IEC's workforce, but I understand that there is a budget constraint: funding for the 8th floor lease is not included in ITF's FY95 budget.

6. I should note that my proposal to move IEC north of Pennsylvania Avenue may well have the support of Messrs. Serageldin and Choksi, both of whom have departments located in remote locations. If IEC were to move from the S-Building, for example, ESD's Agriculture Department could move out of the N-Building into the

S-Building, consolidating all of ESD in one building, and HRO could move all its OPR staff from the T-Building, also consolidating in one building. These moves would leave the S-Building in a far less crowded position; as it is currently configured the building is tightly packed with very little room for expansion or overflow.

7. I now turn to you for help in resolving this issue. In the meantime, I have asked Mark Baird to follow up with Mr. Wessels.

cc: Messrs/Mss. Serageldin, Choksi, Wessels, Stover, Gore, Ahmed, Calleja, Baird,
Lyttle, Cartwright, Davis

Ext. Oram

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

Facsimile Transmittal Form

FAX No.: 202-477-0549

No. of Pages: 9
(including this page)

PHONE No.: 202-473-3774

DATE: December 21 1993

TO: Mr. Hoda

FAX No.: ~~21553~~ (522 1553)

FROM: Kate Oram
Exec. Asst. to Michael Bruno

SUBJECT: Michael Bruno--C.V.

Mr. Hoda, as requested, herewith Michael Bruno's
curriculum vitae.

Kate Oram
Kate Oram

OFFICE MEMORANDUM

DATE: December 21, 1993

TO: Armeane Choksi

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Summary of the Evaluation of the Trade Liberalization Study

The summaries of the various research evaluation activities were discussed at the December 1st review of the FY92-93 Report on the World Bank's Research Program. In response to comments made at the meeting and for purposes of consistency with the approach used in previous reports, summaries of the individual Comparative Study evaluations will not be included in the final Report. Rather, the existing section which presents the general lessons on process and program management, has been slightly expanded to reflect the diversity of experience across the various individual studies. I attach a copy of the current (draft) for your information.

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cc: M. Michaely, EC4DR; D. Papageorgiou, LA1CO; S. Yusuf, RAD

OFFICE MEMORANDUM

DATE: December 21, 1993
TO: Mr. Lewis T. Preston
FROM: Michael Bruno *MB*
EXTENSION: 33774
SUBJECT: 1995 World Development Report

As you know, the topic of the next World Development Report will be labor. We had a useful and supportive discussion in the Board last week. I have asked Michael Walton to lead the team. In view of the institution-wide implications of the WDR, it is customary for the President to announce the topic and staff director. I attach a draft circular.

cc. Mr. Karaosmanoglu, Mss. Fox, Kalantzopoulos

Staff Announcement

World Development Report 1995

The 1995 World Development Report will be on labor. Issues relating to labor are central to poverty reduction, economic performance and the lives of most people in the developing world. They affect much of the Bank's work. This will be the first WDR to be devoted to synthesizing the various linkages between development strategy and labor. The Report will cover factors influencing the supply of labor, the demand for labor and the functioning of labor markets. It will explore the relationships between international economic relations and labor. Particular attention will be given to the role of education, the position of women and the special situation of economies in transition from socialism.

I am pleased to announce the appointment of Mr. Michael Walton as Staff Director for the 1995 WDR. As in the past, the preparation of the Report will draw upon the expertise of staff throughout the Bank. I am sure I can again count on your fullest cooperation in supporting this important work.

[Lewis T. Preston]

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 S-9-035)

No. of pgs. 3
(including this)

DATE: December 20, 1993

TO: Mr. Karaosmanoglu, Mmes. Fox & Kalantzopoulos

FAX: 76869 75584

FROM: Michael Bruno

FAX: 202/477-0549

TEL.: 202/473-3774

SUBJECT: Attached

=====

OFFICE MEMORANDUM

DATE: December 17, 1993

TO: Attila Karaosmanoglu, EXC

FROM: Michael Bruno, DECVP MB

EXTENSION: 82349

SUBJECT: Report on the World Bank Research Program

I am attaching the draft of the 1993 Report on the World Bank Research Program for your review. Board discussion is scheduled for February 3rd and the report will be circulated to Board members once we have responded to your comments.

Should,

- ① There is a small correction to be made on p. viii of ix
- ② Should the first section be called "Introduction and Overview"?
- ③ I signed the accompanying letter already in anticipation.

MB 12/19

REPORT ON THE WORLD BANK RESEARCH PROGRAM

FISCAL 1992 AND 1993

DECEMBER 1993

INTERIM DRAFT: NOT FOR CITATION



OFFICE MEMORANDUM

DATE: December 17, 1993

TO: Mr. Sven Sandstrom

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Enhancing Women's Contribution to Economic Development

1. We are in support of the broad thrust of this paper. Its emphasis on the developmental payoff from correcting biases against women is probably the right approach for the World Bank. The areas for focus for action are sensible. The principle of "mainstreaming" gender issues in country assistance strategies, with highest effort where biases against women are greatest, makes sense. We have a few comments.

2. The Bank faces a conflict between the principle of equity and the principle of respecting the culture of its clients. Emphasizing developmental reasons for enhancing women's contribution only partly evades this issue. The third part of the paper assumes that governments want to reduce gender disparities, when this may sometimes (often?) not be true. Two additions to the thinking in the paper may be useful:

(a) In the discussion of policy areas, draw a distinction between those actions that mainly benefit women, but are not tied up with biases (for example, maternal health, child nutrition) and areas that require dealing with existing discriminatory action (for example, in the labor market or the provision of services). The latter are likely to be tougher to deal with.

(b) In the treatment of country assistance strategies, add the issue of the assessment of the government's own position, and where alternative actions are likely to face strong resistance. This is analogous to the issue of assessing a government's position on any policy or strategy change, with the added complication of it sometimes being tied up with national culture and deepseated traditions. There should be no presumption that country strategies have to take traditional biases as given, but the pressures and constraints on action need to be considered in formulating the Bank's approach.

3. The paper does a good job in documenting five areas for action (section 3). The judgements are sensible, but there is no sense of the costs and benefits of alternative actions. In preparation for the policy paper it will be important to marshal the evidence on the costs and payoffs for the actions advocated.

4. While we very much support the approach of mainstreaming gender issues, it will put the main burden on the interest and activism of staff and management in country departments. Engendering such interest, without



December 17, 1993

it being considered another add-on to the demands on country departments, could be a challenge. We would support two techniques advocated in the paper: documenting where gender inequities are a serious problem across the five areas as a trigger for a need for position in the country assistance strategy; and incorporating this in some form of review by the center and management. It could also make sense to "mainstream" gender in training, since it is probably the already "gender-aware" that attend "gender-orientated" training.

cc. Messrs. Karaosmanoglu, Stern, Choksi, Amoako, Baird, Mss. Fox, Kalantzopoulos



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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

December 17, 1993

Mr. Uri Dadush

Uri,

Thanks for the news clippings. I am glad that WDT did indeed receive good coverage in the press. It certainly deserved it.



Michael Bruno

cc: Masood Ahmed

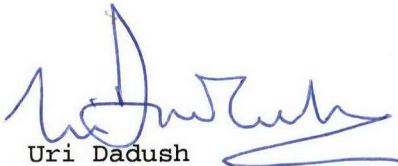
December 16, 1993

Note to: Mr. Bruno

Re: WDT - Press Reports

Michael,

We would like to draw your attention to the attached pieces on WDT. We are gratified to see the good discussion of substantive issues and unusually wide press coverage (even though we had to compete with many breaking stories reported today). We would like to thank you again for your guidance at the Board and the press conference.



Uri Dadush
Acting Director, IEC

Attachment

cc: M. Ahmed (o/r), M. Baird, R. Brigish (o/r), R. Johannes, K. Jun

Britain approves Thorp nuclear reprocessing plant

The UK government gave the go-ahead to the Thorp nuclear reprocessing plant at Sellafield, Cumbria, ending nearly a year of controversy. Environment secretary John Gummer told parliament "there is a sufficient balance of advantage in favour of the operation of Thorp".

The government rejected a public inquiry, but told British Nuclear Fuels, the plant's owner, it would have to report each year on plans for further reductions in radioactive emissions. The decision faces a final threat of judicial review from environmental group Greenpeace. **Page 8**

Surge in US output: The biggest increase in US industrial production for a year has added spice to a vigorous debate about the desirability of an early increase in US interest rates. **Page 3**

Eastman Kodak shares tumbled 11.5 per cent after George Fisher, recently-appointed chairman and chief executive of the US photographic group, warned profits next year would fall far short of expectations. **Page 17; World stocks, Page 32**

China hits at UK over Hong Kong



China appealed directly to Hong Kong residents for support after accusing Britain of destroying co-operation over the colony. Beijing's statement came after governor Chris Patten (left) presented Hong Kong's legislative council with his partial reform bill, aimed at widening the electoral franchise.

China's statement urged Hong Kong residents to support the work of its own committee, set up this year to advise on arrangements for the 1997 end of British sovereignty. **Page 16**

United Airlines appears on the brink of agreeing a deal for its workers to acquire a majority stake in the company. The US airline's board will meet today to consider a proposal, just a month after an earlier buy-out proposal fell apart.

Yeltsin attacks Ukraine: Russian President Boris Yeltsin condemned Ukraine's stalling on nuclear disarmament as "evil" in remarks that may signal a tougher Russian foreign policy after ultra-nationalist election gains. **Page 16**

Czech compensation: Air France and the European Bank for Reconstruction and Development are demanding Czk700m (\$24m) compensation from CSA, the Czech national airline, after claiming they paid too much for large minority holdings in the airline. **Page 17**

Daimler-Benz is planning a 10-city marketing roadshow in the US early next year to promote the planned public offering in New York of 3.2 per cent of the group's stock currently owned by Deutsche Bank. **Page 17; Union deal keeps mini for Germany, Page 17**

Mideast compromise hopes: Palestine Liberation Organisation chairman, Yasser Arafat, appeared to be preparing the way for a compromise with Israel in the deadlock over September's outline peace accord. **Page 3**

French win gene map race: French scientists have won an international race to produce the first comprehensive "map" of the genes in human cells. The "physical map of the human genome" was unveiled by the Centre d'Etude du Polymorphisme Humain. **Page 16**

IBM will not subscribe to next year's FF8.5bn (\$1.44bn) recapitalisation programme for Groupe Bull, the loss-making, state-owned, French computer group. But the two companies said they would continue their industrial alliance. **Page 19**

European car sales falls: New car sales in west Europe fell for the 11th month in a row in November, declining 9.5 per cent, and the outlook remains depressed for next year. **Page 2**

Private capital increase: Private-sector capital is replacing government finance for middle-income developing countries, but the poorest countries have not benefited, says the World Bank. **Page 3**

Malaysia Airlines sell-off: The Malaysian government is selling a 32 per cent stake in national carrier Malaysia Airlines (MAS) in a \$51.79bn (US\$700m) deal. **Page 19**

N'oeu de champagne: The French champagne industry won its legal battle to ban Yves Saint-Laurent, the French fashion house, from using the name Champagne for its latest women's perfume in France. **Page 17**

STOCK MARKET INDICES				STERLING			
FT-SE 100	3,578.8	(+30.4)		New York lunchtime	\$	1.48	
Nikkei	14,888.4	(+148.8)		London:			
FT-SE Europe 100	1,488.4	(+14.8)		DM	1.4888	(1.4888)	
FT-AE Share	17,888.8	(+178.8)		DM	2.50	(2.50)	
Nikkei	17,888.8	(+178.8)		FF	0.0076	(0.0076)	
New York lunchtime	3,728.5	(+37.2)		SP	2.176	(2.1825)	
Dow Jones Ind. Ave.	3,728.5	(+37.2)		Y	182.76	(182.76)	
S&P Comp.	483.44	(+4.8)		Eurodollar	81.5	(81.7)	
US DOLLAR INDEX							
US DOLLAR INDEX	100	(+0.3)					

Gatt chief brings down the gavel on historic market liberalisation World trade deal is clear

By David Dodwell in Geneva and Lionel Barber in Brussels

Delegations from 117 countries yesterday approved by consensus an ambitious world trade liberalisation treaty aimed at slashing tariffs and opening markets.

Seven years of tough negotiations came to a successful finale when Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade declared: "I gavel the Uruguay Round concluded."

Delegates at Geneva's International Conference Centre came to their feet, cheered and applauded. Gatt officials broke open bottles of champagne.

Mr Sutherland brought down the gavel after European Union foreign ministers in Brussels removed the final obstacle by approving the accord. The French national assembly later gave a vote of confidence to

Prime Minister Edouard Balladur, who had dropped French objections to a deal.

In Washington, President Bill Clinton said the agreement was a good one even though the US did not get all it wanted. He would notify Congress before the midnight deadline that he would sign it.

A few hundred bedraggled farmers demonstrated in Paris and Brussels, branding the deal a US plot to cut European farming. In Seoul, police arrested hundreds of students protesting against South Korea's acceptance of rice imports, while in India opposition parties forced suspension of parliament over the "dubious" agreement.

The 550-page trade pact will result in tariffs being cut worldwide by an average of 40 per cent and will bring trade in agriculture, services, and textiles and garments under multilateral discipline for the first time. It also creates a more powerful body, the World Trade Organisation, to replace Gatt.

- How deal was done **Page 4**
- Foreign policy albatross turns into an eagle **Page 6**
- Trade round like this may never be seen again **Page 7**
- Editorial Comment **Page 15**

The agreement will take effect in 1995 after governments have ratified it.

Mr Sutherland said the accord was "a momentous and historic achievement" that would mean "more trade, more investment, more jobs and larger income growth for all".

EU foreign ministers, approving the deal, partly met French demands for strengthened trade defence mechanisms. They also agreed to satisfy Portuguese

insistence on aid to modernise its textiles industry. An Ecu900m (\$1.026bn) package, including Ecu400m drawn from the existing structural funds budget, is to be made available over the next six years.

Amid the euphoria, there was disappointment that the agreement was marred by US reservations on financial services, and irreconcilable US-EU differences over access to Europe's film and TV sectors and over shipping and telecommunications. It is hoped these disagreements can be settled in the next two years.

Many developing countries were also disappointed by the modest market-opening offers from industrial countries.

India, for example, received tariff-cutting offers averaging 18 per cent from the US and 22 per cent from the EU, compared with its own offers averaging 55 per cent.

Japan expressed "deep disap-

■ IRA's opportunity to enter political process ■ Paisley condemns

UK and Ireland launch outline plan for peace

By Philip Stephens, Political Editor, in London

The boldest Anglo-Irish political initiative during 25 years of violence in Northern Ireland was launched yesterday with a plea to the Irish Republican Army to grasp the opportunity for peace.

But praise for the declaration from across the political spectrum was matched by initial "disappointment" from Sinn Féin, the IRA's political wing, and condemnation from hard-line unionists.

In a joint statement establishing the framework for a permanent political settlement, UK prime minister John Major and Mr Albert Reynolds, the Irish prime minister, heralded a historic opportunity for "a new beginning" in the province.

They pledged to accelerate the all-party talks designed to restore devolved government to Northern Ireland province and to intensify co-operation between it and the Irish government.

Mr Major invited Sinn Féin to join the talks process within three months of an end to violence. Speaking at a joint press conference with Mr Reynolds he said the declaration "closes no

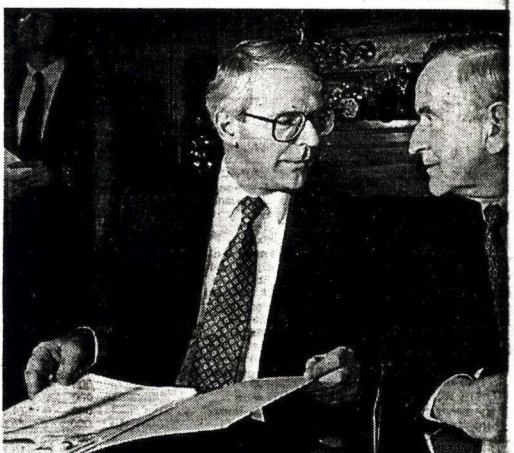
- Full text of the peace declaration **Page 10**
- Troubled history of two islands **Page 10**
- Light in vale of tears **Page 14**
- Editorial Comment **Page 15**

doors except the door to violence and illegality. And crucially it opens the door to those who abandon violence."

Speaking directly to the IRA, Mr Reynolds added: "This offers you an historic opportunity to come into the political process". He said Dublin would establish an all-Ireland forum to which Sinn Féin would be invited after a cessation of terrorism.

Aides of both leaders were privately voicing hopes that the IRA's traditional Christmas ceasefire, due to start within the next few days, could turn into a permanent cessation of violence. But Mr Major and Mr Reynolds admitted that while they hoped for peace, the initiative now lay with the IRA.

The declaration, entrenching the unionist veto over constitutional change in Northern Ireland but balancing it with explicit recognition of the possi-



John Major (left) and Irish prime minister Albert Reynolds sign the historic

bility of a united Ireland, won grudging acquiescence from the Ulster Unionists. Mr James Molyneux, Ulster Unionist leader, asked a series of pointed questions about the statement but refrained from any open criticism. His colleague Mr David Trimble suggested the party was ready for the time being to suspend judgement.

The initiative was praised by Mr John Hume, the leader of the mostly Catholic SDLP. But Ian Paisley, the leader of the hard-line Democratic Unionists, condemned the agreement as a "sell-out" to the IRA and an "act of treachery" by Mr Major.

In its first reaction, a leading member of Sinn Féin said there was general "disappointment" among nationalists. But Mr Mitchell McLaughlin, the party chairman, said it would be studying the joint declaration in depth.

Metallgesellschaft board to grill chief on liquidity gap

By David Waller in Frankfurt

Mr Heinz Schimmelbusch, chief executive at the troubled Metallgesellschaft metals, mining and industrial group, faces increasing pressure from the Frankfurt-based group's supervisory board at a meeting specially convened for tomorrow.

It is understood that the meeting will examine preliminary results of intensive investigations by Deutsche Bank and Dresdner Bank, leading shareholders in the company as well as creditors, into Metallgesellschaft's liquidity. The meeting is also likely to consider management responsibility for what appears to be increasing difficulties

closed, but Frankfurt sources suggest that it may have been as high as DM2bn (\$1.2bn).

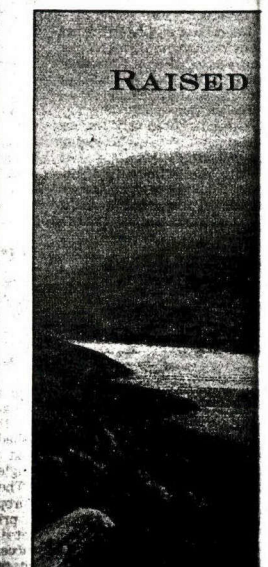
News of the special credit facilities prompted a fall in the share price throughout last week in spite of a public declaration of support for Metallgesellschaft from Mr Hilmar Kopper, Deutsche Bank's chief executive.

The shares, up DM4.9 to DM305.20 yesterday, have fallen by 28 per cent since the beginning of last week and the group is now capitalised at DM2.7bn.

Mr Kopper said on Tuesday last week that Metallgesellschaft's liquidity shortages arose for technical reasons and were not "life-threatening". However, it is understood that since that

him apart from older, more staid German chief executives. Since then, though, the group has suffered badly from an influx of cheap metals from the eastern bloc and the severity of the German recession. In the year to the end of September the group lost DM347m (\$205m) on turnover stagnant at DM25.5bn.

The immediate cause of the group's present plight was said last week to be margin calls - cash pay-outs - on oil futures contracts taken out by MG Corp on the New York Mercantile Exchange, triggered by the sharp fall in oil prices in recent months. Metallgesellschaft has insisted that it was not engaged in speculative futures trading and that



RAISED

NEWS: INTERNATIONAL

debate
nps

More investment from private sector

World Bank sees trend affecting middle-income developing countries but not poor ones, reports
George Graham

Private-sector capital is replacing government finance for the middle-income developing countries, the World Bank says, but the poorest countries have not benefited from this trend.

Both private-sector loans and equity investments in the developing world climbed steeply last year to \$102.1bn (£68.5bn), exceeding for the first time government loans and grants, which fell to \$54.6bn, according to statistics compiled annually by the World Bank in its World Debt Tables, published yesterday.

The Washington-based development bank projects a further increase in private capital flows to \$113.2bn, while official loans and grants are projected to recover to \$63.5bn.

"There has been a remarkable turnaround in private capital flows to the middle-income countries," said Mr Michael Bruno, the World Bank's chief economist.

ALL DEVELOPING COUNTRIES (US\$m unless indicated)										
	1970	1980	1986	1987	1988	1989	1990	1991	1992	1993*
AGGREGATE NET RESOURCE FLOWS AND NET TRANSFERS (LONG-TERM)										
NET RESOURCE FLOWS	11,197	86,730	63,896	67,800	74,047	79,489	102,100	121,131	156,631	176,660
Foreign direct investment (net)	2,268	5,256	10,142	14,534	21,204	24,710	26,340	36,876	47,267	56,283
Portfolio equity flows	0	0	606	761	1,096	3,486	3,774	7,552	13,073	13,197
Grants (excluding technical co-op)	2,076	13,283	16,022	16,691	18,257	19,022	28,458	32,870	34,460	35,5057
LONG-TERM DEBT										
Official creditors	5,150	58,465	39,188	38,226	36,657	31,684	34,133	35,743	41,743	58,489
Private creditors	1,686	36,421	11,251	11,001	14,164	9,566	3,467	5,702	21,632	30,539
Private non-guaranteed	1,702	9,726	-2,062	-2,412	-3,167	587	9,396	8,089	20,077	13,193

* Projected. Source: World Bank

Mr Bruno's enthusiasm is tempered, however, by the much starker prospects for the low-income countries. With the exception of China, which has become the leading recipient among developing countries of private capital resources with a projected total of \$27bn this year, all of the increase in capital flows has gone to middle-income countries.

While excessive flows of capital can create problems for policymakers in developing countries - for example, by pushing up exchange rates - Mr Bruno argues that the importance of private equity investment should make these flows more sustainable than the loans that created the 1970s debt crisis.

Not only are equity investors more likely to remain long-term partners, whereas bond investors might pull out if US long-term interest rates were to rise again, but the principal reason behind the

turnaround in private capital flows has been the economic policy reforms carried out by the developing countries, Mr Bruno argues.

While private-sector lending to the developing world bounced back to \$41.7bn in 1992 and \$43.7bn in 1993 - four times the average annual rate in the previous six years - eq-

Governments are no longer the main source of finance

uity investment has risen even faster over the same period.

Foreign direct investment in the developing world, in which the investor acquires a long-term management interest in a company, climbed steadily from \$10.1bn in 1986 to \$47.3bn in 1992, and was projected by the World Bank to

have risen again to \$56.3bn in 1992.

Portfolio equity investment, in which foreign investors buy shares without seeking management control, also soared from \$600m in 1986 to \$13.1bn in 1992 as new stock markets opened and investment conditions in the developing countries improved. This category of capital flow is expected, however, to flatten out to \$13.2bn in 1993.

Low-income countries, except for China, are in a much worse position. Most, especially those in sub-Saharan Africa, have no access to international capital markets.

Government-to-government financing has also slowed for these countries, although the World Bank notes "a welcome shift toward grant financing", paralleling the shift from lending toward equity investment in the private sector.

For the 29 severely indebted low-income countries, with

outstanding debts of \$204bn among them at the end of 1992, net flows of long-term capital almost dried up to total \$1.7bn in 1992 before recovering slightly to a projected \$2.8bn this year, but grants grew steadily through the late 1980s to reach \$14.9bn in 1992 and \$15.2bn this year.

The difficulty Mr Bruno sees for these poor countries is not so much the cash flow problem of servicing their debts as the overhang of accumulated debt.

"The capitalisation of interest and the accumulation of arrears has outweighed debt forgiveness," he said, calling for renewed efforts by creditor countries to reduce the stock of debt burdening the low income countries.

*World Debt Tables: World Bank Publications, Box 7247-8619, Philadelphia PA 19170-8619, US. Available in UK from Microinfo, PO Box 3, Alton, Hampshire, GU34 2PG.

ation had been more s, with some officials / unconcerned by the of a small rise in ites.

ed's policy-making ket committee meets to discuss monetary

ay's figures showed board strength of 1. The largest gains ar production, up 5.5 But output of busi- pment and construc- ies rose 1.3 per cent er cent respectively. anufacturing output per cent with output e goods up 1.3 per

in industrial output, owed a 0.7 per cent n October, lifted the lustrial capacity util- 83 per cent - a level e economists fear ult in upward pres- ices.

s the highest level of utilisation since 1989, tion was rising, and with a long-term 81.9.

Thursday, December 16, 1993

PRIVATE INVESTMENT GROWS, CHINA AND MEXICO REAP BENEFITS.

Most wire services and many newspapers carried articles on the World Bank's new edition of World Debt Tables. The International Herald Tribune (p.9) reports that, for the first time since the outbreak of the debt crisis in the 1980s, private flows outstripped funding from official sources last year, and further increases were projected for this year. A record amount of private capital -- estimated at \$113 billion this year -- is flowing into developing countries, and China is the leading recipient, with a total private capital inflow estimated at \$27 billion for this year. The Journal of Commerce (p.2A) notes that China, Mexico, Argentina, Malaysia and Thailand accounted for almost 60 percent of all foreign direct investment, the largest single source of external financing for developing countries, in 1992. The Guardian (p.19) states that for middle-income countries in Latin America and East Asia, the 1980s debt crisis may be over, but the world's poorest nations are still getting poorer and African debt is deepening. The debt of all developing countries reached \$1,662 billion at the end of 1992 and over the past decade the debt stock of the poorest, mainly African, nations has tripled. Inter-Press Service reports Michael Bruno (DECVP) says that the main reason for the sharp increase in foreign direct investment flows "has been reform in economic policies." The Associated Press reports that, while developing countries are borrowing at a faster rate, officials predict they will benefit if the new money is well used. "It's not a question of whether a country incurs more debt or not, Bruno said, "but what it does with it." Those countries which make productive investments, particularly in East Asia, he noted, had made substantial reductions in poverty. "The good thing that has taken place is that much more of the money lent is now going into private hands" instead of being lent to governments. He pointed out that in addition to borrowings, more money has been coming to developing countries from abroad in the form of purchases of stock and of whole industries. Reuters states that the driving force for China's huge capital inflows has been the country's remarkable economic growth in the recent past. In Latin America, privatization, economic reforms, debt rescheduling deals and free market policies have become a strong magnet for outside capital which is contributing to its technological development and economic growth. The Bank observes that, defying common wisdom, most of the money for middle-income nations is quickly moving away from the financial sector and into the production sector and, once there, from manufacturing to the service area, the account states. Agence France Presse reports that debt has slowed the results of economic reforms undertaken by most of the 24 poorest and most deeply-indebted countries. Articles were also carried in the Washington Post (p.B16), La Tribune Desfosses (p.6) Les Echos (p.8), Frankfurter Allgemeine (p.15, 16), Die

Development News

Welt (p.13), Dagens Naeringsliv (p.16), (p.16), Aftenposten (p.16), Daily Yomiuri (p.13) and Nihon Keizai Shinbun (p.2).

GATT FACES HEAVY HORSE TRADING TO COMPLETE TARIFF DEAL.

Major U.S. and European newspapers and wire services carry extensive coverage of the GATT agreement. The [London] Times (p.12) reports that the GATT deal is bound to give the world economy a much needed boost at some stage, but the precise mechanisms are still subject to intense disagreement among experts. According to the International Herald Tribune (p.7), not everyone came away happy with the GATT deal. Although the assumption is that there will be more winners than losers as world trade expands over the next decade, developing countries estimated that they could lose up to \$1.5 billion a year. The Wall Street Journal (p.A10) reports that environmental protection in both the United States and abroad may be threatened by the trade agreement. Although environmental groups won several concessions, they are not satisfied their concerns have been met efficiently, and are beginning to voice opposition, the account states. AFP reports that GATT negotiators face a new four-month deadline to turn what was called the greatest trade agreement in history into hard market-opening commitments. The Uruguay Round Final Act, approved in Geneva Wednesday by representatives of 117 countries after seven years of negotiations, is to be signed at a ministerial meeting in Marrakesh, Morocco, in April. By then, the account says, negotiators must determine precisely how much power to invest in a new international trade policing body to be called the World Trade Organization, which will succeed the General Agreement on Tariffs and Trade. They must clarify the WTO's role in such controversial areas as environmental protection, exchange rate stability and exploitation of cheap labor.

PARIS CLUB AGREES REORGANIZATION OF VIET NAM'S DEBT. The Paris Club of Western creditors has agreed on a major reorganization of Viet Nam's foreign debt, the French Economics Ministry said Wednesday, Reuters reports. Viet Nam has a hard-currency debt of \$4.5 billion, most of which it has sought to reschedule. About \$3 billion of the debt is owed by the central government and \$1.5 billion by local governments and state enterprises. AFP reports the Ministry also said that Hanoi's implementation of an economic restructuring program backed by the IMF, and the very low level of Vietnamese per-capita income justified "exceptional treatment." The Club favored a cut up to 50 percent in the country's public debt to "facilitate its economic recovery," the account states. Representatives of the Club, including the United States, have agreed to recommend to their governments "to implement rescheduling options, according to the Reuters story. Le Figaro (p.47) carries an article.

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

DATE: December 17, 1993 12:17pm

TO: Emmanuel Jimenez (EMMANUEL JIMENEZ)

FROM: Michael Bruno, DECVF (MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Re: PRDPH meeting

Manny,

Thanks for your note with the additional information.

I learned a lot in the meeting about the various projects of your division and found it an extremely useful exchange. Hope to make use of it with a follow-up in the future. All the best.

Michael

CC: Lyn Squire

(LYN SQUIRE)

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

Manny,

Thanks for your note with the additional information.

I learnt a lot in the meeting about the various ^{projects} ~~work~~ of your division and found it an extremely useful exchange.

Hope to have made off it with a follow-up in the future

All the best,

Michael

CC: Lyn Givine

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

DATE: December 14, 1993 06:29pm

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Emmanuel Jimenez, PRDPH

(EMMANUEL JIMENEZ)

EXT.: 33481

SUBJECT: PRDPH meeting

Michael,

We wanted to thank you again for the opportunity to present the work program to you. The staff and I particularly appreciated the interest you took, not only in the results, but also in the design of the various research projects, including the all-important but perhaps less glamorous aspects of data collection.

We also heard your concern about the importance of dissemination and keeping research closely in tune with the needs of operations. On this issue, time did not permit us to discuss our activities to transfer sound methods of analysis to our operational colleagues. This "tool-building" capacity is an important but perhaps less visible aspect of the work program. It includes operational support, training courses (we manage popular courses on the economics of poverty and on robust data collection plus participate in many others), and the development of specific tools of analysis for use in operational reports. (Examples of the latter include: the development of POVCAL, a PC-based computer program that task managers use to analyze poverty profiles from published data and developed by Martin Ravallion and his colleagues; our support for a handbook by Angus Deaton on how to use household survey data for policy analysis). We have found that there are often policy payoffs to doing more rigorous analysis -- such as in changing the nature of the policy dialogue in Morocco and Indonesia when analysis showed that poverty was still a rural-based phenomenon, in contrast to official positions that described it as an urban one.

Research thus helps operations in 2 ways: by providing direct support from research staff and by developing better tools of analysis (survey instruments, software packages, etc) so that operations can do a better job by themselves. Given the excess demand for our operational support, we expect that tool development and dissemination will be of growing importance in the future.

Manny.

CC: Lyn Squire

(LYN SQUIRE)



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948		
Document Date 12/10/1993	Document Type Memorandum			
Correspondents / Participants From: Michael Bruno To: Mr. Marc-Antoine Autheman, Executive Director for France				
Subject / Title Adjustment in Africa				
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/IFC/M.I.G.A.

ROUTING SLIP		DATE: December 13, 1993	
NAME		ROOM NO.	
Mr. Homi Kharas		I-7005	
cc: Rainer Steckhan		I-7015	
Mark Baird		S-9055	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	SEE MY EMAIL
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	LET'S DISCUSS
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Brazil			
REMARKS: Homi, Many thanks for sending me a copy of your report on Brazil. I found it very perceptive and informative and extremely well written. It is unfortunate that your diagnosis seems right. Best,  Michael			
FROM: Michael Bruno, VP DEC		ROOM NO.: S9-035	EXTENSION: 33774

8349

ROUTING SLIP		DATE: December 9, 1993	
NAME		ROOM NO.	
1. Mr. Michael Bruno, DECV		S-9035	
2. <i>Mr. Bruno</i>			
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
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RE: Trip to Brazil			
REMARKS: Thought you might be interested in our views on Brazil.			
FROM: Homi Kharas, LA1DR		ROOM: I-7005	EXTENSION: 39757

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OFFICE MEMORANDUM

BR-CEM file

DATE: December 6, 1993

TO: Mr. Rainer Steckhan, Director, LA1

FROM: Homi Kharas, Lead Economist, LA1DR

EXTENSION: 39757

SUBJECT: Trip to Brazil

1. I joined the CEM mission led by Gautam Datta and heard from Messrs. Fritsch, Malan and Bacha inter alia about the proposed reform program. The key elements are: presentation to Congress of a balanced (no domestic borrowing) budget for 1994; constitutional reforms to set fiscal policy on a firmer footing in the medium term; innovations in indexation as a prelude to monetary reform and stabilization; and the reinitiation of a program of privatization and a restructuring of official banks. The CEM mission will provide the details of the package which are still in the process of refinement and publication.

2. The program is based on the assumption that inflation is caused by the growing earmarking of government revenues, a development which has limited the flexibility of fiscal policy and effectively rendered the central government helpless. By increasing taxes and reducing the share of expenditures allocated to States and to the wage bill, flexibility would be increased. By unifying the various inflation indices which are presently used, the groundwork for a nominal anchor to be used in a stabilization would be prepared. These are undoubtedly positive features of the plan. But in most respects, our assessment is that: (i) the proposed actions are unlikely to be passed through Congress; and (ii) even if they were passed, they would not constitute a serious effort to stabilize. Thus, while the plan may represent the best potential outcome given current political constraints, it does not offer significant prospects for a rapid reduction of inflation.

The Politics are wrong

3. One of the difficulties that the current economic team faces is that there is no apparent constituency in favor of stabilization. The Federal government openly pronounces on the fact that inflation is their only mechanism to combat unfinanceable deficits that are imposed by Congress/constitutional requirements. Powerful state and local municipalities have found that with high inflation they can generate significant financial funds for their own particular priorities. They do not seem to be speaking out in favor of stabilization. The big chambers of commerce are protected by the policy of maintaining an undervalued real exchange rate, so they are

not being squeezed and (despite Geoffrey's best efforts) firms do not seem to rate stabilization as a number one priority. Banks of course benefit. The only ones who lose, apparently, are the bottom forty percent, who may not have much influence in current circumstances.

4. To this list, I should add that corruption confuses matters. The population clearly ascribes their economic woes to a significant degree to the issue of corruption rather than to high inflation and an overburdened State. In an environment of heavy corruption, it is difficult to imagine a program giving more resources and greater discretion/flexibility to the Federal government (as is being attempted in the announced package) as one that would command much popular support.

The Economics are wrong

5. There are several technical weaknesses of the program which are of great importance. First, on the fiscal front, there is too little adjustment. Most of the "adjustment" envisaged in the budget serves to bring 1994 closer to 1993 outcomes. If all goes as planned, the projected net reduction in the consolidated fiscal deficit in 1994 is around one percentage point of GDP. This cannot be described as a major fiscal package (although preventing further deterioration is not an insignificant achievement). But what is worse is that the budget does not factor in any of the strains on public finance that could emerge if inflation is successfully reduced: the higher social security and health spending that would be necessary; the restructuring of public financial institutions that would be required (once their collection of seignorage is removed); the reduced profits of the central bank if nominal depreciations slow; and the recessionary consequences that tight fiscal and monetary policies inevitably have during a stabilization episode. If these are factored in, the budget surely would not be balanced at low inflation rates; and thus it is not consistent with a strong stabilization effort.

6. A second weakness of the program is the focus on the level of the deficit without concern for tax structures. The Brazilian tax system is highly distortionary, and the proposed across-the-board surcharge of 5 percent adds to the cascading character of taxes. Before one can claim that public finances have been put on a stable and sustainable basis, a rationalization of the tax structure is necessary. In other countries, structural fiscal reform has been undertaken at the same time as stabilization, particularly when tax increases are not seen as crucial components of the program. Indeed, Brazil is a country where despite high inflation, the tax effort remains good. Consequently, it may be more important for stabilization to have revenue-neutral tax reform (with fiscal improvements focused on expenditure reductions and non-tax revenue efforts) than to have a further round of distortionary tax increases.

7. A third weakness of the program is the absence of a true nominal anchor. Most recent stabilization programs have had either a wage/price freeze (Mexico, Israel), a tight control over nominal money (Peru, Bolivia) or a fixed nominal exchange rate (Argentina, Poland) as an anchor. In Brazil, in the period when "deindexation" (index unification) is being considered, none of these options is really being considered seriously; instead, there is some talk of jawboning the oligopolists to keep price increases modest, of perhaps slowing down the rate of appreciation of the nominal exchange rate, and of perhaps keeping down public sector price increases as leading indicators of slowing inflation. But there are two great advantages of a true nominal anchor that would be lost even if these were implemented; (i) a true anchor helps bring down inflation fast and so builds credibility in the program; and (ii) a true anchor provides an explicit focal point for demonstrating the government's commitment to the program--while the anchor lasts, the program will be successful, while if it is washed away the program surely will fail. This insulates the stabilization effort from other developments in the economy (e.g. a fresh corruption scandal) that could otherwise undermine confidence in the government. Only those things that affect the anchor are important.

8. A fourth weakness is the diagnosis of fiscal reform as a necessary and sufficient condition for stabilization. While we would all agree on the former, I would argue against the latter. In Brazil, inflation is being driven by a loss of confidence in the federal government as an entity which can manage its own affairs; even if the budget were to be truly balanced there would still be a pervasive sense that other contingent liabilities (bank loans; liabilities of various public and quasi-public funds; various types of guarantees; different types of promissory notes like privatization papers) exist and pose a potential future problem. Indeed, in the past, these have been sources of credit expansion, and could be so again in the future. The only way of dealing with this issue is through a prominent program of privatization and deregulation--a redefinition of the role of the state in which the financial responsibilities of the state are sharply delimited so that people can feel confident that public resources are sufficient to meet public responsibilities. Instead of taking this route, the plan in Brazil is to legislate that the government will not be able to borrow domestically to finance its deficit. Such a strategy is unconvincing--the government can find many ways to circumvent the legal obstacles to borrowing (in the African CFA countries they simply resorted to issuing IOU's. In fact, the cross-country evidence suggests that countries with financial covenants on governments such as debt caps, borrowing ceilings or the like do not have more solid public finances than those that do not have such legal restrictions.).

9. There are other elements of the plan which can be criticized on technical grounds: the planned move to daily indexation; the link of the unit of account with the dollar rather than a basket of currencies; the gradual

spread of the unit of account rather than its immediate imposition as in most monetary reforms; and the decision to fully honor now-worthless domestic privatization paper. But these are fixable (and still being debated) in a way that the structural weaknesses listed above are not; so are less significant.

Implications

10. Perhaps the best that can be said about the current package is that (i) it may forestall disaster which was a distinct threat if the old budget proposal for 1994 had been adopted; and (ii) it is unlikely to do much damage, and could even, to a limited degree, maintain the situation on an even keel until the elections. But even these limited objectives may not be met. The shift to daily indexation could be explosive. And as elections near, and anticipation builds of a future price freeze/stabilization attempt by a new government, the likelihood of "defensive" price increases billowing into a full blown hyperinflation cannot be discounted.

11. Both the hyperinflation and muddling through scenarios would suggest a move to low case lending targeted at activities (like poverty reduction and decentralization) which could be successful even in a high inflation environment. Fiscal austerity in 1994 also implies that the Brazilians' promises to protect Bank loans from counterpart fund shortages cannot be given much weight. Disbursement problems will continue unabated. Last, if the situation does worsen, we may find in it a possibility to build consensus around a true stabilization program, and we could perhaps think now of how to exploit this window should it open up.

cc. LA1DMT; G. Datta, F. Iglesias (LA1CO)

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FAX COMMUNICATION

To:	Mr. Lawrence H. Summers The World Bank	Fax no.	202-676 04 39
From:	Prof. Anders Åslund	Fax no.	(46-8) 31 64 22
Date:	December 13, 1993	No. pages	26 (incl .this page)

Message:

Paper to be presented at the Aspen Institute's congressional conference, "Russia, Ukraine and the U.S. Response", Jamaica, January 12-17, 1994.

Economic Developments in Russia

Anders Åslund

Two years have now passed since Russia launched an impressive attempt at a change of its economic system. It is still early to pass a definite verdict, and it is difficult to establish what standard that is appropriate and even what indicators that should be considered central. Much has been accomplished, notably in the sphere of privatization. No less than some 40 percent of the Russian labor force is currently working in the private or non-state sector. Shortages have largely disappeared, and starvation is no longer a threat. The ruble has reached a relatively high degree of convertibility, and its exchange rate has remained relatively stable since June. The average wage measured in US dollars has risen from \$5 a month in December 1991 to \$80 a month in October 1993. The official trade surplus is likely to be \$20 billion in 1993, though this has been achieved through a halving of imports during the year. At the same time, inflation remains far too high, almost 900 percent in 1993 and 2,500 percent in 1992. GNP fell officially by 19 percent in 1992 and is likely to fall by about 11 percent in 1993. Official unemployment remains negligible at one percent, though a few percent of hidden unemployment should be added to this figure. Still, that is rather a sign that little real restructuring has taken place in the Russian economy.

The Russian transformation can be seen in several perspectives. One is the Polish perspective, since the Russian reformers have primarily been inspired by the systemic changes in Poland, which offered a comprehensive

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

ROUTING SLIP		DATE: December 13, 1993	
NAME		ROOM NO.	
Shahid Yusuf		N-9-033	
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RE: Attached			
REMARKS:			
FROM: Michael Bruno, VP DEC		ROOM NO.: S9-035	EXTENSION: 33774

December 12, 1993

To Shahid Yusuf - comments on draft of Research Report

Generally this is a considerable improvement over the previous draft. Could not find the 1991 Board discussion in the file - could I see it?

Question on the References - why are names of authors not mentioned, only acronyms of departments?

p. 37: Footnote 79 is missing and I think 80 is misplaced

The rest of my comments are confined to Part III.

Part III is much better focused. Still needs more minor working. I have put comments or corrections on the enclosed copy.

on pp. 45-46 I have suppressed reference to industry because the point is not really the industrial sector which is too big in the transition economies anyway.

p. 46, line 8 (from bottom): where does anthropological input appear in the actual program?

pp. 48-49: Has this part been updated with Gelb? There is a proposal for a set of selective, comparative synthetic overviews with lessons of reform in important areas, leading to a book or to a future WDR.

I think there is a missing item from the research report, the work of the macroeconomics & growth division (this is a tentative list - check with Easterly):

Continue work on factors underlying long-run growth

Deepen our knowledge of the effect of short-term macroeconomic response to external shocks on long-term growth (e.g., compare the poor response of LAC and AF with the good response of EA and their long-run differential growth results

Need for additional research on the factors underlying the slow growth recovery after major stabilization efforts

When and where does growth by itself also bring about poverty reduction and an improvement in various social indicators

Learn further lessons from the East Asian Miracle study such as the determinants of high savings rates and the extent of transferability of various policy strategies to other regions such as Africa.

Please let Lyn Squire (and possibly Masood and Mike) read the revision and let me read it again at the end. Thanks, Michael

Part III

Research Directions for Fiscal 1994 and Beyond

Research Strategy

The Bank's success in promoting development has rested on providing an enlightened mix of capital, technical knowledge, and policy advice. In an age where information and ideas are seen as increasingly pivotal, how large a contribution the Bank makes in the future will be inextricably linked with its ability to remain at the forefront of thinking on development. This calls for a commitment to sustaining intellectual excellence which matches—if not exceeds—that of the recent past as the demands on the Bank from old and new clients are likely to increase. At the same time, the environment in which the Bank operates may be a more difficult one, competition could be sharper, and expectations as to what the Bank must achieve are bound to be higher. ↩

Under these circumstances the need for quality research which enables the Bank to maintain if not enhance its intellectual leadership, will be more acute. ~~This does not necessarily mean that the Bank must do more research, only that the research done must be carefully targeted and of high standard.~~ ○

Inevitably future research strategy reaffirms many of the priorities of the recent past, but where necessary these have been suitably reoriented in line with changing perceptions of development imperatives. The strategy underlying the research described in this section is defined by four principal and interconnected themes.

In transitioning socialist economies as well as many other developing countries, the state and future performance of the ^{private} ~~industrial~~ sector is a primary determinant of growth. Those factors, which influence industrial efficiency and which maximize the benefits from restructuring, are of special importance. Research on this theme is being designed with two ends in mind: to understand the forces driving industrial change, particularly in economies that are in transition; and to analyze the consequences of actions taken in a number of areas. It will concentrate on the emergence and nature of corporate governance to gauge the effectiveness of various mechanisms to achieving enterprise accountability; on measures being taken to create new instruments for financing ^{enterprise,} ~~industry~~ and regulating financial markets; on actions to enhance labor mobility and absorption which impinge on the social safety net, training, and the flow of information; on fiscal reform that affects the governments' ability to invest in infrastructure and services with

important linkages to ^{the rest of the economy} ~~industry~~; and on the efficient level of government regulation within a market context.

Growth, industrialization, increasing populations, and more intensive use of resources all have environmental consequences. Hence research on environmental issues will continue to complement research which seeks to find ways of accelerating development.

After well over two decades of study the urgency of research on poverty remains unabated. The problem still looms large and only a few of its many facets have been thoroughly examined. Research on ^{Growth} ~~industry~~ and human resource development can suggest ways of raising welfare, but it is only through a close empirical analysis of its dynamics and the effects of government policy that progress in designing effective poverty alleviation programs will be sustained.

The fourth and final theme concerns the international economy. With growing economic interdependence and increased mobility of capital as well as labor this theme intersects with two of the others: ^{Economic} ~~Industrial~~ development is strongly influenced by resource transfers, technology flows, and trading arrangements. Similarly, in a large number of instances environmental policy calls for regional if not worldwide coordination. Thus research on international economic matters remains integral to the Bank's strategy.

Many aspects of development that are being investigated call for a broader, interdisciplinary mix of analytical techniques. For instance, the approaches to privatization in the transitioning economies, the forms of corporate governance that are emerging and their efficacy, the state's capacity to regulate industry in a market environment, the design of rural health care, and approaches to environmentally friendly resource use, all require not just the skillful application of economic concepts but also the selective use of concepts drawn from other social sciences. Only through a juxtaposition of economics and political science can the growth of the private sector in the former socialist countries be adequately analyzed. And many aspects of rural ~~change~~ and urbanization can be more fully apprehended if economics join forces with anthropology. The need, in many instances, to follow an interdisciplinary tack is specially important when it comes to defining policies that must temper the search for economic efficiency with other social or political concerns.

The perception that working several disciplinary angles can be rewarding has definitely deepened among researchers in the Bank. More research proposals are couched in the language of political economy and the Research Committee has encouraged this tendency so long as it meets acceptable standards of rigor. If the findings from such research are commensurate with the high expectations, it will invigorate research in a

number of fields which have been heavily investigated but only with the tools of economics.

These four major themes which reflect the operational concerns of the Bank provide the framework for future research. They straddle a range of subthemes which are distributed across the various program objective categories. In order to conform to chapter II, individual items of research are grouped according to ^{the} program objective category, ~~with the first four conforming to the industrialization theme.~~

Allocation of Research Responsibilities

The main responsibility for implementing the Bank's research strategy will fall on two departments in the Development Economics Vice Presidency (DECVP): the Policy Research Department (PRD) and the International Economics Department (IEC). This is a consequence of the reorganization which sought to lessen the dispersion of research in the Bank. Under the system that has emerged, operational departments will maintain their relatively low key research involvement, the three thematic vice presidencies will actively support operations through best practice dissemination, guidelines, and training, while DECVP shoulders an increasing proportion of the research within the Bank.

DECVP

PRD's research mandate has expanded to encompass sector research in addition to macroeconomic and country research. Three of its six divisions are responsible for sectoral research (Poverty and Human Resources, Finance and Private Sector Development, and Infrastructure, Agriculture, and Environment) and three are responsible for macro-oriented research (Transition Economics, Macroeconomics and Growth, and Public Economics). PRD's future work program reflects significant shifts in research priorities, resulting both from the natural evolution of its activities and from the new mandate of the reorganized department.

About 25 percent of the department's research resources for fiscal 1994 will be devoted to short-term studies, permitting a faster and more flexible response to rapidly changing demands for research-based analytic work. About 30 percent of departmental fiscal 1994 research resources will be devoted to a limited number of major cross-divisional products, with increasing attention to macro-sectoral linkages and varied country approaches and experience. The department will continue to conduct exploratory research on issues that are likely to demand policy attention in the near future.

The International Economics Department's mandate is complementary to PRD's purview on primarily domestic issues. In addition to undertaking research on economic trends and international policy issues, IEC will continue to provide a wide array of data and reports on debt, trade, national accounts, and international financial and commodity markets. The production of its regular data reports and the collection and analysis of new data each will account for about 25 percent of IEC resources, with policy research and information services absorbing about 35 and 15 percent respectively.

IEC has vastly expanded the number of countries on which it reports as the Bank's membership has increased, a task that also has entailed development of methods to adapt reporting from the systems used in countries of the former Soviet Union and Eastern Europe. These methods will be refined and revised to improve accuracy and comparability as further information and analysis becomes available.

To offset the deterioration in quality of primary data from national sources and aggregates provided by international organizations, IEC will initiate a more systematic reporting of data quality notes, expand its data library to substitute for external sources in selected areas, work with national statistical personnel to improve reporting, and increase support of operational staff for country statistical work. And to accommodate an improvement in and expansion of dissemination products, in fiscal 1994 IEC research on commodity markets, global forecasting, the short-term economic outlook, and the informal sector will be reduced.

New Research

Transition of the Formerly Centrally Planned Economies

The record of the policy reforms and experiences of countries in transition is steadily accumulating, and several comparative studies are planned for fiscal 1994–95. These will cover such key areas as the approach to and experience with enterprise reform, financial sector reforms, the macroeconomic implications of stabilization and new currencies, and unemployment and social welfare in the transition. Research will continue on the macroeconomic adjustment and growth of economies in transition and the microeconomic and institutional issues specific to these countries.

A major report on transition in socialist economies will be completed in fiscal 1995. The report will review the macroeconomic, sectoral, and institutional dimensions of the transition experience in Eastern Europe, the countries of the former Soviet Union, and the transition economies of East Asia. A major comparative study is planned on enterprise

behavior and economic reforms in Central and Eastern Europe, also due for completion in fiscal 1995. Another research project will analyze the main directions of agricultural and food policy reforms in some transitional economies in Europe and Russia and synthesize the findings for a comparative view of the effectiveness of various instruments for improving efficiency and inducing agricultural recovery.

Several case studies will explore the changing profile of enterprise governance. Enterprises emerging during the transition period are neither fully socialist nor fully market-oriented; rather they are survival-oriented. Research exploring the adjustment behavior of these unique enterprises in the Russian Federation will be completed in fiscal 1995. A comprehensive study on the current structure of industry in Russia has been initiated. So far the study has found little evidence of aggregate or industry concentration at the national level, which suggests that more than one or two enterprises must be producing many of the needed inputs. The vertical dependency of enterprises is a perception of their directors, and not based on actual market structure.

The impact of reform on households holds important implications for poverty and welfare. A research project expected to be completed in fiscal 1996 is evaluating the impact of stabilization and trade policies and institutional change on the economies in transition, focusing especially on the impact on living standards and household welfare. Research on unemployment and job transitions is using a rich microeconomic database to study labor reallocation in a reforming socialist economy in Eastern Europe that faces rapidly rising unemployment.

Major research on interactions between supply factors and the use and provision of social services will be completed in fiscal 1995. Empirical studies of welfare changes during and after transition will look at the new policies designed to deal with the problems of transition. Analysis of income distribution at the end of communist rule in five Eastern European countries has produced some preliminary findings: income distribution in socialist countries was fairly egalitarian, urban workers were most affected by the economic decline, and social transfers had no redistributive function since they were almost uniform across income groups.

The Bank has been actively involved in the process of transition in the agricultural sector for several transforming socialist economies. A comparative study synthesizing the Bank's experiences is proposed to be undertaken and a workshop held in September 1993 marked the inception of the study. Research will focus on the immediate economic objectives of the transition in socialist agriculture, namely resumption of growth, efficient foreign agricultural trade, and sustainable improvements in rural income.

check with Gelb
49 *Research work on transition economies will, as mentioned, proceed along several themes also leading up to either a WDR on transition (in 1996 or 1997) or separate publications.*

Human Resources Development and Employment

Work on labor markets begun in fiscal 1993 will expand, with emphasis on the effects of labor market interventions and institutions on international competitiveness and the speed of adjustment. A major research project is planned for fiscal 1995 on the impact of labor market policies and institutions on economic performance.

Research on the impact of organized labor and policy interventions in the labor market on the short-term adjustment to economic reforms and long-run economic performance is expected to provide guidance in two policy areas. It will help to assess the appropriateness of the Bank's focus on product market reforms in the 1980s and the extent to which labor markets in developing countries were able to circumvent government interventions during the last two decades.

A cross-national study on enterprise training strategies and productivity will attempt to identify the structural factors and market failures that impede training in developing countries, and provide guidance in designing policies to promote enterprise training appropriate to national circumstances. Industrial countries have already recognized the importance of enterprise training to productivity and international competitiveness, and research in this area is making headway.

As a followup to earlier research on the determinants of health and nutritional outcomes in Indonesia, the East Asia and Pacific region is conducting the Indonesian Resource Mobilization Study (IRMS) to measure the impact of higher user fees on the utilization of primary health services. The IRMS will use longitudinal panel data from surveys of the same households before and after intervention periods to measure the impact of experimental changes in price and quality on medical care utilization and health outcomes. Important goals of World Bank programs, such as the improvement of health status and the alleviation of poverty, are addressed by this study.

Ongoing research on private sector involvement in providing health and education services finds that government health programs in developing countries are neither equitable nor efficient and reflect the current political equilibrium, which cannot easily be changed. The study, to be completed in fiscal 1996, has also found great variations across countries in the proportion of secondary student enrollment in private schools and attributed the variation primarily to cultural heterogeneity, especially religious heterogeneity. Limited public spending on secondary education also leads to proportionately higher enrollment in private schools.

Much as the *World Development Report 1994* will situate the role of infrastructure in the overall development process and help advance the debate on policy, the *World Development Report 1995* will draw the many strands of research on labor markets and

was a 'flashing' report not planned for 'private sector development'?

human resources to analyze the patterns of employment, examine possible strategies, and identify some of the most critical issues which will engage researchers in the future.

Private Sector Development and Public Sector Management

New research will be initiated in fiscal 1995 on challenges for the regulation of industrial and infrastructure enterprises after privatization.

Research on the cost of business regulation is intended to identify which regulatory constraints are binding in a particular setting and to measure their costs to private firms and the economy. One expected output is guidelines for operational staff to diagnose the most burdensome formal rules and to measure their economic costs.

There is increasing concern that distribution systems in industrializing countries do not operate in a competitive manner and impede access to larger domestic and foreign markets. Research will examine the importance of imperfect competition in distribution systems, the fundamental causes of market failure in various channels, and suggest policy recommendations.

Research on private enterprise development in Africa will focus primarily on an empirical investigation based on enterprise surveys, and in-depth analyses of the effect of government policies and supply-side constraints on the performance of African firms.

Financial Intermediation

The Finance and Private Sector Development Division, Policy Research Department (PRDFP) will continue its research on the effect of the development of banking on economic growth and study the links between stock market development, corporate financing decisions, and economic development. This research will also assemble data on nonmonetary financial institutions such as insurance companies, investment companies, pension funds, and development banks. New research is also planned on supervision and regulation of the financial system. Research on term finance will examine the problem of long-term finance and design policies to increase access to long-term capital.

An IFC pilot study on relationships between the stock exchange and development in the Republic of Korea will eventually be extended to other countries. Research will also be conducted on how firms in developing countries finance investment. Two ongoing research projects on the market structure and outcome for Mexican stock exchange and enterprise transformation in Poland will be continued in fiscal 1994 and fiscal 1995.

Another research project is studying the role of payments systems in financial sector reform in developing and formerly socialist countries. This research is expected to

provide policy lessons and a basic set of principles on improving payments systems, which will be synthesized in a book. A conference planned for fiscal 1994 will launch studies on key payments system issues and the role of the private sector and the central bank.

Poverty, Distribution, and Social Welfare

New sectoral research will focus heavily on the determinants of poverty and the environmental consequences of economic reform. Based on that research, the Poverty and Human Resources Division, Policy Research Department (PRDPH) plans to produce a Policy Research Report on the social and environmental consequences of economic reform. PRDPH will also design prospective studies to evaluate the impact of Bank social sector investments such as social safety net programs, decentralization of public school funding, and health and nutrition programs.

Research will also concentrate on explicating the links between policy and poverty reduction. An ongoing research project is studying the impact of price liberalization in rural areas of China; another is exploring the impact of macroeconomic and sectoral policies on consumption in India during 1951–90. Research on the causes and consequences of the productivity improvement of women will examine the sustainability of three major credit programs in Bangladesh and the effect of these programs on households.

Research on dynamics of poverty in rural China will focus on construction of a panel data set from rural household survey data collected by China's State Statistical Bureau over six years. These data will then be analyzed to improve understanding of the factors contributing to poverty and its alleviation over time and to evaluate existing arrangements for poverty relief and prevention.

Environment and Natural Resources

Research on environmental and social aspects of adjustment will assess the effects of alternative patterns of economic growth and of macroeconomic, trade, and fiscal adjustment policies on social progress and on the environment. Specific sectoral policies to deal with adverse environmental and poverty outcomes will also be studied.

The Global Environment Facility (GEF) of the Environment Division is responsible for several research projects to be completed in fiscal 1994. These include designing trust funds for conservation, lessons from GEF experience to date, the strategic significance of the Bank GEF biodiversity portfolio and global warming portfolio, and an operational definition of incremental costs under the Montreal Protocol.

Previous research on agricultural productivity clearly underlined the importance of securing a better understanding of agricultural technology policies. A new study will focus on investments in national agricultural research systems, efficiency of resource use, and institutional mechanisms for research to assess organizations that service the knowledge industries on which agriculture depends.

The Bank is intensifying its dialogue on land issues in the Latin America and the Caribbean region and will consider further reforms of rural land markets. This requires a clear understanding of the potential benefits and limitations of operations that aim to provide greater security of tenure. One project will examine land tenure insecurity and other institutional restrictions affecting small farm productivity in Honduras and Paraguay. The empirical estimates of this research will permit evaluation of the efficiency and desirability of investing in land titling projects.

Another agricultural project will investigate the economic justification for government restrictions on the use of land in the fringe of urban areas. The project will concentrate on Indonesia and Bangladesh, two countries with high population densities that are experiencing significant land conversion from rural to urban uses. The project will build on existing ~~reasonable general equilibrium~~ models of the two countries to make predictions about total urban land use under different scenarios of infrastructure provision, and land use and development policies.

A major multidepartment study will explore the production prospects for cotton during the next decade, a product with a vital multisectoral role in the economies of many developing countries. Case studies carried out in nine countries will form the foundation for examining a series of technological, economic, policy, and institutional issues. A synthesis report will be discussed at a workshop in Cairo in September and October 1994.

An important externally funded research project managed by the Cofinancing Financial Advisory Services Department will study the private financing of power sector investments in a range of countries with different regulatory environments and varying degrees of country risk and access to international capital markets. It will also examine utilities' access to private financing and other approaches for meeting capacity requirements through the involvement of the private sector.

Adjustment, Trade, Capital Flows, and Debt

The surge of portfolio flows to several middle-income countries in recent years shifts the focus of study of international capital markets from the management of the commercial bank debt crisis to the study of other private capital flows to countries regaining access to market. What is different and what is similar to the experience leading

to the debt crisis are the two key questions that IEC is beginning to explore. Potentially important differences relate to nonbank investors, mostly private recipients, and the increasing importance of equity investment. Whether these differences are highly relevant in the macroeconomic aggregate and, if so, what is the optimal external finance mix and the policy to achieve it, are questions with important policy ramifications. Nevertheless, past experiences can also shed light on the current issues. The surge of new flows also has similarities with the period leading to the debt crisis in that they are stimulated by low international interest rates, are susceptible to changes in foreign exchange rates, and suggest substantial country risk in the case of several debtors. These factors need to be explored to avoid the repetition of the crisis of the 1980s.

Substantive work on foreign direct investment (FDI) in the last two decades failed to yield substantial empirical evidence on the benefits of FDI. To fill this gap, a study will analyze the relationships of FDI with technology spillovers and pollution intensity and examine the general determinants of FDI in manufacturing, with a focus on developing countries.

The 1994 Global Economic Prospects (GEP) report will focus on the economic links in primary commodity markets between developing countries and the international economy. The research will cover the world food outlook, prospects for agricultural exports from Sub-Saharan Africa, commodity risk management, liberalization of agricultural trade, and trends in commodity terms of trade, including macroeconomic linkages. Trade in services will receive special emphasis in the 1995 GEP report.

Building on the results of a pilot study of German and Swiss machinery exports to Brazil, a research project beginning in fiscal 1994 will look at the effects of price and creditworthiness and trade policies of developing countries on the economic efficiency of their purchase of imported equipment and their domestic machinery industries. The study will include a larger sample of both exporting industrial countries and importing developing countries.

Factors contributing to the resurgence of protection following initiation of trade liberalization are being examined in research on trade liberalization programs in ten developing countries. The study is expected to culminate in the development of safeguards to liberalization strategies for developing countries.

A series of studies are examining problems of the GATT system that hold particular significance for developing countries. One study found that while GATT as an institution has been important, GATT's influence on regional arrangements has been marginal since GATT rules have not been rigorously applied. Other studies are reviewing actions that restrict imports, such as antidumping. Preliminary findings show that the

possibly add ^{and future} ongoing research on intra- and inter-regional trade and trade flows, possibly leading to a future work (196 N 97) on that topic.

recent broadening of GATT rules to include these measures neither strengthens GATT's disciplinary power nor increases the effectiveness of its dispute settlement mechanism.

Economic Management

The focus of public economics work has shifted from tax research to public expenditures and fiscal decentralization. New research initiatives on fiscal decentralization will include development of a methodology to measure the fiscal equalization among subnational governments; research on the design and assignment of revenue instruments, expenditure responsibilities, and intergovernmental transfers; and an empirical study of the link between decentralization and fiscal performance.

Future research on China will try to establish, qualitatively as well as quantitatively, whether administrative and fiscal decentralization has promoted rapid growth and will also indicate how fiscal decentralization has to evolve in the future if China is to maintain macrostability under conditions of rapid growth. The lessons distilled from the Chinese experience should have a bearing on policy formulation in other countries that are tackling issues arising from decentralization.

A major report on fiscal decentralization and major research on public expenditure allocation are scheduled for completion in fiscal 1995. The Public Economics Division, Policy Research Department (PRDPE) will set up a Public Expenditure Analysis and Data Unit in the coming year to collaborate with and provide technical support to governments in collecting data for public expenditure analysis.

Research examining the link between the composition of public expenditure and economic growth is expected to be completed in fiscal 1995. Building on preliminary results, this study seeks to identify the factors that make certain types of public expenditure productive and others nonproductive. The goal is to develop indicators for guiding decisionmaking about which components of public expenditure to expand or cut in a program of fiscal adjustment. Ongoing research by PRDPE is expected to yield methodological advances in the next few years for assessing the performance of public spending programs and offering new insights on the effectiveness of public expenditure policies in poverty alleviation.

More countries seem willing to consider user charges to finance public services, both to reduce deficits and to avoid undesirable effects such as pollution and congestion. A research project will price externalities from road use, such as congestion, accidents, and noise pollution.

The African economic indicators will be updated for a second time to present time-series data for 1982-92 and annual averages for three different periods. The expanded

series will help place the last decade in a historical perspective and broaden access to information on Africa. Research has also been launched on indigenous institutions and management practices to illuminate the dynamics of indigenous institutional change and provide lessons for Africa's management in the 1990s.

The complexity of the interactions between the determinants of economic success has limited the ability of economists to accurately project basic macroeconomic variables beyond the short term. But economic policy must be based on some estimates of future conditions—for example, wages, tax revenues, international interest rates, exchange rates of major trading partners, and prices of investments and goods. The International Economics Department has used the Global Economic Model (GEM) to forecast trends in these variables in preparing its periodic Short-Term Outlook and *Global Economic Prospects* papers. This model generates macroeconomic projections for all the Bank's member countries. By integrating the countries of the former Soviet Union and Eastern Europe in the model, the IEC will substantially increase the reliability of its results although this will delay the completion of the model. A broad assessment of the Bank's analytic models was undertaken to see how fully these countries should be incorporated in the model and in what sequence. Also, the Bank's larger models and databases are being revised to make them comparable across countries and accessible through standard personal computers and easily transferable software. The goal is to provide country analysts inside and outside the Bank direct access to data for most of the 140 countries in the analytical database.

OFFICE MEMORANDUM

bcc: Greg Ingram ✓

DATE: December 10, 1993

TO: Mr. Sven Sandstrom

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Agenda Suggestions: Infrastructure Sector Review Discussion

1. This paper is broadly consistent with the initial thinking of the infrastructure WDR. I have the following suggestions for agenda items.

- a. A major recommendation running through the Review is that cost recovery must be improved. This means raising prices for many publicly provided infrastructure services, which are typically under priced. While only a small part of current subsidies go to the poor, raising service prices has the potential for harming the poor. Should this issue be confronted directly in the Review?
- b. The Review focuses on recommendations that are fairly general because they have been designed to be cross sectoral in nature. At the same time, the great degree of heterogeneity of sectors is rightly emphasized. (The list in paragraph 1 of the sectors covered in the Review excludes power, but many examples are drawn from the power sector; sectoral coverage should be clarified.) The recommendations would be more specific and useful if they reflected more of the sectoral differences, perhaps by being tailored to services that are directly priced to users (telephones, water) versus those that are indirectly financed (roads, irrigation).
- c. The Review properly stresses the importance of improving the delivery of infrastructure services, but it says little about the evaluation of investment projects beyond improving the quality of demand forecasts. There are significant problems in evaluating large projects in infrastructure in terms of their effects on the rest of the economy, their inherent risk, and the difficulties involved in measuring and evaluating secondary or indirect benefits. Surely some of our problems in infrastructure stem from these factors. Should they be discussed in this document?

2. While I do not see significant differences with the WDR at this point, the Committee may like to discuss the appropriate sequencing of finalization of the sector review, the WDR and, if desirable, a future policy paper.

cc. Messrs. Karaosmanoglu, Serageldin; Mss. Fox, Kalantzopoulos

Fax Copies To

✓ Sven

✓ Attila | 76869

✓ Orsolia

✓ Louise | 75584

✓ Serageldin 33112

bcc: Greg

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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OFFICE OF THE VICE PRESIDENT DEVELOPMENT ECONOMICS
AND CHIEF ECONOMIST (Rm S-9-035)

No. of pgs. ²
(including this)

DATE: DECEMBER 10, 1993

TO: MESSRS. KARAOSMANOGLU, SANDSTROM, SERAGELDIN

Mmes. FOX, KALANTZOPOULOS
FAX: 76869 -- 75584

FROM: MICHAEL BRUNO

FAX: 202/477-0549

TEL.: 202/473-3774

SUBJECT: Attached.

T 9:30

Kate -
this at fax this am



Record Removal Notice



File Title Michael Bruno - Internal Chronological Records - Correspondence October - December 1993		Barcode No. 30321948		
Document Date December 7, 1993	Document Type Memorandum			
Correspondents / Participants To: Mr. Jean-Pierre Le Boudier, EDS13 From: Michael Bruno				
Subject / Title Your comments at the Board Seminar				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by K. Brenner-Delp</td><td>Date June 25, 2025</td></tr></table>	Withdrawn by K. Brenner-Delp	Date June 25, 2025
Withdrawn by K. Brenner-Delp	Date June 25, 2025			

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

December 7, 1993

Stephen P. Heyneman

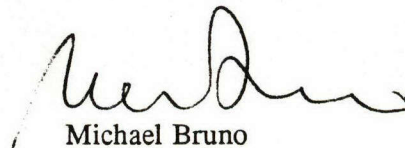
Stephen,

Many thanks for your paper. I found the figure on page 15 indeed fascinating.

As to the reference to my figure - I believe the text on page 18 should be changed. The Czech Republic and Hungary are somewhere between D and E (and not C or B, as you say). Poland, which you omit to mention, must be even higher, with positive growth. Ukraine must be between B and C, but with negative growth, while Slovakia is probably around C (on the way to D?).

All of this makes no difference as far as your point about education is concerned, but if you do bring in my figure the above seems to fit the data better.

Thanks again.



Michael Bruno

paper sent to M. Jimenez

OFFICE MEMORANDUM

cc: Kak
Chron ✓
12/15
3.30

DATE: December 7, 1993

TO: Mr. Ernest Stern

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Guyana - Proposed Private Sector Development Adjustment Credit

1. I propose the following items for the agenda.
2. The quality and quantity of public investment has been an important issue in the past, and public investment is projected to remain important. While the dilapidated condition of infrastructure requires substantial resource flows, it is not clear how the Bank would be able to maintain an adequate handle on the public expenditure program as the Structural Adjustment Credit is completed? Proposed conditionality in the PSDAC IM refers to maintaining a minimum allocation of the PIP to the social sectors, which is certainly appropriate insofar as it goes. But should conditionality also extend to appropriate allocations in terms of quality and quantity of the PIP for infrastructure and related areas pertinent to private sector development?
2. The legal structure and commercial code are not discussed in the IM. However, other documents including the last CEM reference antiquated laws and other problems. This raises the question of whether the Region is fully satisfied with the legal framework, or whether additional work is required.
3. The proposed tranche release conditions are uneven. Only 6 conditions are proposed for third tranche release, of which only 4 are substantive. Of the 4, only 2 are well specified at this time: presentation of Bank of Guyana Act to Parliament, and bringing the Guyana National Cooperative Bank to the point of sale or liquidating it. The remaining 2, including further tariff reform and continuation of privatization, require further specification. Should there not be additional conditionality for the third tranche, perhaps pertaining to the public investment program and the legal framework?

cc: Mr. Sandstrom

OFFICE MEMORANDUM

DATE: December 6, 1993

TO: Mr. Michael Bruno

THROUGH: Mark Baird 

FROM: Michael Lav *M.L.*

EXTENSION: 35092

SUBJECT: Guyana: Proposed Private Sector Development Adjustment Credit

1. The Loan Committee will meet on Wednesday, December 15, at 3:30 p.m., in E-1209, to discuss the Initiating Memorandum.
2. With a formidable development agenda, Guyana has the second lowest per capita income (\$320) in LAC and a very high per capita public debt burden (\$2260). However, considerable progress has been achieved during the last few years, supported by a Structural Adjustment Credit and an ESAF arrangement; exchange and price controls have been lifted, interest rates freed, and tariffs lowered.
3. However, much remains to be done. The program which would be supported by the Private Sector Development Adjustment Credit (PSDAC) would implement important further improvements in a coordinated way with IDB and IMF programs. Important among these would be the privatization of productive and financial sector assets, tax reform and trade reform.
4. Investment remains high, at 35% of GDI, and public investment is also high at about 12% of GDP. While the dilapidated condition of infrastructure requires substantial resource flows, it is not clear how the Bank would be able to maintain an adequate handle on the public expenditure program as the Structural Adjustment Credit is completed? Proposed conditionality in the PSDAC IM refers to maintaining a minimum allocation of the PIP to the social sectors, which is certainly appropriate insofar as it goes. But conditionality should also extend to appropriate allocations in terms of quality and quantity of the PIP for infrastructure and related areas pertinent to private sector development. As a second matter, it is not clear how or why private investment could be so high, as only 25% of industrial assets are now in the private sector. This, however, may be more a matter of national accounting than substance for the Loan Committee discussion.
5. The legal structure and commercial code are not discussed in the IM. However, other documents including the last CEM reference antiquated laws and other problems. The raises the question of whether the Region is fully satisfied with the legal framework, or whether additional work is required.

6. The proposed tranche release conditions are uneven. Only 6 conditions are proposed for third tranche release, of which only 4 are substantive. Of the 4, only 2 are well specified at this time: presentation of Bank of Guyana Act to Parliament, and bringing the Guyana National Cooperative Bank to the point of sale or liquidating it. The remaining 2, including further tariff reform and continuation of privatization, require further specification. Partly in view of the comments in paragraph 4 and 5 above, should there not be additional conditionality for the third tranche?

OFFICE MEMORANDUM

DATE: November 30, 1993

TO: Mr. Ernest Stern, Chairman, Loan Committee

FROM: S. Shahid Husain *SH*

EXTENSION: 39001

SUBJECT: GUYANA - Proposed Private Sector Development Adjustment Credit
Initiating Memorandum93 NOV 31 PM 2:18
RECEIVED
DEVELOPMENT ECONOMICS
DEPARTMENT

1. Attached for your consideration is the Initiating Memorandum (IM) for the proposed Private Sector Development Adjustment Credit (PSDAC) to Guyana. The IM reflects comments from the Regional Loan Committee which met on November 16, 1993. The operation is in line with the Country Assistance Strategy (CAS) scheduled for Board discussions on December 21, 1993.
2. The proposed PSDAC is designed as a three tranche operation to support Guyana's broad reform effort over the next three years or so. The objectives of the proposed credit are to: (a) substantially reduce the role of the state in commercial activities; (b) complete a comprehensive reform of the financial sector through restructuring and privatization of state banks and introduction of new banking laws; (c) improve the incentive framework for private business; and (d) strengthen the fiscal position of the public sector.
3. The operation would be closely coordinated with parallel operations of the IMF and the IDB, through agreement on a detailed financing plan on a rolling basis, throughout the operation. The IMF is currently reviewing a successor to its ESAF facility (either through a one-year extension or a three-year new facility). Amounts have not yet been decided but are currently scheduled at about US\$12 million per year. The IDB is preparing a Financial Sector Loan (US\$35 million) in close coordination with the proposed PSDAC. A proposed technical assistance credit would be supporting the necessary build-up in capacity needed to implement the program.
4. The new Government which took office a year ago, has been slow in elaborating its development strategy and has yet to demonstrate a "track record" on private sector development and privatization. The past year has been mostly spent in building internal consensus on the future role of the state and in crisis management. Nonetheless, through intensive sector work and project preparation, key initial steps have been taken. In particular, a privatization board has been established; a lead private sector representative is being appointed to facilitate private sector investments in the country; and the financial sector is being opened to new entrants. The macroeconomic framework remains sound. The Government's macro economic performance was commended during the IMF Board's ESAF review on October 4, 1993. However, the slow pace of the privatization program remains a concern, and a recent Article IV IMF

OFFICE MEMORANDUM

DATE: December 3, 1993

TO: Mr. Lewis T. Preston, President

THROUGH: Michael Bruno, DECVP *mb*

FROM: Amnon Golan, Director, EDI *AG*

EXT.: 36300

SUBJECT: **McNamara Fellowships Program: Revised Proposal**

Please find attached for your signature a proposal for the restructuring of the Robert S. McNamara Fellowships Program. The Program Secretariat originally submitted a proposal to phase out the program which has since been amended at the request of a number of EDs.

Attachment

cc: Mr. A. Golan, EDIDR, Mr. A. Van Nimmen, Ms. B. Juntunen, EDIHR

December 3, 1993

LEWIS T. PRESTON
President

**Robert S. McNamara Fellowships Program
Revised Proposal**

Background to the Current Proposal

1. A memorandum from the President proposing that the Robert S. McNamara Fellowships Program be phased out over a period of five to ten years was submitted to the Board of Executive Directors on May 27, 1993 (R93-106). As explained in the memorandum, the rationale for the proposal to phase out the Program was that, with declining interest rates, the investment income generated by the US\$2.8 million endowment had become so small in real terms that only an insignificant number of Fellowships could be awarded each year. The proposal was submitted for approval on a 'no-objection' basis by June 10, 1993. At the request of one of the EDs the no-objection deadline was extended to July 9 (R93-106/1). In order to allow further consultation the period for notifying objection was further extended to December 31, 1993 (R93-106/2). Consultations took place during an informal meeting of interested EDs and the Program Secretariat on July 23, and it was clear that those present did not wish the McNamara Fellowships Program to be phased out. Several alternative suggestions were made which would permit the Program to survive on a significant scale and it was agreed that the Secretariat would submit a new proposal for endorsement by the Board of Executive Directors. A revised proposal was submitted on October 4, and this paper incorporates suggestions made by those EDs who responded to the request for comments.

Current Financial Status

2. Funding for the Program is provided by the investment income from a US\$2.8 million endowment contributed by Bangladesh, China, Kuwait, India, Nigeria, Pakistan, Peru and Yugoslavia, and the World Bank. In recent years, falling interest rates have meant a reduction in the funds available for Fellowships. With present interest rates at around 3.3%, income is now no more than US\$100,000 per year, enough for a maximum of three Fellowships at current standard award amounts. The Program is granted an annual administrative budget which, for FY94, is US\$182,000 (inclusive of salaries and benefits for one Higher-level and one Support-level staff). It is clear that as it currently functions the Program is no longer viable.

Proposed Changes in Program Structure

3. One of the reasons why Fellowships cost so much under the present system is that Fellows are required to spend their research year in a World Bank country other than their own. Budget proposals may range between the standard US\$25,000, in which case no itemizing is required, or other amounts, up to a maximum of US\$40,000, in which case the budget must be broken down into categories for travel, subsistence and research expenses. An examination of budget proposals submitted over the past three years showed that on average 84% of the award is taken up with travel and subsistence. Two options to rectify this situation are therefore proposed.

a) Under the first option Fellows would be required to do their research in their country of residence, which would be the home country for the majority of applicants, but which could include scholars temporarily residing in a second country. It would further require that the research be carried out in a developing country at an institution with which the Fellow is already affiliated. This would eliminate travel and subsistence costs. Lump sum awards would therefore cover research costs only, but in no case would this sum exceed \$7,500, which

is the average amount Fellows currently spend on research. With an annual investment income of approximately \$100,000 per annum, the minimum number of Fellowships that could be awarded under this option would therefore be thirteen.

b) Under the second option Fellows would be permitted to apply to do research in a World Bank country other than their own, as is currently the practice. There would, however, be one restriction: this research could be carried out in a developing country only, where an appropriate research institution exists. In this option the award would cover basic research costs, plus up to an additional \$7500 to assist with travel and subsistence costs; it would then be the responsibility of the Fellow to find further sources of funding for travel and subsistence. The maximum award would be \$15,000, and the number of Fellowships that could be awarded would be six.

The first option has the advantages of encouraging indigenous research institutions which have minimal funding, as well as allowing the Fellow to work in familiar surroundings, and continuing to earn a salary. By specifying that the research must be carried out in a developing country the Program would inevitably award Fellowships to Part II country nationals only. By contrast, there are several disadvantages to the second option. Nationals from developing countries would encounter considerable difficulty in finding additional funding. Requiring Fellows to have combined funding could also prove difficult for visa and tax issues, and could lead to delays in the commencement of Fellowships.

The main change to the Program would therefore be that it would become a Program of developing country research, with smaller Fellowship amounts and larger numbers of Fellows. The Program's administration would also be streamlined by reducing the number of applicants. By making these changes the McNamara Fellowships Program will be able to continue providing young researchers with an opportunity to make an effective contribution to economic development in the future.

Recommendation

The Management recommends adoption of the first option described in Paragraph 3(a).

OFFICE MEMORANDUM

DATE: December 2, 1993

TO: Mr. Timothy Thahane

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: WDR 1995

I attach a background note on the choice of the WDR for 1995 and beyond, for distribution to the Executive Directors. This is scheduled to be discussed at the Board seminar on December 13th.

cc: Mr. A. Karaosmanoglu
Miles. Fox, Kalantzopoulos

Attachment/-

1995 World Development Report

The 1995 World Development Report will be on Labor and Development. This has been decided after an extensive process of consultation with staff, management and the executive directors. This process revealed a strong interest in a set of areas related to education, gender and employment, and their links with economy-wide policy. After reviewing alternative ways of structuring a WDR, it was decided that the best organizing principle would be one of labor in development. This note gives the background to this decision, summarizing the alternatives examined for 1995 and future years, and outlines the motivation for a labor WDR. A list of past WDRs is attached.

Alternative WDR choices

A range of topics were suggested for the 1995 WDR. They fall into three categories.

First, some topics are premature. *Transition* is a very good topic, but it will gain from another year's delay, since most transition economies are too early in the process of restructuring to draw robust conclusions. Two others, *social participation* and *the legal and institutional basis for development*, might make sense in a few years time, but in neither do we have the core in research or cross-country experience that a WDR requires. For the next ABCDE conference, institutions in development will be one theme; this will help in deciding whether to expand research in this field.

Second, some topics have interest, but are not appropriate for a WDR. *Water* is interesting, but narrow. *Reform* is insufficiently focused to have edge. *Technology and the role of ideas* in development is an interesting area for study, but is unlikely to be sufficiently policy-focused. *Aid effectiveness* is a central concern of the World Bank: it is being approached for our own operations via the range of initiatives on portfolio performance; for the broader set of issues we are undertaking a review of the literature on the topic, after which we will decide on what kind of analytical work could make sense.

Third, as noted above, three areas, *education*, *gender* and *employment* appear to be both conducive to a WDR type synthesis and to be highly relevant. Education is of central importance to the Bank's work, but there is insufficient in the way of new issues and policy conclusions to justify a whole WDR. Gender is also of great interest, but it is judged that the Bank can best approach issues in this area through directly linking it to areas at the core of our work on the development process. The organizing principle of labor in development can cover both of these areas within a framework that also incorporates the determinants of labor demanding growth and the functioning of labor markets.

For WDRs in 1996 and beyond, *transition* will be a candidate. Research on various aspects of the transition process is being organized so that the building blocks for a WDR would be put in place. This research is of high priority in any case, and should a WDR not be undertaken in this area, other means of dissemination and discussion will be found. A second, topic, that could follow and complement a WDR that focused on transition

economies is a WDR on the set of developmental problems faced by *low income countries*. An third area of potential interest is *trade in goods and services*, covering issues relating to regional trade groupings, the consequences of multilateral trade liberalization, the expansion of trade in services and international migration.

Key issues for a labor WDR

There are powerful linkages between labor and development. Both supply and demand are crucial to outcomes. Provision of skills is one of the main routes of escape from poverty for households, and increases the capacity of economies to grow, compete, acquire new technologies and adapt, in a rapidly changing world. Educating girls is an especially effective way of giving women the power to earn income and make sensible choices over their fertility, and over their own children's education and nourishment. Effective demand for both unskilled and skilled men and women in the workforce depends on sound macroeconomic and strategic policy choices, which can have profound influences on the dynamics of the demand for labor. The interaction between supply and demand depends on well-functioning labor markets that efficiently allocate labor to economic opportunities (in the short and long run) and strike a balance between the objectives of employment promotion and security.

A labor WDR would provide the framework for analyzing country experiences and the role of government policy choices in the following areas:

- the acquisition of skills by households, and their influence on poverty, the pattern of labor incomes and the growth potential of economies;
- the relationship between development strategy, macroeconomic management and the demand for skilled and unskilled labor;
- how labor and social security policies can best balance the twin objectives of promoting rapid, labor-demanding growth, and providing protection or income security (both for those in the labor force and their dependents) and how to deal with the problem of high unemployment, where this exists;
- how choices over education, development strategy and policy in the labor market helps or hinders equal access to opportunities for women;
- how to reach those who can be left out of the growth process--adult illiterates, those in poor regions, and the urban underclass;
- the links between macroeconomic shocks, economic policy reforms and the functioning of the labor market;
- the special problems of labor market adjustment in the economies in transition from a socialist system of employment guarantee, cradle-to-grave social protection and absence of real labor markets;
- how international migration affects sending and receiving countries, how far liberalizing international trade can substitute for movement of people and how trade helps or hurts different labor groups.

There is a wide variety of country experiences to draw upon. Some countries have enjoyed a strong virtuous cycle of broad-based expansion of skills, creation of demand for labor, and effective labor market functioning. Many others illustrate how poor policy choices--on supply, demand or on labor market functioning can subvert such a cycle, often setting economies on a course that becomes tough to reverse, creating some of today's adjustment problems. Think of some of the key developmental issues of the day, as they are reflected in varied country experiences:

- Fast-growing East Asian countries enjoyed the most dramatic, sustained growth in labor incomes (both wages and self-employed incomes) of any country group ever. They invested heavily and broadly in education and made strategic policy choices that favored growth in activities that were both efficient and labor-intensive. This was underpinned by labor market practices that were pro-employment, but avoided premature protection or excessive wage increases for small groups in the labor force. Education for women was especially important in supporting virtuous cycles of reduced fertility and a strong emphasis on the nourishment and education of children. How far can, and should, this experience be replicated in other countries?

- Most households in SubSaharan Africa and South Asia are woefully poor, primarily because they receive so little for their labor; and for most Africans incomes are less than 15 years ago. People get little for their labor because they are in low-productivity activities, due to low skills and lack of complementary factors of production; this is often in part a consequence of wrongheaded past economic choices. At the same time, rapid population growth will lead to continued large increases in the labor force. Can a strategy of education catchup and economic reform get such countries on to Indonesia-style rapid, labor-demanding and poverty-reducing growth?

- Women generally receive less education, are in lower-paying jobs and have less power than men, in and outside the home. This has large efficiency and welfare costs, especially when account is taken of the gains in bringing up children that better educated women bring. How can education of girls be brought up to that of boys? Is there a need for proactive government policies on the employment of women?

- Many households get left out of the growth process because of failures to enter (or re-enter) decent work and acquire skills. Some are stuck in depressed regions. Many urban dwellers are in communities that are characterized by vicious cycles of economic insecurity, violence, drug use and lack of education. Households with illiterate adults feature disproportionately amongst the poor, but such illiteracy is tough to reach with general educational policies. Can strong labor-demanding growth reach such groups, or is there a need for proactive policies to encourage movement, and break the cycles that transmit low economic and psychological capabilities across generations?

- Economic reform in countries such as Egypt and India could get stymied or diverted by problems associated with formal employment, often manifested in high unemployment rates

and/or large pools of labor (often politically powerful) in unproductive public sectors. Is a deregulating path going to help both poverty and growth? What are the advantages and disadvantages of unionization of the labor force? When can social pacts play an effective role in both macroeconomic management and sensible restructuring?

- Latin American countries are taking off, but most remain extraordinarily unequal and a central welfare and political question is how quickly takeoff will reverse the rises in poverty and declines in wages that occurred in the 1980s. The structure of labor earnings is highly dispersed because of a history of unequal education and malfunctioning product and labor markets. Labor policy is generally the forgotten sector in reform strategies. Will the trade-liberalizing growth path tend to be equalizing and rapidly poverty-reducing? How can the distribution of skills be made more equal? And will labor policy reform delay or hasten a process of poverty reduction and equalization or earnings?

- Labor is going through wrenching changes in formerly socialist countries. The process of transition is slow, jerky and hurts. On the present path there is a risk of irreversible rises in unemployment and of the economies ending with an extreme form of Eurosclerosis. Are much more radical reforms of social security needed to avoid absurdly high payroll taxes? And what will facilitate a transition from insider-worker groups (often in collusion with managers) blocking reform in the enterprise sector to a more rational system of non-myopic collective bargaining?

- Employment issues are at the center of the economic and political debate in OECD economies, with European countries stuck with unemployment in double digits and stagnant private sector employment, while the United States has enjoyed rises in private sector employment, but has suffered stagnant unskilled wages despite substantial growth in average incomes. How far can increased flexibility help the European labor market malaise, and how can this be balanced with household security? What lessons, good or bad, can be drawn for middle income and formerly socialist developing countries?

These are diverse areas, but in each we are faced with three sets of questions: how to equip households with the capabilities to participate effectively (and equally) in the workplace, especially in view of the long gestation period for investment in human capital and the uncertainties created by a rapidly changing production environment; how to get the policies and complementary factors right so there is broad based demand for unskilled and skilled labor; and how the labor market can either effectively match supply and demand or disrupt structural and macroeconomic policies.

The value-added of a WDR on labor would be of two kinds. First, there are areas in which the issues are old, but there is now more cumulative knowledge, research work or diverse country experience to draw lessons. Some lessons may be fresh, others may put current thinking on a sounder and richer footing. These include the centrality of appropriate education policy and sound development strategy choices in achieving strongly labor-demanding growth and rising labor incomes, and the question of the relationship between

trade liberalization and labor. Second there are a number of new areas, or areas that deserve more attention than in the past. These include the role of reform of labor policy and public sector employment policy in adjustment, the issues of women in the labor market and those who are left out, the problem of high unemployment in some middle income countries, the impact of rapid technological changes and the special problems of countries in transition of socialism.

The World Bank has a comparative advantage in taking a comprehensive view of the range of policy issues affecting labor, including demographic changes, education, the determinants of labor demand, macroeconomic management and the functioning of labor markets, across a broad range of country experiences.

PAST WDR TOPICS

1994	Economic Infrastructure
1993	Health
1992	The Environment
1991	The Challenge of Development
1990	Poverty
1989	Financial Systems and Development
1988	Public Finance in Development
1987	Industrialization and Foreign Trade
1986	Trade and Pricing Policies in World Agriculture
1985	International Capital and Economic Development
1984	Population Change and Development
1983	Management in Development
1982	Agriculture and Economic Development
1981	National and International Adjustment
1980	Economic Policy Choices and Human Development
1979	Development Prospects and International Policy Issues
1978	Development and Poverty Alleviation

OFFICE MEMORANDUM

DATE: November 30, 1993
TO: Distribution
FROM: Michael Bruno MB
EXTENSION: 33774
SUBJECT: Delegation of Authority

During my absence from the office December 23 through January 5, Mr. Amnon Golan 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.

Distribution:

Mmes./Messrs.	L. Preston
	A. Karaosmanoglu
	S. Sandstrom
	E. Stern
	I. Shihata
	O. Kalantzopoulos
	L. Fox
	M. Baird
	A. Golan
	G. Ingram
	D. C. Rao
	L. Squire
	S. Yusuf
	R. Chander
	L. Davis
	M. Walton
	R. Voight
	ISC Files

Chno

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

DATE: November 24, 1993 12:43pm

TO: Remote Addressee

(msmaggie@pluto.msc.huji.ac.il@

FROM: Michael Bruno, DECV

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Your message Nov. 23

Hi Maggie,

Many thanks to you and Kobi - can't overcome my curiosity
- please let me have the details.

Will see you, hopefully, during Xmas vacation.

Best, Michael

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

DATE: 23-Nov-1993 09:41am

TO: Michael Bruno 33774

(mbruno@worldbank.org@INTERNET)

FROM: Maggie Eisenstaedt,

(msmaggie@pluto.mscc.huji.ac.il@

EXT.:

SUBJECT: - no subject (01H5NF48L13298CIVT) -

Shalom Michael,

This is not just an excuse to check if you're on the e-mail circuit. Kobi found an error in the Oxford book (totally unsolicited) -- do you want further details or would you rather practice blissful ignorance.

Happy Thanksgiving/Hannuka!

>> Maggie <<

*Please see some message.
~~with sample~~*

Hi Maggie,

*Many thanks to you and Kobi: - can't overcome my
Curiosity - please let us have the details.*

Will see you, hopefully, during Xmas vacation.

Bsr.

Michael

RFC-822-headers:

Received: from pluto.msc.huji.ac.il by worldbank.org (PMDF #2760) id
<01H5NEBN5JKW9AQA3K@worldbank.org>; Tue, 23 Nov 1993 09:12:30 EST

Received: by pluto.msc.huji.ac.il (AIX 3.2/UCB 5.64/4.03) id AA20433; Tue,
23 Nov 1993 16:09:42 -1200

X-Envelope-to: "MICHAEL BRUNO"@a1.worldbank.org

MIME-version: 1.0

Content-type: TEXT/PLAIN; charset=US-ASCII

Content-transfer-encoding: 7BIT



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948
Document Date 11/24/1993	Document Type Memorandum	
Correspondents / Participants From: Michael Bruno To: Harold Messenger, Acting VP, PAA		
Subject / Title Appointment of Stanley Fischer as Consultant		
Exception(s) Personal Information		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.
		<table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>
Withdrawn by Salma Berrada	Date April 29, 2025	

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

ROUTING SLIP		DATE: November 29, 1993	
NAME		ROOM NO.	
Mr. David Wheeler		S13-049	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	SEE MY EMAIL
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☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Attached			
REMARKS:			
FROM: Michael Bruno, VP DEC		ROOM NO.: S9-035	EXTENSION: 33774

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

8268

DATE: November 23, 1993

93 NOV 24 PM 2:49

TO: Michael Bruno, DECVP

FROM: David Wheeler^{DW}, PRDEI

RECEIVED
DEVELOPMENT ECONOMICS
WORLD BANK

EXTENSION: 33401

SUBJECT: PRDEI/ENV Belize Study Tour

Saturday evening levity aside, I thought you might be interested in a more detailed description of our Belize study tour. I enclose an introductory note, the itinerary, and the table of contents from the set of readings which we've distributed to the group. Thanks for your interest, and we'll look forward to meeting with you after our return.

Regards,

David

Fascinating stuff.

Thanks much better

than going to a place

like Moscow.



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948		
Document Date 11/24/1993	Document Type Memorandum			
Correspondents / Participants From: Michael Bruno To: O.K. Matambo, Executive Director				
Subject / Title Adjustment in Africa				
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			

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 24, 1993

Mr. Ibrahim Shihata

Ibrahim,

Re: Response to your request: Concluding remarks for a privatization conference

The following reflect our comments, mostly based on a detailed communication from Mary Shirley and her division. Overall we think the first three conclusions may go too far—meeting these requirements might make it very hard for most countries to privatize. Specifically:

Para 1. We agree that privatization should be accompanied by other policy measures to open markets, address possible market failures (e.g. on pollution) and mitigate adverse effects on the poor. However, such policy measures are not always in place in developing countries, and they usually take time to develop. If we wait for conditions to be ideal, we could wait a long time. Since there is now evidence that privatization can greatly enhance efficiency, we should find ways to privatize and simultaneously improve the functioning of markets and public policy. The key thing is not to privatize in such a way that we close markets or make better policies hard to establish (e.g. by selling potentially competitive firms with monopoly privileges).

(A smaller point: it is not clear what you mean by addressing monopolization; do you mean anti-trust? Since anti-trust legislation has led to many regulatory failures in developed countries, developing countries may be better served by removing barriers to entry, liberalizing trade, etc. than by anti-monopoly regulation.)

Para 2. Again, it would be a tall order to privatize only when all the legal and regulatory frameworks recommended here are in place. Privatization can help create stakeholders in a better regulatory and legal framework (e.g. new investors who want contracts to be enforced). So one could see this as a more dynamic process than this text implies: privatizing in tandem with reforming regulations and laws could lead to a mutually reinforcing process of change.

(Another small point: you suggest that the lack of a regulatory framework may affect investors adversely and lead to lower prices, but the opposite may also be true. It may also attract investors and lead them to offer higher prices—because they don't expect to be regulated and see an opportunity for big rents.)

Para 3. I don't think we should wait for the financial sector to be "well organized to facilitate" privatization before we tell countries to act. A more realistic approach may be to link privatization and financial sector reform; again the two reforms can reinforce each other. For example, one of the problems facing the banking system is the bad debts of public enterprises, and

efforts to clean up that debt without changing the management of the PEs or the PE access to a government guarantees (explicit or implicit) have often failed because they did not strike at the root of the problem. Selling PEs while cleaning up their bad debt sets up new rules of the game which should make it clear to banks and managers that the new owners will not be bailed out.

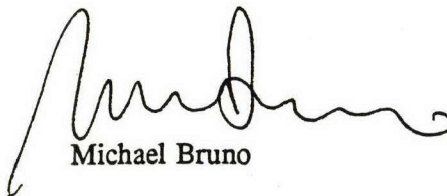
Clearly countries would find it easier to sell if they have a stock exchange, but the experience of (the former) Czechoslovakia shows that is not a requirement for widespread distribution of shares. Chile successfully used privatization in its second round of sales to develop its capital market by putting a lot of good quality securities on the market.

Para 4. We agree with most of this para, but just as a government should not be required to sell by a certain date, neither should an international agency like the Bank be required to lend to countries which use scarce public resources (both financial and human) to prop up inefficient PEs which could be better run by private owners. We do not ask governments to sell specific assets by specific dates (since this would affect the price adversely), but we should have evidence of a good faith effort to sell. Moreover, governments have sold at prices which were less than the enterprise later proved to be worth, but the benefits to the economy (in new investment and more efficient operation) outweighed the loss in revenue to the government (this is shown in several of our case studies, notably Chile Telecoms).

Paras 5-7. These paras seem broadly right. We agree with the last sentence of para 6 about the need for a social safety net for those negatively affected as a way to reduce political opposition. This is a political more than an poverty issue in many cases. Those affected (outside of transitional economies) are few in number--but loud in voice--and not the very poor. The very poor probably benefit from privatization in the medium term if governments use the proceeds to reduce their deficit and inflation, and if the new investment attracted by the process spurs growth (as we think happened in Mexico, although no one has studied the effects on poverty). Interestingly, in the cases we studied, labor in the companies as a group benefited from the privatization (severance pay for those laid off and share ownership for those who stayed outweighed the opportunity costs of unemployment for those who became unemployed).

On paragraph 7 one could specifically mention the need to avoid "captive" privatization, whereby firms moved into the sole (or dominant) ownership of workers and managers.

I hope this helps.



Michael Bruno

OFFICE MEMORANDUM

Chor

DATE: November 23, 1993

TO: Mr. Ernest Stern

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: FYR MACEDONIA - Economic Recovery Loan

1. We suggest the following issues for the agenda.

Political Context

2. The FYR Macedonia faces a difficult political situation. The current governing coalition is disparate, which is reflected in the mixed results of stabilization to date. Further strains will emerge with the transition. Could the Region discuss the political situation in terms of support for the transition?

IMF - Status of the STF

3. The IM does not discuss the STF in any detail. It would be interesting to know which elements of the ERL would be additional to the reforms which would be supported by the STF.

Fiscal Perspectives and the Phasing of Reform

4. Deficit reduction is the key to the stabilization program which in turn is the basis for the adjustment program. However, government expenditures increased from 35% of GDP in 1992 to 44% of GDP in 1993, raising questions about government's programming and implementation capacity. For the future, the question of revenues arises. Fiscal revenues are now strongly dependent on enterprise performance. With the substantial change in their environment which would be supported by the ERL, enterprise performance may well be affected. The question is whether the phasing and sequencing of reforms is consistent with the level of revenues needed to finance essential expenditures given the deficit target.

5. The IM proposes a rapid phasing out of selective credits (up to 70% by December 31, 1993, and complete phase out by April 30, 1994). Trade reforms, pressures to privatize, and other components of the program will all put (quite appropriate) pressures on the enterprises. On the positive side, replacement of quotas by tariffs will produce some revenue, and enterprise profits would be buoyed by shedding labor once the relevant laws are revised (a condition of Board presentation). Does the Region have an estimate of the net impact on the budget of these measures?

Trade Reform

6. The IM proposes that FYR Macedonia replace import quotas with tariffs, as one of the conditions of Board presentation. Has enough work been done so that an appropriate level of tariffs can be specified, and, if so, what would these levels be? How would trade reform proceed once quotas were replaced by tariffs?

Bank Restructuring

7. Some bank restructuring and recapitalization is proposed as part of the fiscal 1994 program which would also be a condition of Board presentation. This would apparently precede many if not all of the reforms which are needed in the banking sector. Are the banks ready for such support in terms of their management, operating procedures, and supervision? Or might the proposed 1994 fiscal support be lost to inappropriate uses?

Privatization and the Foreign Exchange Deposit Problem

8. The banking system now has about \$1 billion in foreign exchange deposit liabilities, the assets for which are no longer available to Macedonia. In searching for a non-fiscal solution to the problem, the IM appears to support a conversion of foreign exchange deposits into privatizable assets through the introduction of an intermediary instrument, such as negotiable privatization certificates. However, the privatization program is in its early stages of conception and formulation. In fact, a condition of Board presentation would be the issuance of an organization plan and work program for the Privatization Agency. What would be an appropriate time horizon for consideration of such a scheme given the status of the privatization program and the feasible pace of progress.

External Financing, IBRD Arrears, and Sequencing of Operations

9. What are the prospects for the forthcoming donors conference and the likelihood that the donor support is adequate to generate the \$74 million in bilateral support which has been estimated in the IM as part of the financing plan?

10. The ERL would need to be supplemented by a second operation in the near future in order for the financial workout to be feasible. However, to support an adequate transition, the second Bank operation will need to be a strong SAL with a focus on enterprise, banking, trade, fiscal, and other reforms. Could the Region discuss what difficulties this might present when the second operation is needed, and seen to be needed, as an essential element of the financing package.

11. The Government was to have begun servicing IBRD debt falling due from October 1, 1993. It is not clear that this is happening. If not, this would bring into question the capability of the interested parties to construct and implement the much more complex workout plan.

cc: Mr. Sandstrom

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

Chun

ROUTING SLIP		DATE: November 23, 1993	
NAME		ROOM NO.	
Shahid Yusuf		S-3-033	
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	SEE MY EMAIL
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	LET'S DISCUSS
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Attached			
REMARKS:			
Shahid, please see my note. Thanks. Michael			
FROM: Michael Bruno, VP DEC		ROOM NO.: S9-035	EXTENSION: 33774

OFFICE MEMORANDUM

Selowsky Merged

DATE: November 15, 1993
 TO: Michael Bruno
 FROM: Miguel A. Kiguel
 EXTENSION: 37464
 SUBJECT: Rogoff's paper

I glanced at the paper by Bulow, Rogoff and Zhu on the efficiency impact of debt restructuring. My quick reaction supports Marcelo Selowsky's view; this is a technical paper, written for an academic audience. In fact, a quick reading of the paper does not provide the intuition for the central policy recommendation of the paper regarding new loan packages; "that the first tranche of aid should be in the form of loans, but if achieving high investment is the objective, later tranches should involve grants and some substitution of grants for loans." (from the abstract)

While I am not opposed to a limited amount of technical research being supported by the Bank, we need to be very careful regarding the outlets for disseminating these papers. Technical papers are not appropriate for the Blue Cover series. In fact, they might do much damage to our image, and convey the wrong impression of the type of work we actually do. This might be a good time to set guidelines for the type of papers that are appropriate for the series and those which should be disseminated (even in working paper form) only outside the Bank (or perhaps in a new technical series with a much narrower distribution).

I would be happy to follow-up this issue with you.

Talked to Mahid Yusef who
 will handle it with IFC -
 please send all of this to S-Y.
~~(copy)~~

A1 B3

11/23

November 3, 1993

Mr. Bruno:

Michael:

Please see the attached paper I am suppose to review and clear.

1. Is this the kind of work we should be spending money on?. It is purely academia/supply driven research.
2. Should I spend time reading a paper which is basically a mathematical manipulation?
3. This is the kind of work DEC should not support. It is a burden on us.

Regards,


Marcelo

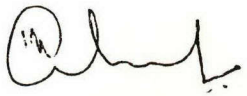
cc: Mr. Sebastian Edwards

93 NOV -4 AM 11:22
RECEIVED
DEVELOPMENT ECONOMICS
COMMITTEE

OFFICE MEMORANDUM

ATE: November 1, 1993

TO: Messrs. Sebastian Edwards, LACCE and Marcelo Selowsky, ECAVP

FROM: Masood Ahmed, IECDI 

EXTENSION: 33801

SUBJECT: The Proposed Working Paper Series Submission: "On the Efficiency Impact of Debt Restructuring: Valuing an Option under Moral Hazard"

Attached please find the above titled research paper written by Jeremy Bulow (Stanford), Kenneth Rogoff (Princeton) and Ning Zhu (IECDI). It is a theoretical article that studies the issue of investment incentive in the presence of debt overhang. The analytical model is illustrated by the recent Brady debt and debt service reduction deals in five Latin American countries (sections 2.2 and 3.2) as well as alternative loan packages to the Former Soviet Bloc (section 2.4).

According to the standard procedure, research papers should obtain clearance from the Chief Economist's office where references to regions are made. I would like to have your review of the relevant sections of the paper in order to ensure consistency with the Region. Your comments by c.o.b. Wednesday, November 10 would be greatly appreciated.

On the Efficiency Impact of Debt Restructuring: Valuing an Option under Moral Hazard

by Jeremy Bulow, Stanford University,
Kenneth Rogoff, Princeton University,
and Ning S. Zhu, the World Bank*

November 1, 1993

Abstract

One of the main rationales for debt reduction operations under the Brady Plan has been to alleviate debt overhang and enhance efficiency. This paper first considers a method for establishing bounds on the efficiency impact of debt reductions that are extremely simple to calculate and require only relatively weak assumptions. Then we develop a closed-form solution to a variant of the standard two-period model of debt overhang and investment, and use it to show that the general bounds derived earlier often tend to substantially overstate the negative efficiency effects of debt overhang.

In addition to analyzing restructurings of external debts, our model can also be used to analyze the efficiency implications of new loan packages, such as those to the former Soviet Bloc. Our analysis suggests that the first tranche of aid should be in the form of loans, but if achieving high investment is the objective, later tranches should involve grants and some substitution of grants for loans. At very high level of expected transfers, there is a case for using grants exclusively.

1 Introduction

One of the main rationales for debt reduction operations under the Brady Plan has been to alleviate debt overhang and enhance efficiency. But while many Brady Plan deals have been considered quite successful, there does not exist any generally accepted methodology

*The usual disclaimer applies. We thank Eduardo Fernandez-Arias for his useful comments on an earlier version of the paper. JEL classification: F34 and G13.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 23, 1993

Mr. Lewis Preston

Lew,

Strategies on hunger and poverty

Since you will be speaking at the Hunger Conference and have taken a high profile on presenting the Bank's anti-poverty strategy, I would like to pass on my views on the current draft proposal, that I have conveyed to Ismail Serageldin. The current direction of thinking emphasizes a particular set of targeted interventions and fails to cast hunger firmly within the World Bank's strategy on poverty. I believe we should be using the issue of hunger to reaffirm our current core message of the need for an anti-poverty strategy that involves both sound economy-wide policies and complementary targeted interventions. The targeted interventions emphasized in the preparatory material for the Hunger Conference are important, but there is a risk that the attention of donors and governments will get diverted from the often difficult reforms necessary to ensure strongly labor-demanding growth and broad provision of social services. Only with these overall reforms will countries succeed in making serious inroads into hunger. The priorities for reform and government action to tackle poverty and hunger will depend on country circumstances. In particular the choice on whether and how to attempt to replicate the (very good) work of the Grameen Bank should depend on an assessment of country conditions and incorporated within overall country strategies.

I think you will have an opportunity in your remarks to the conference to cast the work related to hunger within our overall poverty strategy.



Michael Bruno

cc. Attila Karaosmanoglu

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 23, 1993

Mr. Ismail Serageldin

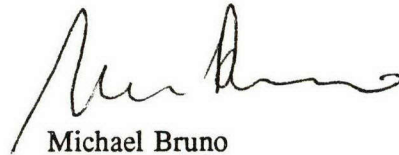
World Bank Draft Hunger Statement

Thank you for giving me the opportunity of commenting on this paper. I do not have outstanding issues on the relationship between this work and the World Food Outlook. I think we reached a very good solution of emphasizing the issue of continued hunger amidst plenty, citing the World Food Outlook in the Hunger Conference and making it available within that context. This should help take the debate forward.

However, I do have substantive issues with respect to the links between strategy on hunger and poverty. As I indicated earlier, I believe hunger is of great importance, but that it would be a mistake to have a hunger strategy that was somehow in addition to an anti-poverty strategy. Dealing with hunger in the world should not be solely, or even primarily, about targeted interventions. The paper fails now to effectively put the specific ranges of policies it discusses in the context of the Bank's overall anti-poverty strategy. There is a danger that an excessive emphasis on targeted interventions (important as these are) may be allowed to divert attention from the fundamental reforms many countries need to make in order to get on to a rapidly poverty-reducing development path. A Grameen-bank type initiative could fall into such a trap--I would again argue for the importance of casting such financial sector interventions within the context of overall country strategies. I would also emphasize the need for flexibility in designing strategies to fit country circumstances.

These and a number of other issues on the paper are given in more detail in the attached comment by Martin Ravallion.

Since I have to attend a Board meeting on Tuesday afternoon I will not be able to join your meeting. I have asked Martin Ravallion and Michael Walton to attend on my behalf.



Michael Bruno

cc: Messrs. Jaycox, Kaji, Wood, Thalwitz, Koch-Weser, Husain, Kashiwaya, Choksi, Shihata, Binswanger, Landell-Mills, Walters

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

DATE: 22-Nov-1993 10:21am

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Martin Ravallion, PRDPH

(MARTIN RAVALLION)

EXT.: 36859

SUBJECT: World Bank Draft Hunger Statement

Comments on "Hunger Conference: World Bank Position and Proposed Actions" to be presented by Mr Ismail Serageldin at the World Hunger Conference.

1. Michael Walton asked me to send any comments on this paper to you in time for the VP review meeting tomorrow. Points 2-4 below summarize my overall reaction to the paper; 5-8 offer some suggestions for improving it; 9 is on details, mainly illustrating earlier points.

2. Overview: The bulk of the paper provides a good survey of past experience in reducing poverty and hunger through certain direct interventions, such as targeted nutrition schemes, food stamps, credit schemes, and public works. It could benefit from a clearer conceptual framework for discussing such policies (detailed suggestions later). It might also be more up-to-date on recent evidence (also more later). As a statement by the Bank on this class of policies it is not yet as good as (say) Chapter 6 of the 1990 "World Development Report" on basically the same topic, but the potential is there and it will no doubt improve.

3. However, marginal improvements within its present scope and structure will not make this a comprehensive foundation for an anti-hunger strategy. It focuses on an important sub-set of the policies needed for fighting poverty and hunger; but they are a sub-set. Relatively little attention is paid to the rest of the Bank's anti-poverty strategy, as outlined in the 1990 "World Development Report" on poverty 1990 and subsequent documents. It is roughly Chapter 6 of WDR 1990, with little sign of Chapters 1-5 and 7-9.

4. Is this a problem? Yes, if this paper is to reflect an approach to fighting poverty and hunger which is both comprehensive (in terms of the range of policies that matter) and yet flexible (in terms of their country-specific implementation). That is the direction the Bank has been going since the 1990 WDR - an approach strongly affirmed by two Bank Presidents - and hopefully it will continue and strengthen at the implementation level.

5. Suggestions: In my view, the paper should start from the position that the foundation of an anti-hunger policy is an anti-poverty strategy. It would explain why the attack on poverty is so important in this specific context, pointing to the fact that hunger is not a problem of aggregate food availability but of the

lack of command over food and other basic needs (including health and education) by certain groups. (The paper already makes the causal link between hunger and incomes early on, but then drifts into a rather selective discussion of what policies are needed to solve the problem.) The paper would then - within the first few pages - outline the Bank's anti-poverty strategy. (At present, the paper does not do so until p.22, and then only briefly, and less than accurately; more below). The key components of that strategy would then be elaborated in greater detail, appropriately adapted to a "hunger perspective" in terms of motivation and emphasis.

6. Such a re-orientation of this paper need not in any way diminish its strong - and welcome - message that there are "direct interventions which must not wait" (p.5). Effective and low cost interventions in nutrition and health should clearly be promoted vigorously. The paper also points to a number of potentially very important instruments for safety-net policies, which will often be integral parts of an effective anti-poverty strategy, by supporting those who are unable to participate fully in the development process, or to do so while facing continuing exposure to unacceptable risks. This much is, in my view, un-contentious. Thankfully there are also a few principles that can be identified and applied in practice; the incentives built into group-based credit schemes (such as the Grameen Bank) make sense, often work, and should certainly be encouraged; similarly, with care in policy design, the self-targeting mechanism built into certain public employment schemes makes sense and often works. The paper's policy message on these points might be made more believable - and more useful to policy-makers - if it recognized explicitly that the experience with targeted interventions is quite diverse, often evidentially ambiguous, and generally contingent on the political and administrative context. (Some detailed comments later.) But it is a welcome message.

7. But how does one strike the appropriate balance between these policies and others aimed (albeit more indirectly) at the same basic objective, reducing poverty and hunger? The answer will vary from country to country; but this is a paper covering the developing world as a whole. Less than one tenth of this paper is devoted to the importance of policy reforms and public spending policies promoting the right sort of economic growth in fighting poverty and hunger, and that one tenth is tucked away in corners, much of it reading like lip service. Yet the cross-country evidence for the 1980s presented in "Implementing the World Bank's Poverty Reduction Strategy" (Chapter 1) indicated that well over half of the variance in country performance in reducing absolute consumption poverty during the 1980s was explicable by differences in the rate of growth in average private consumption. Growth is just one part of an effective anti-poverty strategy, but it is surely a far more important part than is implied by this paper.

8. The paper's emphasis, and its tone of urgency in the need for the policies described, appears to stem from a view that "long-term" hunger alleviation is about reducing poverty through

employment and growth, while "short-term" is about targeted interventions. This is a questionable distinction. A new job, or a higher price for the things you produce, can be a very rapid - "short-term" - solution to a hunger problem. Yet an effective targeted intervention can take a long time to put in place. And even the most pro-poor growth strategy is surely going to leave a residual problem of poverty which can only be met through targeted transfers. The "targeted interventions for the short-term" and "economic growth for the long-term" dichotomy is a false one in my view. It can also be counter-productive. The common trap in discussing policies to fight poverty and hunger has always been that one gets seduced by the symbolic value of certain direct (often food-based) interventions. And there is a constituency for such policies. For example, some governments are naturally unwilling to blame the country's poverty problem on fundamental and deep-rooted failures in its development policies; it is often politically easier to advocate a narrow set of compensatory add-on interventions; these can range anywhere from well conceived and well targeted schemes (such as discussed in this paper) to ineffective schemes of little more than symbolic value.

9. Some detailed comments: Some more specific comments (some illustrating general comments above):

p.1: The paper makes its big leap right at the start from the motivation for "reducing poverty and hunger" (para 1) to "targeted health and nutrition projects" (para 2).

p.2: The realization that hunger is a problem of poverty not aggregate food availability - and the implications for policy - considerably pre-dates the 1970s; for example, it was a central premise of India's famine relief codes in the last century (see Jean Dreze's piece in one of the volumes of "The Political Economy of Hunger", edited by Dreze and Sen.)

p.3, 4th bullet: If chronic hunger is a poverty problem (as said on on the previous page), then surely the policies involve far more than "increasing the food supply" and "targeting development assistance or income transfers to the poor".

pp. 3-4: The framework of the WDR 1990 was far more than "broad-based..economic growth" (last para, p.3), and certainly embraced the range of policies described on p.4. The text gives a false impression of the Bank's position prior to this paper.

p.5, last para: One should be careful to distinguish direct interventions which complement policy reforms aimed at promoting broad-based growth from those which do not. Without this distinction, it is not clear that speedy implementation of direct interventions independently of more fundamental policy reform is in the interests of the poor.

pp.6-9: The discussion describes a problem - malnutrition - it does not describe a policy or "action"; it would be useful to be more

explicit about how (for example) "micronutrient supplementation" (the section title) is to be done.

Sections 2 and 7: The conceptual distinction between the policies in these two sections is not clear. Basically they are all just different ways of making transfers; the transfer might be a food stamp, or the difference between the market and ration shop price of food, or it might be the difference between the market rate of interest and the rate of interest charged by a scheme, or between the wage rate offered on a public works project and the wage in the best alternative activity. In some cases it is a benefit transferred by relaxing a rationing constraint (as is sometimes the case in credit schemes), though even this case can be interpreted as a price subsidy, in which the transfer per unit is a difference in (Neary-Roberts) virtual prices. So why divide them into these two groups, with 13 pages of other stuff between them? There are various ways of slicing this topic up that might make more sense. For example, it might be more useful to focus on the nature of the targeting mechanism (administrative targeting versus self-selection). Often this matters far more than the precise commodity that a price subsidy or relaxed rationing constraint (virtual price subsidy) is attached. See the Tim Besley and Ravi Kanbur paper "Principles of Targeting" (in the Jacques van der Gaag and Michael Ton volume, "Including the Poor").

Similarly, it is not clear why some sorts of direct interventions are included in the discussion (Grameen Bank, Maharashtra's EGS) while others are not (Mexico's Solidarity is conspicuously absent).

Also, little help is given to policy-makers who have to choose an approach; should one introduce an employment based scheme or a credit scheme? The answer will vary from place to place, and there are complementarities (only a sub-set of the poor are likely to have the capacity to make a success of a microenterprise, for example). There is also some (not a lot, I agree) comparative work; see, for example, Margaret Grosh's recent study for a wide range of schemes in Latin America, and my work with Gaurav Datt comparing employment and credit in India.

Box 3 (p.18): It is not at all clear why food aid stimulated food production. (And what proportion of this paper's readers will know what a "vector auto-regression" is?)

Section 4, "Famines": This is a weak section, even recognizing that the Bank is not a relief agency. It might be pointed out, for example, that vulnerability to starvation during famine is often linked to chronic poverty and hunger, and that the link depends heavily on the way food institutions (both markets and governments) work; my book "Markets and Famines" tries to go into some of these issues. The comment that "most famines are the results of droughts and war" is quite deceptive (there have been famines without either, and both have happened without precipitating famine).

Box 4: The text is fine, but the diagram lends itself to a

simplistic interpretation of the causes of child malnutrition.

p.22, 4th para of section 5: The argument for promoting basic social services in the Bank's anti-poverty strategy (as laid out in WDR 1990) is not just because it helps promote growth; it is seen as a distinct element of the strategy, bringing welfare gains to the poor, both directly and indirectly (via growth).

Section 6: I agree that adjustment is consistent with - and often strongly conducive to - the "long-run reduction of poverty" (p.25). The paper takes the populist line that adjustment hurts the poor in the short-term. I would argue, however, that the short-term impacts on the poor are typically far more ambiguous than the paper suggests. Indeed, when public spending is not initially pro-poor and the poor are net suppliers of tradable goods (or they supply labor, and the traded goods sector is labor intensive) the welfare effects in the short-term could be quite pro-poor. David Sahn gives evidence supportive of this view for some S-S Africa countries (as noted on p.28); also see Sam Morley's work on Latin America, noting the heterogeneity, and importance of initial conditions. Chapter 7 of WDR 1990 is worth reading on this topic. The theory and evidence is also reviewed in my WPS 1130 paper with Michael Lipton "Poverty and Policy".

p.27, para 4: As I understand it, a recession hit Cote d'Ivoire in 1987 due to an external terms of trade shock and poverty rose largely as a result of that. At the same time the government abandoned the adjustment program. That is different to saying that "because GDP declined under an abandoned adjustment effort, the number of people living in extreme poverty increased".

p.36: On public employment programs (and other schemes) it would also be helpful to say something about the contingent nature of their performance (as in the paper's earlier discussion of credit schemes), and implications for appropriateness and policy design; see my "World Bank Research Observer" piece, July 1991, and the background paper done by Gaurav Datt for the Hunger Conference.

CC: Michael Walton
CC: Lyn Squire
CC: Emmanuel Jimenez

(MICHAEL WALTON)
(LYN SQUIRE)
(EMMANUEL JIMENEZ)

FOR YOUR INFORMATION

FYI/93/150
November 22, 1993

ORGANIZATIONAL CHANGES IN DEC

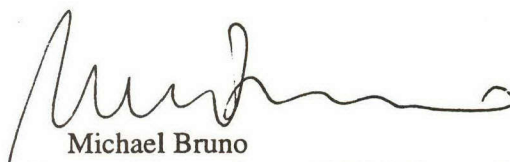
Two organizational changes in the Vice Presidency for Development Economics are under way as part of DEC's efforts to rationalize its operational review function, strengthen research efforts on the environment, long-run growth, and issues in transitional economies, and establish clearer organizational links between the Policy Research Department (PRD) and the Regions.

Restructuring the Office of the Vice President. The Development Policy Group (DPG) will be merged with the Office of the Vice President (DECVP). The integrated front office will be streamlined by shifting some functions - such as responsibility for the Paris Club and Berne Union - to the International Economics Department (IEC), and making more effective use of resources in PRD and IEC for the review of adjustment operations and country strategy papers. Mark Baird, Director of Development Policy, will be responsible for managing my front office and for the operational review function within DEC.

Restructuring the Policy Research Department. A primary goal for PRD is to make client focus the principle governing factor in determining the structure of the Department, with clear organizational links to the Regions and the other Central Vice Presidencies. The three sector divisions (Poverty/Human Resources, Environment/Infrastructure/Agriculture, and Finance/Private Sector Development) already reflect this objective. To better serve the needs of Country Operations Divisions, two new divisions will be created from the former Transition and Macro-Adjustment Division: a **Macroeconomics and Growth Division**, focussing on issues of long-run growth, links between macroeconomics and growth, and the analysis of capital accumulation and savings; and a **Transition Economics Division**, with responsibility for transition issues in the former socialist economies both at the micro- and macroeconomic levels. Reflecting the importance of research on environmental issues, the Environment/Infrastructure/Agriculture Division will be expanded. In addition, responsibility for research on trade will be consolidated in IEC.

I have appointed Alan Gelb Division Chief of the Transition Economics Division. William Easterly will act as Division Chief of the Macroeconomics and Growth Division until a permanent appointment is made.

These changes became effective on November 1, 1993.



Michael Bruno
Vice President Development Economics and Chief Economist



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948		
Document Date 11/23/1993	Document Type Memorandum			
Correspondents / Participants From: Michael Bruno To: Ms. Benedicte Boullet, PMDRD				
Subject / Title Mr. Alan Winters				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>	Withdrawn by Salma Berrada	Date April 29, 2025
Withdrawn by Salma Berrada	Date April 29, 2025			



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948		
Document Date 11/22/1993	Document Type Memorandum			
Correspondents / Participants From: Michael Bruno To: Eveline Herfkens, Executive Director				
Subject / Title Ukrainian Request for Israelian Advice				
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/IFC/M.I.G.A.

ROUTING SLIP		DATE: November 17, 1993	
NAME		ROOM NO.	
Mr. Michael Bruno		S-9035	
X	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
X	FOR SIGNATURE		LET'S DISCUSS
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: SIGNATURE ON IBTF FOR EDI MARKET ECONOMICS PROGRAM			
REMARKS: Please call when IBTF is signed, and we will send a messenger to pick up document. Thank you.			
FROM: Carolle Carr		ROOM NO.: M-7011	EXTENSION: x 36310

93 NOV 19 AM 10:43
 RECEIVED
 ENVIRONMENTAL ECONOMICS
 & DEVELOPMENT

done!

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

Date	November 17, 1993
Submitting Department/Division	EDIEM
Task Manager	Dusan Vujovic
Project ID Code	<u>TF026095</u>
Donor/ Agency	The Commission of the European Communities (CEC) - TACIS Regional Budget
Beneficiary Region	Azerbaijan, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Belarus, Georgia, Moldova, Ukraine
Beneficiary Amount and Currency	Five hundred thousand ECU
Estimated Equivalent in US\$	Five hundred and eighty thousand US dollars
Duration	From: November 1993 Through: November 1994
Trust Fund Category	Freestanding
Cofinancing Operation	No
Program Implementation	The Project will be executed by the Economic Development Institute.
Trust Fund Objectives	The training of government officials in the beneficiary countries in the principles of modern economics and financial analysis to strengthen their ability to formulate and carry out economic policy decisions, as specified in Annex 1.
List of Goods and Services	Grant funds will contribute towards the funding of technical assistance; the travel and subsistence costs of participants;

costs incurred by the training institutions; and the costs of engaging consultants for travel, fees and subsistence according to the Bank's normal procedures for two preparatory programs for the Joint Vienna Institute to be offered in Moscow and Tashkent in early 1994.

Rationale for Bank Involvement

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

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

Benefits and Risks

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

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

Administration

Incremental costs to the department in managing this fund are a consistent part of EDI's work program, for which staff and budgetary allocations are provided in EDI's budget.

Cost Recovery Arrangement

In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank with respect to the Grant, the Bank may, following the deposit of Grant funds by the CEC, invest the Grant funds

pending their disbursement and retain for its own account the income earned on such investments.

External Audit Requirements

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

Other Reporting Requirements

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

Cleared by

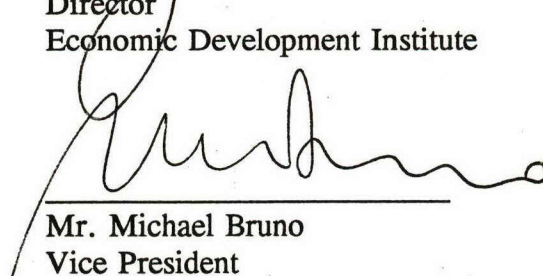
- 1) Mr. Fred W. Wright, Office of Trust Funds Administrator
- 2) Ms. Beverly Ross, Lawyer
- 3) Ms. Carolle Carr, Assistant to the Director, EDI
- 4) Mr. Paul Cadario, Chief Administrative Officer, ECA

Director's Clearance:



Amnon Golan
Director
Economic Development Institute

Approved by:



Mr. Michael Bruno
Vice President
Development Economics

Date:

ANNEX 1

TERMS OF REFERENCE

Background

The EC has decided to allocate 500 000 ECU from the 1993 TACIS Regional budget to the Economic Development Institute (EDI) for its preparatory courses for the Joint Vienna Institute (JVI). The EC will accordingly co-finance two preparatory courses held in Moscow and Tashkent early 1994 as part of the overall training programme for young government officials from the former Soviet Union, excluding the Baltics.

The EDI/JVI training programme is intended to strengthen the potential of young government officials from key economic ministries from the Former Soviet Union, excluding the Baltics, to formulate economic policy decisions. The two regional introductory courses to be co-financed by the EC and to be held in Moscow and Tashkent will focus on providing these government officials with an intensive introduction to the principles of modern market economics and financial analysis. They will also provide training in practical statistical, econometric and computer based techniques as well as intensive training in English language. They will finally enable participants to attend more advanced and/or specialized courses offered by EDI and JVI in Vienna.

As these courses correspond to the objectives of the EC-TACIS programme as laid down in TACIS -regulation and the 1993 Regional Programme the EC has decided to co-finance them with 250 000 ECU each by taking over the costs of phase one of the courses which will be held from 28.2.1994 to 3.6.1994 in Moscow and from 21.2.1994 to 3.6.1994 in Tashkent.

Activities of EDI

EDI will perform the following activities:

- The courses will be held according to EDI's proposal for Training and Institutional Support for the Russian Federation (pages 15, 21-37); see attachment I) and in EDI's proposal for Training and Institutional Support for the Central Asian Republics (pages 14, 31-47; see attachment II).
- EDI will contract teaching staff who comes primarily from EC countries and secondarily from PHARE and TACIS countries. Only exceptionally will other staff be acceptable. No more than 15% such staff will be considered, see Annex 2.

- EDI will, in material distributed to beneficiary countries, organizations and individuals, make known the contribution being made by the Commission of the European Communities. Any publicity given to the course should also indicate the funding source.

- The Commission will be kept informed of the progress of the training courses. The final report should provide not only the material information necessary for financial control of the programme, but also a qualitative assessment of the utility and impact of the programme.

COST SUMMARY

Moscow Regional Introductory Course in Market Economics and Financial Analysis (US\$)	
Staff Costs	
EDI Staff	12,500
LTC	30,000
Local and Foreign Consultants (FSU)	20,000
Interpreters	4,000
Overhead (local staff)	10,000
<u>TOTAL Staff Costs</u>	<u>76,500</u>
Travel and Subsistence	
EDI Staff and LTC	27,500
Other Consultants	42,500
Participants	50,000
<u>TOTAL Travel & Subsistence</u>	<u>120,000</u>
Material Costs & Equipment	
Material Costs	20,000
Equipment	77,000
<u>TOTAL Materials Cost & Equipment</u>	<u>97,000</u>
<u>TOTAL</u>	<u>293,500</u>
OF WHICH EDI	40,000

* LTC stands for long term consultant

Implementing Agency: Moscow State University and joint EDI/MSU Center

Implementation Schedule:

February 28-June 3, 1994 (12-week duration)

Tashkent Regional Introductory Course in Market Economics and Financial Analysis (US\$)	
Staff Costs	
EDI Staff	12,500
LTC	30,000
Local and Foreign Consultants (FSU)	20,000
Interpreters	4,000
Overhead (local staff)	10,000
<u>TOTAL Staff Costs</u>	<u>76,500</u>
Travel and Subsistence	
EDI Staff and LTC	27,500
Other Consultants	42,500
Participants	50,000
<u>TOTAL Travel & Subsistence</u>	<u>120,000</u>
Material Costs & Equipment	
Material Costs	20,000
Equipment	77,000
<u>TOTAL Materials Cost & Equipment</u>	<u>97,000</u>
<u>TOTAL</u>	<u>293,500</u>
OF WHICH EDI	40,000

* LTC stands for long term consultant

Implementing Agency: Tashkent State University of Economics

Implementation Schedule:

February 21-June 3, 1994 (12-week duration)

OFFICE MEMORANDUM

DATE: November 19, 1993

TO: Mr. Attila Karaosmanoglu

FROM: Michael Bruno and Johannes 

EXTENSION: 33774 & 80602

SUBJECT: Structural Adjustment Monitoring Programs

As you know Mr. David Peretz asked for a review of the Bank's approach to structural adjustment monitoring programs during the Steering Committee meeting on October 4. In response to his request, we have drafted the attached letter from you to him. Also attached for your information is a background note comparing SAMPs with the Fund's enhanced surveillance arrangements.

cc: Mr. Shihata

Attachments

November 17, 1993

Mr. Peretz

David,

Structural Adjustment Monitoring Programs

During the Steering Committee meeting on October 4, you asked our staff to explain whether the structural adjustment monitoring program (SAMP) in Egypt was intended to be a precedent for a new type of Bank activity and, if so, whether we were considering setting up general procedures along the lines of the IMF's Enhanced Surveillance procedures.

We have reviewed this issue, and have concluded that this is not the right time for formalizing the procedures followed in the Egypt case with a view to more general and more frequent applications. The SAMP was a useful tool in the Egypt case because: (i) there was no balance of payments need for adjustment lending even though the country had a reform program that the Bank and the Fund could support; (ii) a significant portion of the Government's program involved structural reforms that could only be implemented with the Bank's assistance: the SAMP was an important complement to the Fund's arrangement; and (iii) it was felt that, together with the Fund's precautionary standby, the SAMP would facilitate further debt reductions from the Paris Club.

We can envisage other cases in which a government would be interested in a procedure similar to the SAMP. While unlikely, we cannot rule out the possibility that in some cases the Bank's exposure management policies would preclude adjustment lending even though balance of payments needs persist and the reform program remains adequate. Moreover, the balance of payments justification for adjustment lending is itself becoming weaker, or disappearing, in many cases even though structural reforms are not yet completed. When short-term liquidity is not a problem, a SAMP can improve the prospects and terms of commercial longer-term funds to bolster a country's basic solvency.

We plan to take a case-by-case approach to this issue. Before they request SAMPs, governments are likely to closely examine their benefits in addition to the benefits they can obtain from surveillance arrangements with the Fund; such requests are likely to be exceptional. The SAMP procedure would only be followed in circumstances similar to those in Egypt and with the full approval of the government involved.

Future SAMPs will be described in detail in Country Assistance Strategy papers to facilitate discussions in the Board. Also, the Bank will share its views of progress under a SAMP with the IMF and official creditors, as in the case of Egypt. If requests for SAMPs turn out to be more than we currently anticipate, we will review the experience and reconsider our procedures.

Attila Karaosmanoglu

solvency. Also, quite apart from financial aspects, a SAMP might conceivably provide political benefits for reform-minded governments.

We need to take a case-by-case approach to this issue. Before they request SAMPs, governments are likely to closely examine their financial and political benefits in addition to the benefits they can obtain from surveillance arrangements with the Fund. The IMF has received and is likely to receive several requests for enhanced surveillance because countries and creditors often seek formal monitoring of macroeconomic performance by the Fund. In contrast, requests for formal monitoring of structural adjustment programs by the Bank are likely to be exceptional. While the Egypt case may not be sui generis, it may be sufficient at this time to treat future cases on an ad hoc basis. It is understood that the SAMP procedure would only be followed in circumstances similar to those in Egypt and with the full approval of the government involved.

AB/AR

Term: The IMF ES procedures set a maximum term of 12 months, but a further request can be made at the time of the next Article IV consultations. In the case of the Egypt SAMP, the term, as in the case of many SALs, is based on a time horizon of about 24 months--although it may be lengthened if the reform program slips.

Board Approval: Under the revised procedures, the IMF Board approves an ES arrangement on a case-by-case basis. However, Board approval does not connote Fund endorsement of the program.³ It is important to note that IMF Board approval is an extension of Board discussion/approval of normal surveillance, i.e. Article IV consultations. In the case of the Egypt SAMP, although there was no formal Board approval, there was a Board discussion of the program.

Review and Monitoring: In the case of IMF ES, there is now a requirement for mid-term monitoring with a report to the Board for information/Board consideration. There is also an end-of-program review with the Article IV discussion. The CAS provides a similar framework as the Article IV for keeping the Board informed in the case of the Egypt SAMP. Since short-term developments are less important in the case of a structural adjustment program, there does not appear to be a need for other mid-term reporting mechanisms.

Disclosure: The IMF permits suitably edited Board documents (including Staff Reports and the Chairman's summary) to be made available to donors and creditors after the Board meeting. Although there are no formal procedures in the case of the Egypt SAMP, the Region will share its views of the program with the IMF and official creditors.

The General Applicability of the Egypt Case

The SAMP was a useful tool in the Egypt case because: (i) the country had a reform program that the Bank and the Fund could support, (ii) adjustment lending was not warranted because there was no BOP need; indeed the Fund's standby is "precautionary" in nature (not expected to be drawn upon), (iii) the SAMP would cover a much wider range of reforms than could be effectively covered in a Fund arrangement, and (iv) it was felt that, together with the Fund's precautionary standby, the SAMP would facilitate further debt reductions from the Paris Club. In effect, the SAMP was conceived as a near-counterpart to the Fund's enhanced surveillance and/or precautionary arrangements.⁴

One can envisage other cases where the country concerned would be interested in a procedure similar to the SAMP. While unlikely, we cannot rule out the possibility that in some cases the Bank's exposure management policies would preclude adjustment lending even though BOP needs persist and the reform program remains adequate. Moreover, the BOP justification for adjustment lending is itself becoming weaker, or disappearing, in many cases--especially in LAC--even though structural reform programs are not yet completed. When short-term liquidity is not a problem, a SAMP can improve the prospects and terms of commercial longer-term funds to bolster a country's basic

³ This is to avoid any legal repercussions if the country were unable to meet commitments to other creditors.

⁴ Thirteen precautionary standby and extended arrangements have been approved over the last five years, or 14 percent of the 94 arrangements over this period. However, except in one case (Tunisia), no drawings have been made under these arrangements.

PROCEDURAL IMPLICATIONS OF THE STRUCTURAL ADJUSTMENT

MONITORING PROGRAM IN EGYPT

Background

At the time of the Board discussion of the Egypt Structural Adjustment Monitoring Program (SAMP) on September 14, several speakers said the Egyptian program appeared to be a new product and asked about the implications of the new activity. "The staff said the SAMP, which had been developed at the request of the Egyptian Government, did represent a new approach for the Bank. It was not a lending operation, but rather fell in the category of policy assistance and advice that the Bank provided to many governments, and for which presentation to the Board was not necessary. The staff added that the SAMP would enable the Government and the Bank to continue their valuable policy dialogue on structural adjustment, since in this case a Structural Adjustment Loan (SAL) was precluded for balance of payments reasons. The staff said that the Country Assistance Strategy presentation should provide an appropriate vehicle for discussing progress under the program in the Board."¹

Subsequently, at the ED's Steering Committee meeting on October 4, Mr. Peretz asked whether the Egypt SAMP was setting a precedent for a new Bank activity and whether the Bank should institute more general procedures along the lines of the IMF Enhanced Surveillance (ES) arrangement. This note compares the Egypt SAMP to the IMF Enhanced Surveillance procedures and discusses the general applicability of the Egypt case.

Comparison with IMF Enhanced Surveillance Procedures

The Egypt SAMP can be compared with the IMF Enhanced Surveillance Procedures² in a number of aspects: justification, term, Board approval, review and monitoring, and disclosure.

Justification: Enhanced surveillance arrangements by the Fund are intended to secure external financial support from sources other than the IMF, and/or to bolster domestic and external confidence in continued adjustment efforts by the countries concerned. There was a similar justification for the Egypt SAMP.

¹ Minutes of Board Proceedings.

² The Fund's enhanced surveillance provides greater Fund involvement, where appropriate, in certain nonprogram cases and to find means to signal more clearly the Fund's view of a country's policies other than through the use of its resources. The Fund's enhanced surveillance policy and procedures were elaborated in 1985 in response to the request of some members for intensified monitoring without a Fund arrangement in place. It was developed specifically to address the needs of those countries that had made notable progress in their adjustment efforts but which were still confronted, inter alia, with a bunching of debt service payments that hampered their ability to resume normal access to credit markets. The procedures for enhanced surveillance have been revised and formalized in 1993, including clearer procedures for Board approval and reporting, which may explain Mr. Peretz's request.

November 19, 1993

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RECEIVED
STRUCTURAL ADJUSTMENT MONITORING PROGRAMS

Mr. Michael Bruno

Michael,

Note to Mr. Karaosmanoglu on
Structural Adjustment Monitoring Programs

Mr. Linn suggested some editing in the package that you signed yesterday. I would greatly appreciate your signature on the new cover note. Thank you.



Mark Baird

Attachment

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 19, 1993

Mr. Sebastian Edwards

Sebastian,

WDR 1995

Many thanks for your useful comments. I sent the attached to the President today.

Best regards,

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

Michael Bruno

OFFICE MEMORANDUM

Chen

DATE: November 19, 1993

TO: Mr. Lewis T. Preston

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: 1995 World Development Report

I recommend that the next World Development Report be on the topic of Labor and Development. I have reached this view after an extensive process of consultation with managers, staff and the executive directors, and review of alternative proposals that I commissioned from staff. The attached note gives the basis for the choice: it outlines the various alternatives proposed and suggests possibilities for the future; lays out some of the key issues that would be addressed in a labor WDR; and presents an indicative outline. A Board seminar to present management's choice is scheduled for December 13th. I also attach a list of past WDRs.

cc. Messrs. Karaosmanoglu, Sandstrom, Stern
Ms. Kalantzopoulos

1995 World Development Report

It is proposed that the 1995 World Development Report be on Labor and Development. This has been decided after an extensive process of consultation with staff, management and the executive directors. This process revealed a strong interest in a set of areas related to education, gender and employment, and their links with economy-wide policy. After reviewing alternative ways of structuring a WDR, the best organizing principle looked to be one of labor in development. In this note the background to this decision is given, the motivation for a labor WDR and potential topics for the future are outlined. An indicative outline is attached. [The latter only for internal purposes--it is proposed that this not go to EDs, who will see a full outline prepared by the team in the normal fashion next year]

Alternative WDR choices

A range of topics have been suggested for the 1995 WDR. They fall into three categories.

First, some topics are premature. Transition is a very good topic, but it will gain from another year's delay, since most transition economies are too early in the process of restructuring to draw robust conclusions. Two others, social participation and the legal and institutional basis for development, might make sense in a few years time, but in neither do we have the core in research or cross-country experience that a WDR requires. For the next ABCDE conference, institutions in development will be one theme; this will help in deciding whether to expand research in this field.

Second, some topics have interest, but are not appropriate for a WDR. Aid effectiveness is undoubtedly important, but is not a good WDR topic, since the Bank is such a big player. Water is interesting, but narrow, while reform is insufficiently focused to have edge. Technology and the role of ideas in development is an interesting area for study, but is unlikely to be sufficiently policy-focused.

Third, as noted above, three areas, education, gender and employment appear to be both conducive to a WDR type synthesis and to be highly relevant. Education is of central importance to the Bank's work, but there is insufficient in the way of new issues and policy conclusions to justify a whole WDR. Gender is also of great interest, but it is judged that the Bank can best approach issues in this area through directly linking it to areas at the core of our work on the development process. The organizing principle of labor in development can cover both of these areas within a framework that also incorporates the determinants of labor demanding growth and the functioning of labor markets.

For WDRs in 1996 and beyond, transition will be a candidate. Research on various aspects of the transition process is being organized so that the building blocks for a WDR would be put in place. This research is of high priority in any case, and should a WDR not be undertaken in this area, other means of dissemination and discussion will be found. A second,

topic, that could follow and complement a WDR that focused on transition economies (many of which are middle income) is a WDR on the set of developmental problems faced by low income countries. A third area of potential interest is trade in goods and services, covering issues relating to regional trade groupings, the consequences of multilateral trade liberalization, the expansion of trade in services and international migration.

Key issues for a labor WDR

There are powerful linkages between labor and development. Both supply and demand are crucial to outcomes. Provision of skills is one of the main routes of escape from poverty for households, and raises the capacity of economies to grow, compete, acquire new technologies and adapt, in a rapidly changing world. Educating girls is an especially effective way of giving women the power to earn income and make sensible choices over their fertility, and over their children's education and nourishment. Effective demand for both unskilled and skilled men and women in the workforce depends on sound macroeconomic and strategic policy choices, which can have profound influences on the dynamics of the demand for labor. The interaction between supply and demand depends on well-functioning labor markets that efficiently allocate labor to economic opportunities in the short and long run and strike a balance between the objectives of employment promotion and security.

A labor WDR would provide the framework for analyzing country experiences and the role of government policy choices in the following areas:

- the acquisition of skills by households, and their influence on poverty, the pattern of labor incomes and the growth potential of economies;
- the relationship between development strategy, macroeconomic management and the demand for skilled and unskilled labor;
- how labor and social security policies can best balance the twin objectives of promoting rapid, labor-demanding growth, and providing protection or income security, both for those in the labor force and their dependents--and how to deal with the problem of high unemployment in some countries;
- how choices over education, development strategy and policy in the labor market helps or hinders equal access to opportunities for women;
- how to reach those who can be left out of the growth process--adult illiterates, those in poor regions, and the urban underclass;
- the links between macroeconomic shocks, economic policy reforms and the functioning of the labor market;
- the special problems of labor market adjustment in the economies in transition from a socialist system of employment guarantee, cradle-to-grave social protection and absence of real labor markets;
- how international migration affects sending and receiving countries, and how far liberalizing international trade can substitute for movement of people and helps or hurts different labor groups.

There is a wide variety of country experiences. Some countries enjoyed a strong virtuous cycle of skills production, creation of demand for labor, and effective labor market functioning. Many others illustrate how poor policy choices--on the supply or demand side, or on labor market functioning can subvert such a cycle, often setting economies on a course that becomes tough to reverse, creating some of today's adjustment problems. Think of some of the key developmental issues of the day, as they are reflected in varied cross-country experiences:

- Fast-growing East Asian countries enjoyed the most dramatic, sustained growth in labor incomes (both wages and self-employed incomes) of any country group ever. They invested heavily and broadly in education and made strategic policy choices that favored growth in activities that were both efficient and labor-intensive. This was underpinned by labor market practices that were pro-employment, but avoided premature protection or wage increases for small groups in the labor force. Education for women was especially important in supporting virtuous cycles of reduced fertility and a strong emphasis on the nourishment and education of children. How far can, and should, this experience be replicated in other countries?

- Most households in SubSaharan Africa and South Asia are woefully poor, primarily because they receive so little for their labor; and for most African peasants and workers labor incomes are less than [15] years ago. People get little for their labor because they're in low-productivity activities, due to low skills and lack of complementary factors of production--often in part a consequence of wrongheaded past economic choices. At the same time rapid population growth will lead to continued large increases in the labor force. Can a strategy of education catchup and economic reform get such countries onto Indonesia-style rapid, labor-demanding and poverty-reducing growth?

- Women generally receive less education, are in lower-paying jobs and have less power than men, in and outside the home. This has large efficiency and welfare costs, especially when account is taken of the gains in bringing up children that better educated women bring. How can education of girls be brought up to that of boys? Is there a need for proactive government policies in the employment of women?

- Many households get left out of the growth process because of failures to enter or re-enter decent work and acquire skills. Some are stuck in depressed regions. Many urban dwellers are in communities that are characterized vicious cycles of economic insecurity, violence, drug use and lack of education. Households with illiterate adults feature disproportionately amongst the poor, but such illiteracy is tough to reach with general educational policies. Can strong labor-demanding growth reach such groups, or is there a need for proactive policies to encourage movement, and break the cycles that transmit low economic and psychological capabilities across generations?

- Economic reform in countries such as Egypt and India could get stymied or diverted by problems associated with formal employment, especially high unemployment rates and large pools of labor (often politically powerful) in unproductive public sectors. Is a deregulating path going to help both poverty and growth? What are the advantages and disadvantages of

unionization of the labor force? When can social pacts play an effective role in both macroeconomic management and sensible restructuring?

- Latin American countries are taking off, but most remain extraordinarily unequal and a central welfare and political question is how quickly takeoff will reverse the rises in poverty and declines in wages that occurred in the 1980s. The structure of labor earnings is highly dispersed because of a history of unequal education and malfunctioning product and labor markets. Labor policy is generally the forgotten sector in reform strategies. Will the trade-liberalizing growth path tend to be equalizing and rapidly poverty-reducing? How can the distribution of skills be made more equal? And will labor policy delay or hasten a process of poverty reduction and equalization or earnings?

- Labor is going through wrenching changes in formerly socialist countries. The process of transition is slow, jerky and hurts. On the present path there is a risk of irreversible rises in unemployment and the economies ending with an extreme form of Eurosclerosis. Are much more radical reforms of social security needed to avoid absurdly high payroll taxes? And what will facilitate a transition from insider-worker groups (often in collusion with managers) blocking reform in the enterprise sector to a more rational system of non-myopic collective bargaining?

- Employment issues are at the center of the economic and political debate in OECD economies, with European countries stuck with unemployment in double digits and stagnant private sector employment, while the United States enjoyed rises in private sector employment but suffered stagnant unskilled wages despite substantial growth in average incomes. How far can increased flexibility help the European labor market malaise, and how can this be balanced against household security? What lessons, good or bad, can be drawn for middle income and formerly socialist developing countries?

These are diverse areas, but in each we are faced with three sets of questions: how to equip households with the capabilities to participate effectively (and equally) in the workplace, especially in view of the long gestation period for investment in human capital and the uncertainties created by a rapidly changing production environment; how to get the policies and complementary factors right so there is broad based demand for unskilled and skilled labor; and how the labor market can either effectively match supply and demand or disrupt structural and macroeconomic policies.

The value-added of a WDR on labor would be of two kinds. First, there are areas in which the issues are old, but there is now more cumulative knowledge, research work or diverse country experience to draw lessons--some of which may be fresh, others may put current thinking on a sounder and richer footing. This includes the centrality of appropriate education policy and sound development strategy choices in achieving strongly labor-demanding growth and rising labor incomes, and the relationship between trade liberalization and labor. Second there are a number of new areas, or areas that deserve focused attention. These include the role of reform of labor policy and public sector employment policy in adjustment, the issues of women in the labor market and those who are left out, the problem of high unemployment in

some middle income countries, the impact of rapid technological changes and the special problems of countries in transition of socialism.

The World Bank has a comparative advantage in taking a comprehensive view of the range of policy issues affecting labor, including demographic changes, education, the determinants of labor demand, macroeconomic management and the functioning of labor markets, across a broad range of country experiences.

Indicative outline

This outline is intended to expand on some of the potential issues that could be covered and to illustrate how they could be structured into a report. The formal outline would be prepared by the team leader in the normal way (and could look quite different).

1. Diverse country experiences and an analytical framework

Labor and developmental problems.

- Widespread poverty in Africa, high unemployment in Algeria or Bulgaria, excess public sector employment in India, residual poverty and high inequality in Latin America, inequality of women, underclasses in Brazil are examples of failures in the supply, demand or matching of labor.

Some virtuous and vicious cycles.

- How things can go right: East Asian successes got on to virtuous cycles of broad-based skill formation, education for women (that led to lower fertility and better fed and educated children) and labor-demanding growth. Flexible ways of changing skills, flexible labor markets and low initial formal sector wages allowed both competitiveness and high savings, and gradual evolution of social security.

- How things can go wrong: for example, in Latin America--high inequality is perpetuated by unequal education, capital-biased policy choices and distorted labor policy and markets; in Africa--education has been relatively ineffective and has not in any case been complemented by growth in labor demand. In these and other regions, macro shocks have led to declines in labor incomes for some; labor aristocracies and non-viable public social security arrangements have sometimes slowed restructuring and worsened macro adjustment.

An analytical framework

- the experience of labor (self-employed and wage-earning) can be analyzed in terms of a simple framework including the creation of skills, the creation of demand for labor from production and the process of matching supply and demand. These interact to form different average levels of labor remuneration, degrees of dualism and unemployment and different dynamics of demographic change, skill formation and labor demand over time, as well as different patterns of response to macroeconomic shocks.

Messages: there are startling successes as well as severe failures across countries. Long-run successes are differentiated by sound policies on skills formation, female education, broad-based demand and flexible labor market functioning. Macroeconomic difficulties hurt labor; bad labor policy contributes to macro problems.

2. Equipping labor for growth

- The role of universal basic education and the case for public finance in ensuring its provision; how does the "basic" level of education vary across countries at different stages of development?
- how demographic factors influence the demands or needs for education and the structure of supply of labor to the workplace over time;
- How to create flexibility and adaptability for the marketplace through general education and training policy (including on-the-job training);
- Protection against risks of loss of labor income--due to ill-health or temporary economy-wide risks that could have permanent affects on capabilities

Messages: educating for growth and poverty reduction requires a dual strategy--universal and free/near free basic education and, through facilitating a training process that produces flexible generalists and encourages on the job training over the career of workers. Equal access, especially for women, is a powerful principle, but one that will require substantial changes in many countries. Skills formation has long gestation periods and there may be difficulties in the sequencing of major efforts to improve education: some of the countries now in greatest need have particularly severe national and public budget constraints.

3. Creating demand for labor

- The long-run happy path for labor-demanding growth is well-shown by the East Asian paradigm--continued support for agriculture, avoidance of biases against labor demand in industry and urban areas, high degree of openness;
- The problem is how to get taxes for government, accelerate modernizing technological shifts and have broad-based labor growth all at the same time--were the East Asian group lucky in their initial endowments and the world in which they were growing or are the results generalizable?
- Is there a difficult problem of managing tough initial conditions for broad-based growth--from the luck of high endowments of natural resources; living in a time of labor saving technological change (UK/US in history--other times?); an initial adverse asset and power distribution

Messages: there is a broad range of win-win strategies, in which choices that favor efficiency and growth are also pro-labor--alternatives of favoring capital-intensive activities can help organized labor in the short run, but rarely in the long run. Rising labor productivity i.e. growth in output in excess of employment, is a sign of a happy and not (as the UNDP report suggests) a problematic path, provided labor markets are well-integrated.

4. Labor market functioning and labor protection

How labor markets function

- Rural and informal sector labor markets are typically flexible, but in some low income

countries suffer from weak integration with national labor markets.

- Formal labor markets are powerfully influenced by public sector employment practices, patterns of labor organization and government labor policy on wages, job security and social security.

- Formal labor market conditions determine the degree of dualism with the non-formal sector and influence developments on both the supply and demand for labor.

The process of labor reallocation.

- Labor reallocation across sectors is at the core of economic growth and rise in labor incomes.
- Migration is a significant component of the reallocation process.

Messages: Movement of labor across activities and over space is a key, and potent mechanism for growth in labor incomes and long-run development. Flexible labor policies are central to facilitating this process; and also to allowing wage outcomes that support the patterns of labor-demanding growth in production. Income security of households is a desirable objective, but excess employment guarantees or premature public formal provision of security can be in conflict with rapid growth in employment. Excess protection and insufficient flexibility is part of the European malaise. Formal schemes need to be fostered over time, and as far as possible self-financing.

5. Women in the labor market¹

- How different cultural conditions and education policy affects the skills of women, the allocation of time within households, and decisions over fertility and education of children.

- Does the pattern of demand lead to discrimination against women (e.g. shifts from food to cash crops; latent discrimination of modern sector firms)

- In the labor market are women out of the negotiating loop or affected differentially by labor policy, such as on maternity and childcare?

- Do women gain more from regulating or outlawing prostitution?

- How are women affected in the internal and international migration process (as movers and managers of left-behind households)?

Messages: In most countries women suffer from unequal earnings and unequal power, even while they often work harder in multiple roles in household and child care, participation in the labor market and community involvement. With the demographic transition and the large technological changes implicit in development this becomes more and more costly--to society as well as to women. While cultural factors are important, the most powerful means of transformation lies in education. Policy on demand and the labor market can play a significant complementary role, that may be of especial importance in the short to medium run.

¹ Note: there will be a choice as to whether to treat women as a pervasive issue, that affects the whole report, or as a special, cross-cutting issue, that warrants a separate chapter. This will be revisited by the team in the process of designing the report.

6. Those who are left out

- Do households located in "depressed" regions participate equally in aggregate growth or stay stuck with lower capabilities and lower labor incomes?
- Adult illiteracy is both a strong determinant on poverty and particularly intractable. What can policy do?
- Minorities and urban underclass often participate only in the periphery of the development process--do these get locked into vicious cycles that set in over the years and over the generations?

Messages: sound national level policies, that encourage labor demanding growth and support labor reallocation (across activities and space) can go a long way to reaching those who are left out. It is tough to reach such groups when overall strategy is in a mess. But there is also a strong case for proactive policies oriented to areas or households, designed to bring such groups into the mainstream of economic gains in the short run, and, most importantly, provide the young with the capabilities to break the cycle in the long term. Cycles of social dislocation and disaffected youth are especially tough to break. Some European countries, e.g. Sweden and Germany, have had some success in proactive labor policies.

7. Labor in crashes and the adjustment process

- Labor is almost always hurt in recession, but the effects of structural policy reforms is mixed--some groups gain, other lose.
- How do initial labor market structures and policies influence patterns of labor market and macroeconomic adjustment? Is disequalizing decline avoidable in urban labor markets?
- How can labor be shaken out efficiently and compassionately?
- What is the role of reform of labor policies and social pacts?

Messages: flexible labor policies actually help (most of) labor in downturns--in countries with more rigid labor practices lower-wage outsiders were hurt more, and sooner or later, even insiders took a hit as overall conditions deteriorated and restructuring is delayed. Bad macro policy hurts labor the most, through shifting non-labor income out of the country and often encouraging shifts to financial profits within. Good labor policy should aim to facilitate adjustment by both firms and households through measures that speed restructuring (e.g. severance pay) and temporary measures to raise labor demand (e.g. public works). Social pacts can play a valuable role in macroeconomic adjustment and restructuring, provided macropolicy is sound and there is sufficient political consensus to underwrite them.

8. Labor in the transition from socialism

- Labor is going through a radical shift in transition economies--in part analogous to experiences in market developing economies, but in part quite different because of the different starting point

of socialist labor policy.

- Are transition economies heading toward a caricature of Euroclerosis?
- How far does it make sense to shift from total security to flexibility and promotion?
- How to support a shift from myopic insider worker/collusive manager behavior to sensible collective bargaining?

Messages: a large formal workforce and widespread social security are pointing most transition economies to a European model. Parts of such a model may make sense: e.g. a shift to sensible collective bargaining for the formal sector. But rapid growth in the non-unionized sector is both likely and desirable. For both groups the scale of current social security arrangement looks unaffordable in the aggregate for most economies and there is likely to be a need for deeper reforms to less comprehensive, and less public schemes to provide for income security.

9. The changing international division of labor--who gains? who hurts?

- Who does international migration help and hurt?
- Is trade in products a substitute for trade in people, or will this hurt unskilled workers in richer countries through factor price equalization?
- How do various kinds of trade liberalization, including regional trade arrangements, affect labor?
- International labor standards--what makes sense?

Messages: migration is a boon to sending countries (with some qualifications on loss of skills) and often a gain to receiving countries, where migrants are complements to domestic labor. But large migration could potentially push down recipient wages and political tolerance is generally very low to the threat of this. Trade in goods can be an effective and politically preferable alternative. In general, trade liberalization, whether uni-, bi or multilateral, is the friend of labor, but two groups may suffer: (a) those in contracting industries, because of reallocation costs; and (b) those whose skills lag behind the richer country average, for whom tendencies to factor price equalization may hurt. For both groups household oriented strategies make sense, though for the latter the issues are long term; industrial adjustment assistance may play a supplementary role.

PAST WDR TOPICS

1994	Economic Infrastructure
1993	Health
1992	The Environment
1991	The Challenge of Development
1990	Poverty
1989	Financial Systems and Development
1988	Public Finance in Development
1987	Industrialization and Foreign Trade
1986	Trade and Pricing Policies in World Agriculture
1985	International Capital and Economic Development
1984	Population Change and Development
1983	Management in Development
1982	Agriculture and Economic Development
1981	National and International Adjustment
1980	Economic Policy Choices and Human Development
1979	Development Prospects and International Policy Issues
1978	Development & Poverty Alleviation

ORGANIZATIONAL CHANGES IN DEC

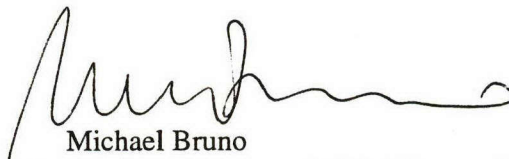
Two organizational changes in the Vice Presidency for Development Economics are under way as part of DEC's efforts to rationalize its operational review function, strengthen research efforts on the environment, long-run growth, and issues in transitional economies, and establish clearer organizational links between the Policy Research Department (PRD) and the Regions.

Restructuring the Office of the Vice President. The Development Policy Group (DPG) will be merged with the Office of the Vice President (DECVP). The integrated front office will be streamlined by shifting some functions - such as responsibility for the Paris Club and Berne Union - to the International Economics Department (IEC), and making more effective use of resources in PRD and IEC for the review of adjustment operations and country strategy papers. Mark Baird, Director of Development Policy, will be responsible for managing my front office and for the operational review function within DEC.

Restructuring the Policy Research Department. A primary goal for PRD is to make client focus the principle governing factor in determining the structure of the Department, with clear organizational links to the Regions and the other Central Vice Presidencies. The three sector divisions (Poverty/Human Resources, Environment/Infrastructure/Agriculture, and Finance/Private Sector Development) already reflect this objective. To better serve the needs of Country Operations Divisions, two new divisions will be created from the former Transition and Macro-Adjustment Division: a **Macroeconomics and Growth Division**, focussing on issues of long-run growth, links between macroeconomics and growth, and the analysis of capital accumulation and savings; and a **Transition Economics Division**, with responsibility for transition issues in the former socialist economies both at the micro- and macroeconomic levels. Reflecting the importance of research on environmental issues, the Environment/Infrastructure/Agriculture Division will be expanded. In addition, responsibility for research on trade will be consolidated in IEC.

I have appointed Alan Gelb Division Chief of the Transition Economics Division. William Easterly will act as Division Chief of the Macroeconomics and Growth Division until a permanent appointment is made.

These changes became effective on November 1, 1993.



Michael Bruno
Vice President Development Economics and Chief Economist

OFFICE MEMORANDUM

DATE: November 15, 1993

TO: Regional Vice Presidents

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: World Bank Representation at The Paris Club and
the Berne Union

1. In reviewing DEC's responsibilities, it has become evident that a realignment of certain functions within the vice-presidency has become appropriate. In particular, Paris Club and Berne Union liaison functions should be carried out by IEC.

2. Consequently, effective January 1, 1994 IECDI, rather than DPG, staff will represent the Bank in these fora. As before, CFS will continue to have primary responsibility for liaising with Berne Union members on co-financing operations, and the concerned staff of IEC and CFS will continue to co-ordinate their work. Moreover, existing consultative mechanisms with FRS and the Regions, and all other arrangements for our representation at these meetings will remain as they now are.

Messrs. and Mmes. Karaosmanoglu (EXC), Linn, Nishimizu (FPR), Kashiwaya, Sud (CFS), Baird (DPG), Ahmed (IEC)

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OFFICE MEMORANDUM

Chen

DATE: November 17, 1993

TO: Mr. Ernest Stern

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: BOLIVIA - Private Sector Development/Capitalization Adjustment
Loan Committee Meeting

1. The new government presents an opportunity to reform the public sector. While we broadly support this initiative there are a number of concerns.

Fiscal Indicators

2. At the moment there is not an IMF program. We understand that one can be expected to be in place in the next few months. However this will only go to end-1994. Further it is rather tight and does not include any repercussions from the proposed Bank operation. Given that the hydrocarbon sector presently provides about half of government revenue (9% of GDP) and that this would cease under the proposed capitalization program what compensating measures are envisaged? It may be reasonable to expect improvements over the medium term that will ensure adequate returns to the government via taxes and royalties but what about the transition period. Can the region provide some additional details on financing in the hydrocarbon sector during this period that will ensure that the overall stabilization does not go off track?

Financing the Capitalization

3. What is the required amount of net new investment for capitalization (and liquidity) and how will this be weighed against concessions to the prospective owners on the degree of monopoly and forgiveness of debt? Since there is no significant stock market and the pension funds are bankrupt are all the new flows expected to come from external sources? Will it be politically acceptable to have so much of the economy controlled from outside?

Pension Funds

4. Does it make sense to give shares to bankrupt pension companies? They will also have to meet their fiduciary requirements. Should the reform of these funds be treated separately? Perhaps the shares issued to the public should be put into new pension funds and owners not allowed to sell them for a few years.

Administrative Capability

5. Presently Bolivian administrative capability is rather limited. ... Para. 24 .. "Existing regulatory agencies are severely understaffed and underfunded resulting in little or no enforcement of regulations." Would it make more sense to try to first complete the ENTEL component, for example, rather than trying for such an across-the-board approach in a two-year period?

cc: Mr. Sandstrom

Pierre Landell-Mills

Pierre,

World Food Outlook

This is in follow up to your conversation with DC. Here is the revised foreword, that more clearly states the relation between hunger aggregate food supply, and a draft reply to Ambassador Blake. Michael Bruno has signed off on the foreword and is happy with the reply. Any issues on the latter?



Mike Walton

cc. Rao

November 15, 1993



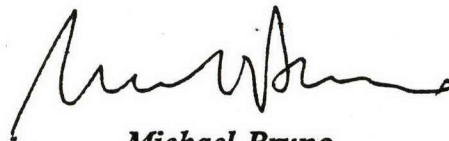
Foreword

Hunger persists as a serious problem in many countries. However, this report clearly shows that the world food supply situation has been steadily improving and the prospects are good that this will continue, contrary to recent concerns. The issues of food production and poverty should be seen as ultimately separate issues. Hunger can persist amidst plenty. Hunger exists because poor people cannot buy enough food even when food prices are low. If the problems of hunger are to be overcome then the focus must be on alleviating poverty.

This is an especially important time to consider the prospects for the world food situation because of major changes in the developing countries and in the former centrally planned economies of Europe and the Soviet Union. The Green Revolution has matured in most developing countries and the rates of growth of cereals yields are expected to slow. However, the growth of demand for cereals is also slowing because diets have improved for most consumers in developing countries, and because a diversification of diets away from basic staples is occurring as consumers shift to meat, vegetables and fruits. Changes in the former centrally planned countries are even more rapid as consumption levels are falling due to reduced incomes and policy shifts away from subsidized consumer prices. Together these changes are expected to strongly influence the world's food supply/demand balance.

This report considers these important changes in an historical context and looking ahead to 2010. The conclusion reached is that the world food situation should continue to improve for most households. This conclusion is supported by an analysis of past trends in world cereals markets as well as likely prospects for the future. The relatively optimistic outlook for the world food situation which the report projects should not be viewed as a reason for complacency. Continued investments in agricultural research are essential to continuing the past trends in production needed to achieve further gains in the world food situation.

Outlook work such as has been undertaken here is inherently difficult. The report illustrates how earlier forecasts have often fallen wide off the mark. The report recognizes this and tests the robustness of its conclusions over wide ranges of the basic assumptions. However, the inherent uncertainty does not invalidate the usefulness of undertaking studies such as this. It is an important input into the public debate.



Michael Bruno

Vice President and Chief Economist
Development Economics
The World Bank

Mr. Robert Blake
Chairman
Committee on Agricultural Sustainability
for Developing Countries
1709 New York Avenue, N.W.
Washington, D.C. 20006

Dear

Thank you for the letter from your Committee dated November 1 and your personal letter to me dated November 2, calling my attention to a draft Bank study entitled "The World Food Outlook: Malthus Must Wait".

I believe that you and your advisors have misunderstood the thrust of this report. It is basically a report on how well the world's food supply is performing. It is not a report on how to solve the world hunger problem. These are two separate issues. Unless we can make this distinction clear, discussions at the Hunger Conference will not advance very far. Reducing the number of hungry people in the world is largely a matter of them acquiring the necessary resources to produce or purchase increased amounts of food.

This report shows that the world food supply situation has been improving steadily. Also, rates of growth in demand have slowed with increasing incomes in many developing countries. In the process more people have been able to reach higher nutritional standards. As you say, for food production to keep on increasing, investment in research will have to be maintained. Subsequent to the draft that you would have seen, the report has stressed this point. It is also true as you say that, in the main, countries have to rely on their own food production. The report also makes this point.

The title of the report was somewhat polemical, and it had already earlier been changed to The World Food Outlook. For its release, the Chief Economist has added a

Foreword which indicates that this study does not express a formal Bank position but it is published as an input in the public debate. In this spirit, I welcome the dialogue on these issues, which I know is continuing, between your Committee, IFPRI, and Bank staff.

[Lewis Preston]

***** -JOURNAL- ***** DATE NOV-15-1993 ***** TIME 09:36 *****

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FACSIMILE COVER SHEET AND MESSAGE

DATE: November 15, 1993

NO. OF PAGES: 5
(including this sheet)

MESSAGE NUMBER:

TO
Name: Pierre Landel-Mills, ESDVP
Organization:

Fax Tel. No. 33112
City:
Country:

FROM
Name: Michael Walton
Dept./Div. DECV
Room No. S9-029

Fax Tel. No. 202-477-0549
Dept/Div No. 622/05
Tel. No. 202-473-8418

SUBJECT: World Food Outlook

MESSAGE:

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Chris

Foreword

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This is an especially important time to consider the prospects for the world food situation because of major changes in the developing countries and in the former centrally planned economies of Europe and the Soviet Union. The Green Revolution has matured in most developing countries and the rates of growth of cereals yields are expected to slow. However, the growth of demand for cereals is also slowing because diets have improved for most consumers in developing countries, and because a diversification of diets away from basic staples is occurring as consumers shift to meat, vegetables and fruits. Changes in the former centrally planned countries are even more rapid as consumption levels are falling due to reduced incomes and policy shifts away from subsidized consumer prices. Together these changes are expected to strongly influence the world's food supply/demand balance.

This report considers these important changes in an historical context and looking ahead to 2010. The conclusion reached is that the food situation should continue to improve for most households. This conclusion is supported by an analysis of past trends in world cereals markets as well as likely prospects for the future. The relatively optimistic outlook for the world food situation which the report projects should not be viewed as a reason for complacency. Continued investments in agricultural research are essential to continuing the past trends in production needed to achieve further gains in the world food situation.

Outlook work such as has been undertaken here is inherently difficult. The report illustrates how earlier forecasts have often fallen wide off the mark. The report recognizes this and tests the robustness of its conclusions over wide ranges of the basic assumptions. However, the inherent uncertainty does not invalidate the usefulness of undertaking studies such as this. It is an important input into the public debate.



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

11/15/93

Fóreword

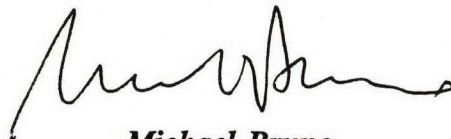
Hunger persists as a serious problem in many countries. However, this report clearly shows that the world food supply situation has been steadily improving and the prospects are good that this will continue, contrary to recent concerns. The issues of food production and poverty should be seen as ultimately separate issues. Hunger can persist amidst plenty. Hunger exists because poor people cannot buy enough food even when food prices are low. If the problems of hunger are to be overcome then the focus must be on alleviating poverty.

This is an especially important time to consider the prospects for the world food situation because of major changes in the developing countries and in the former centrally planned economies of Europe and the Soviet Union. The Green Revolution has matured in most developing countries and the rates of growth of cereals yields are expected to slow. However, the growth of demand for cereals is also slowing because diets have improved for most consumers in developing countries, and because a diversification of diets away from basic staples is occurring as consumers shift to meat, vegetables and fruits. Changes in the former centrally planned countries are even more rapid as consumption levels are falling due to reduced incomes and policy shifts away from subsidized consumer prices. Together these changes are expected to strongly influence the world's food supply/demand balance.

This report considers these important changes in an historical context and looking ahead to 2010. The conclusion reached is that the world food situation should continue to improve for most households. This conclusion is supported by an analysis of past trends in world cereals markets as well as likely prospects for the future. The relatively optimistic outlook for the world food situation which the report projects should not be viewed as a reason for complacency. Continued investments in agricultural research are essential to continuing the past trends in production needed to achieve further gains in the world food situation.

Outlook work such as has been undertaken here is inherently difficult. The report illustrates how earlier forecasts have often fallen wide off the mark. The report recognizes this and tests the robustness of its conclusions over wide ranges of the basic assumptions. However, the inherent uncertainty does not invalidate the usefulness of undertaking studies such as this. It is an important input into the public debate.

Maria L. Chon
Revised version
11/15



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

Superseded
Chon

Foreword

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This report considers these important changes in an historical context and looking ahead to 2010. The conclusion reached is that the world food situation should continue to improve for most households. This conclusion is supported by an analysis of past trends in world cereals markets as well likely prospects for the future. Not all households have participated in the general improvement in the world food situation. Many lack the necessary incomes to purchase adequate quantities of food, despite the abundance of food at prices which are low by historical standards. However, this report does not focus on the reasons why many households are still so poor they cannot afford to purchase an adequate diet nor on the solutions to problems of slow economic growth. Growth in food production in developing countries may help to lift people out of poverty and contribute to their food security. In turn, reducing poverty may allow less environmentally damaging production processes to be used. However, the issues of food production and poverty should be seen as ultimately separate issues. Hunger can persist amidst plenty.

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

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

ROUTING SLIP		DATE: Nov. 5, 1993	
NAME		ROOM NO.	
Mr. Mark Baird		T-9-101	
Mr. D.C. Rao		S-8-055	
Mr. Amnon Golan		M-7-021	
Mr. Greg Ingram		T-7-101	
Mr. Lyn Squire		N11-051	
Mr. Shahid Yusuf		S-3-033	
URGENT		PER YOUR REQUEST	
FOR COMMENT		PER OUR CONVERSATION	
FOR ACTION		SEE MY EMAIL	
FOR APPROVAL/CLEARANCE		FOR INFORMATION	
FOR SIGNATURE		LET'S DISCUSS	
NOTE AND CIRCULATE		NOTE AND RETURN	
RE: attached			
REMARKS:			
For your information.			
Michael Bruno			
FROM: Michael Bruno, VP DEC		ROOM NO.: S-9035	EXTENSION: 33774



Record Removal Notice

File Title Michael Bruno - Internal Chronological Records - Correspondence - October - December 1993		Barcode No. 30321948
Document Date 11/05/1993	Document Type Memorandum	
Correspondents / Participants From: Jorunn Maehlum, Executive Director To: Executive Directors		
Subject / Title Ukrainian Request for Israelian Advice		
Exception(s) Communications of Executive Directors' Offices		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.
		<table border="1"><tr><td>Withdrawn by Salma Berrada</td><td>Date April 29, 2025</td></tr></table>
Withdrawn by Salma Berrada	Date April 29, 2025	

Foreword

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Outlook work such as has been undertaken here is inherently difficult. The report illustrates how earlier forecasts have often fallen wide off the mark. The report recognizes this and tests the robustness of its conclusions over wide ranges of the basic assumptions. However, the inherent uncertainty does not invalidate the usefulness of undertaking studies such as this as it is an important input into the public debate.



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

OFFICE MEMORANDUM

DATE: November 5, 1993

TO: DECV/DPG Staff

FROM: Lesley Davis *LD*

EXTENSION: 33774

SUBJECT: **New Staff on Board**

93 NOV -8 AM 10:16
RECEIVED
DEVELOPMENT ECONOMICS
VP 2

As you all know Miguel Kiguel is joining us on Monday, November 8, and he will be occupying Room S-9039, Ext. 37464. Mr. Fernando Fuentes, a Research Assistant working with Miguel, will also join on Monday. His office is S-9040, Ext. 89050.

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 3, 1993

Mr. Ismail Serageldin

Hunger Conference

I have just seen the note you sent round on this for the meeting last week. We are, of course, interested in this in DEC. Poverty is an important objective of our work program, and hunger is inextricably linked with poverty.

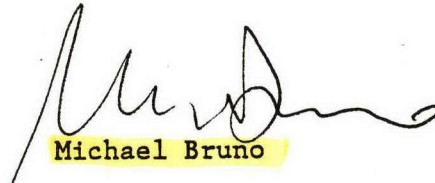
I have a few reactions to the proposal.

First, of course we should use the issue of hunger to further policies that will improve the welfare of the poor. However, it would be a mistake to have a hunger strategy in addition to a poverty strategy.

Second, national action plans for all countries do not look a promising route. We should be emphasizing the pursuit of policies and investment strategies that have poverty reduction and reduced hunger as a central goal but integrating this within our country assistance strategies and our support for the actions of governments.

Third, I cannot speak for Operations, but it does not look the right approach to have a self-standing Grameen Bank type initiative run from the center. The objective of replicating Grameen is good, but this should surely be fully integrated into our overall operational work, especially financial sector development.

Fourth, I believe a WDR on Hunger would overlap too much with the WDR on Poverty.



Michael Bruno

cc: Messrs. Choksi, Linn, Rischard

Messrs./Mmes.

Eccles, Einhorn, Husain, Jaycox, Kaji, Kashiwaya, Koch-Weser, Mills, Shihata, Squire, Thahane, Thalwitz, Wood

OFFICE MEMORANDUM

Chron

DATE: November 4, 1993

TO: Mr. Harold W. Messenger, Acting Vice President, PAA

FROM: Michael Bruno, DECVF *MB*

EXTENSION: 33774

SUBJECT: Temporary Employment of Part II Nationals

In response to your memorandum of November 1, I nominate Mark Baird to represent DEC on the selection committee for this exercise. I have also asked my Senior Managers to look at their work programs and staffing plans to identify possible arrangements for temporary employment of Part II Nationals. While we are committed in principle to absorb one person, much will depend on the caliber and expertise of the candidates available.

cc (with incoming): DEC Senior Managers

OFFICE MEMORANDUM

File Copy PERSONNEL

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FROM: Michael Bruno, DECVP *MB*

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cc (with incoming): DEC Senior Managers

OFFICE MEMORANDUM

8/62

To MR. Baird

DATE: November 1, 1993

TO: Bank Vice Presidents

FROM: Harold W. Messenger, Acting Vice President, PAA

EXTENSION: 32000

SUBJECT: Temporary Employment of Part II Nationals

93 NOV -2 AM 11:36
RECEIVED
ECONOMICS
DEPT.

1. I need to brief you, as well as solicit your cooperation, concerning a recruitment program that was agreed between the Bank's management and the PPIC (the Board Committee on Personnel Policy Issues). The program was mentioned at the President's meeting with the VPs on Monday, November 1.

Background

2. During meetings of the PPIC in May and June 1991, two members suggested that the Bank consider hiring officials from Part II countries on a temporary basis, with the clear and binding understanding that they would return to their home countries on completion of their fixed-term appointments. The objectives were to (i) provide hands-on experience in the Bank to a small number of high potential Part II member country staff as part of the Bank's training and capacity building effort, and (ii) simultaneously broaden the multi-cultural nature and perspective of the Bank's staff by employing more career officials from Part II countries.

3. Following these initial discussions, these proposals were discussed within the Bank as well as in several PPIC meetings. A key point in the iterations has been whether or not the training component would be sufficiently important to warrant a form of subsidy from the Bank's budget. In the end, after review by the MDs, it was agreed that we should aim for candidates who would meet the Bank's general recruitment standards. They would be placed on authorized positions in hiring units and paid under the VPU's normal administrative budgets. (Please refer to the memo from Bilal Alisbah to the PPIC, dated April 19, 1993.)

4. VPs have not been involved in the deliberations about this program. Management's position in the discussions with the PPIC has been one of great caution. The Bank's experience, in general, with special recruitment programs has not been all that favorable. This was explained to the PPIC on several occasions. Among PPIC members, however, there are several strong advocates and supporters for this type of program. In the end we agreed on a small scale pilot program, which we now must implement.

Features

5. In summary, the program (as agreed) will work as follows:
- (a) it aims to employ 10-15 staff for two or three years, at the end of which these staff must return to their countries (guaranteed reentry by the sponsoring government);
 - (b) it is a pilot program; we will review its viability and report back to the PPIC, before making any commitment beyond the first group;
 - (c) candidates must meet the Bank's general recruitment criteria (albeit with less emphasis on international experience); and
 - (d) selected staff will be placed on authorized positions, funded by the employing VPU (based on the premise that they are Bank caliber).

Steps Taken

6. This past June, the Recruitment Division (RD) wrote to all participating Part II governments to explain the program and to solicit nominations. We have received responses from 36 countries for a total of 276 nominations. Based on its knowledge of the Bank's skills needs and recruitment criteria, RD has concluded that about 50 candidates deserve serious consideration, with another 15 as back-ups.

Selection Process

7. The selection process outlined to the PPIC by Bilisel Alisbah (see attachment) calls for a selection committee of senior managers to ensure a Bank-wide perspective and to facilitate the absorption of candidates into the Bank. In order to operationalize this I would like to get your support for the following process:

- (a) an up front commitment in principle to absorb at least one candidate each in EAP, SAS, ECA, MNA, LAC, DEC, ESD, FPD, HRO, PA, one for FPR/TRE/CTR together, and two in AFR (because of its size). This will make for a total of 13 selections at the minimum;
- (b) nomination of one director who will represent your VPU on the selection committee, and who, together with your CPO and Recruitment staff will review all candidates and decide on those candidates that are of interest to your respective VPU;

- (c) when needed, collect more information on candidates through colleagues, field interviews, or, in exceptional cases, HQ interviews; and
- (d) a decision meeting under my chairmanship to make the final selection and allocation decisions.

Timetable

8. I am aiming to have the selection process completed by early December and would like to receive your nominations of the director who will represent your VPU¹ in this process, no later than November 8. Shortly thereafter, RD will present the candidates.

9. I know that this is another "institutional initiative" on our/your already crowded agenda. However, this program enjoys strong support in the PPIC and is the agreed result following extensive discussions between Senior Management and the Personnel Policy Issues Committee.

Attachment

cc: Mr. L. Preston
Mr. A. Karaosmanoglu
Mr. S. Sandstrom
Mr. E. Stern
Mr. H. Groen
Chief Personnel Officers

¹For FPR/TRE/CTR, the three VPs should agree on one director who can represent all three VPUs.

OFFICE MEMORANDUM

DATE: April 19, 1993

TO: Members of the PPIC

FROM: Bilal Alisbah, PAAVP

EXTENSION: 80161

SUBJECT: Temporary Recruitment of Part II Nationals

1. Further to the February 17, 1993 discussions on this subject, I am writing to advise that we have carefully reviewed the comments made by the Committee and have consulted with Bank Management.
2. Management is convinced, especially in the light of past experience with the Special Recruitment Program, that it would be counter-productive to relax recruitment standards and to subsidize the salary and benefits costs of the nationals recruited under the Program. Differentiation in either the financing arrangements or the selection criteria is likely to create a second class of staff which is undesirable from the viewpoint of both the Bank and the participants in the Program. In fact, the experience with the Special Recruitment Program suggests that managers would be hesitant to employ and/or to give meaningful assignments to the recruits (regardless of the financial costs to them) unless they were convinced that the recruits were fully competent to do the job without an excessive amount of supervision.
3. Given these concerns, with one important exception, we plan to proceed with the Program as originally outlined to the PPIC. In other words, the Program would use the same selection criteria applicable to normal recruitment (albeit with less emphasis on the requirement of international experience). We expect that this would make it unnecessary to provide financial incentives to recruiting managers. The one key change that we are making, however, is in the process of selection. In order to ensure a Bank-wide perspective in the selection of the candidates and to facilitate their absorption into the Bank, we would set up a Selection Committee of senior managers, similar to the one used for YP selections. We plan to send out the letters and application forms in end-May, request applications by mid-July and complete the selection process latest by mid-November, 1993.

cc: Messrs. L. Preston, A. Karaosmanoglu, S. Sandstrom, E. Stern
A. de Capitani, H. Groen

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

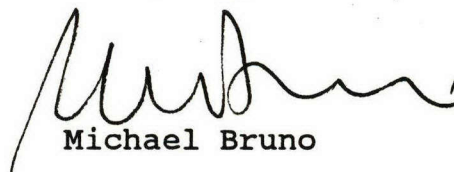
MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

November 3, 1993

Dear Karim,

Many thanks for the paper - will be glad to have lunch with you on Thursday, December 16 at 1:00. Sorry its such a long way off but I seem to have a very full diary these days.

Sincerely,



Michael Bruno

Mr. Karim Nashashibi
Interntional Monetary Fund
Room 3-320

8/68

93 NOV -2 PM 3:22
RECEIVED
DEVELOPMENT ECONOMICS
UNIT

INTERNATIONAL MONETARY FUND

November 1, 1993

Mr. Bruno:

It was very nice meeting you last Thursday at the Council. I hope we can take the opportunity to discuss some of the many issues which the Peace Accord raises. I would be happy to invite you to lunch at the IMF.

Attached is the paper on sub-Saharan Africa which I mentioned to you.

Karim Nashashibi
Tel: 623-4525

KN

~~Prepare letter~~ Dear Karim,

Many thanks for ^{the} paper -
will be glad to have lunch with you on Thursday, Dec.
16 at 1.00.

~~ask secretary to co-ordinate -~~

~~or suggest date - ~~late Nov~~ after I get
back - late November?~~

Sorry its such a long way off
but I seem to have a
very full diary these days.

much

OFFICE MEMORANDUM

DATE: November 2, 1993
TO: See Distribution Below:
FROM: Michael Bruno *MB*
EXTENSION: 33774
SUBJECT: 1995 World Development Report

I attach an additional outline that I requested be prepared on the issue of labor and development, for discussion at tomorrow's meeting (3:45 p.m., S9-021).

Distribution:

A. Choksi, J. Linn, J. Rischard, I. Serageldin,

K. Y. Amoako, N. Burnnett, C. Dahlman, G. Davis, J. de Merode, S. Edwards, M. El-Ashry, I. Husain, M. Iskander, P. Moock, G. Nankani, M. Nguyen, J. Page, M. Petit, L. Pouliquen, G. Psachoropoulos, J. Salop, M. Selowsky, A. Steer, R. Stern, V. Thomas

DEC Senior Managers, A. Gelb, E. Jimenez

cc: Ms. Kalantzopoulos



Labour and Development

I. Persistent Problems and New Challenges

Labour and economic development are strongly linked in a two-way process since

- the efficient employment of increasingly better-educated women and men is a central determinant of economic growth; and
- as a major determinant of household incomes, such employment is a key to the reduction of poverty.

This process may fail for any number of reasons. Population growth and/or the gender, health or skill composition of the labour force may not match the demands for labour on the output side. Long gestation periods in human capital accumulation, uncertainty created by changing technology, shaky foundations for sustainable economic growth or the absence of intertemporal financial intermediation may each in turn thwart the process. Also, labour markets must perform well. They must be open, efficient, flexible and responsive to changing conditions to ensure that both women and men are employed in jobs in which their skills and aptitudes are most productively used.

Recent history is replete with episodes of both success and failure in the development of gainfully employed societies. Economies whose prospects seemed bleak only a few decades ago, such as many of the East Asian countries, have managed to grow extremely rapidly, with the efficient education of both its women and men, and sensible agricultural policies, while at the same time reducing poverty substantially through the employment and development process. Demographics, the role of educated mothers, emphasis on basic education to all, and flexible response to changing conditions, have all contributed to the Asian success stories in which the right mix of government policies played an important role.

As against that experience there are numerous economies in the third world as well as notably in the 'first', industrial, world for which labour market rigidities and/or poor macroeconomic response in the face of external shocks have in the recent past led to persistent unemployment and/or stagnant or falling real incomes. In between there are the recent dramatic developments in the transition economies of the so-called second world. Existing state-owned and led institutional structures are falling apart and a new, market oriented, institutional basis has to be built up literally from scratch where hitherto a highly educated labour force had been fully employed. In these economies a vast restructuring and reorientation of production and employment has to take place. The development of flexible labour markets and a change in labour laws and labour-related public policies in general is crucial to the reform process in that part of the world.

Each of these regional and individual country episodes has cross-fertilizing and interesting lessons to tell and their comparative study within a common



analytical framework could lead to valuable policy conclusions for the design of development, education and labour market policies. Also important are the international global dimensions of the problem as it affects key questions of trade and migration policies.

The objective of a 95 WDR on labour and employment should be to throw new light on the various facets of labour's fundamental role in development, with special regard to education and gender issues in a rapidly changing external environment. It would also address challenges that have emerged in the recent past, as well as some of the misperceptions that often cloud policy recommendations. One such misperception is the seeming alarm that worldwide growth in employment lagged behind growth in output -- even though such growth in employment may reflect desirable productivity gains. Another example is the concern that free trade reduces employment, despite the empirical evidence to the contrary.

In terms of contents the proposed WDR would combine also relevant chapters that presently appear in some of the detailed proposals made (e.g., on gender, on education and on technology). The main chapter headings might be:

- o Labour and long-term development:
 - New role models for old but nagging problems?
 - New issues in a changing world environment (technology, demographics)
- o Dealing with adjustment: Even if we knew what to do in the long-run, what are the short-term needs and constraints for the allocation of arguably the most politicized factor of production, labor?
- o Dealing with the transition from socialism: Are the long-run and short-run lessons for policy reforms that affect labor valid for countries with very different initial conditions?
- o International issues: What new challenges and opportunities for labor market outcomes are posed by growing world trade, investment and even factors of production?

Before addressing these issues, it will first outline a framework that differentiates between (a) those policies that work indirectly by affecting the dynamics of labor demand and supply; and (b) those that affect labor markets directly through labor regulation and taxation.

II. A Framework for Policy Analysis

The question of whether governments should or should not intervene to affect employment outcomes is irrelevant. The fact is that as taxing and spending authorities, and as macro-managers, governments have a pervasive influence on those outcomes. The issue is: how they should use those tools; how indirect and direct interventions ought to be combined in doing so; and how they ought to take into account external factors.



Government policy can affect employment directly, by intervening in labor markets, or indirectly, by influencing the derived demand for and supply of labor.

- The demand for labour is derived from the demand for output.
 - o There are 3 questions that condition how policies affecting labour demand can meet efficiency/equity objectives:
 - How rapid is output growth?
 - How labor demanding is that output growth?
 - How skill-intensive is that labour demand?
 - o The principal policy tools in affecting the derived demand for labour are:
 - Fiscal policy and domestic incentives -- whether it removes distortionary biases against labour-intensive sectors;
 - Credit and financial policies -- implicit incentive effects;
 - Trade policy -- whether a strategy is inward or outward oriented;
 - Macro policy -- stability and prudent debt management.
 - o The demand for quality -- a forgotten dimension of labour market analysis. Most analysis is of quantity of demand; But what do we know about firm demand for skills/training, especially given technological change? This deserves a special mention.
- The supply of labour is affected by the population growth and participation. Both quantity and composition are important.
 - o Main issues are:
 - How population growth translates into labour supply.
 - The determinants of labour force participation, particularly among women. Ethnic issues are important in some countries.
 - Skill composition of that labour force.
 - o The main policy instruments are:
 - Population control strategy
 - Education and training
 - Health and nutrition investments
 - Affecting attitudes towards female workers
- Intervening directly in labour markets.
 - o Perhaps more than in other input or even product markets, the interaction of individual demanders and suppliers is complicated by institutions, which condition the formulation and implementation of policy.
 - In middle and high income countries, the most important institutions are unions and trade associations.
 - But even where the informal sector dominates, institutions (or economic and social conventions) evolve that affect labour market outcomes -- such as contractual arrangements for agricultural wage labour.
 - o The principal policy tools are:
 - Public sector pay and employment



- Regulation of private employment contracts, including laws governing:
 - minimum wages
 - hiring/firing (severance pay)
 - benefits, such as pensions, unemployment insurance
 - occupational health and safety standards
- Active policies to facilitate labour mobility
 - Job-information centers
 - training
 - housing policies
- Payroll taxes
- Regulation of and mediation among institutions (industrial relations; enforcing contractual obligations).

III. Labour and Long-Term Development

- Concerns
 - o A fundamental set of concerns are rooted in old but nagging development problems. Developing countries have had a mixed record in their ability to provide income-earning opportunities, particularly for the poor. [Here will be a review/update of issues raised in 1990WDR.]
 - o Another set of concerns is that factors which influence the demand and supply of labour are rapidly changing and a whole new set of challenges are emerging that are likely to persist in the 1990s and beyond.
 - The amount and type of labour being demanded are changing with rapid technical progress. And the demand for products that require greater skill-intensity can be expected to grow, with the more efficient diffusion of information.
 - Demographic structures are also rapidly changing. Many developing countries confront unprecedentedly high growth in the working-age population. This, together with increasing female participation and changing educational outcomes, expands the supply of labour forces and alters its composition.
- Policy Options I: Tried but Tired? Success in enhancing income-earning opportunities over the long-haul depends on countries' abilities to foster the efficient use of labour. The OECD countries that have long-been considered role models and the source of ideas are themselves experiencing problems.
 - o Higher rates and longer spells of unemployment in European and other OECD countries go beyond business cycle responses and could reflect:
 - a mismatch between skills and job requirements in an environment where technical change, global markets and rapid information



- dissemination are changing the nature of the workplace; or
- market failures, thought to describe mostly developing country labour markets (efficiency wages, segmentation), but which may also be more widely applicable to developed country settings.

o While analysts look to the US model for some lessons, the US experience has had its own problems, in terms of falling real wages, greater inequality and severe chronic poverty.

- Policy Options II: Emerging success stories. Some rapidly growing economies, many (but not exclusively) in East Asia, can be examined to derive a policy package that combines efficient policies influencing the dynamics of labour demand and supply, as well as balanced applications for direct labour market interventions.

Message: In the long run, a great deal of the success of high performing economies is attributable to a rapid growth of labour demand relative to supply in a relatively unfettered labour market. Policy must then focus on removing biases against labour-demanding growth and on ensuring the flexibility of supply responses, rather than on interventions that restrict labour mobility and wage responsiveness.

- o On the demand side: Evaluate the impact on relative wages and the returns to self-employment of fiscal policies (including agricultural taxation, implicit subsidies); credit and financial policies; trade policy; and macro stance.

Message: Demand-side strategies that are outward oriented, are not biased against agriculture, and foster stable macro conditions are those that enhance employment opportunities. (The East Asian experience will be contrasted with that in Latin America and/or Sub-Saharan Africa.)

- o On the supply side: Two points will be stressed, focusing on education and gender issues.

- Education and training: How public resources have been spent, rather than the amount, is more important in affecting employment outcomes; given formal education's long gestation period in responding to changes in supply and demand, long-term commitment is important, as well as fostering more responsive interventions such as training. (E.g., contrast the East Asian experience, where human resources investments were directed at heavy public support for basic education, to complement private investments in higher education and in-plant training with supply-driven South Asian experience.)
- Gender and its interactions with demographics: Policies that enhance the productive participation of women can have important side-benefit in lowering fertility rates and future labour supply.

Messages: The impact of public investments in human resources



- is greater if it is flexible with respect to labour demand and
 - have as much to do with how they affect the behavior of households and the behavior of private suppliers, as they have in directly affecting the supply of public services.
- o Compare country experiences in direct labour market interventions.
- Do labour markets in developing countries work well? What are the truly important justifications for intervention?
 - Recall that a great portion of workers in developing countries are self-employed or else operate in the informal sector. But the percentage of the labour force engaged in formal activity increases with development.
 - Difficulties in implementation mean that effective labour-market policies may differ from those that are "on the books."
 - What are important trade-offs to consider (for example: providing more choices to workers also increases their risks)?

Messages:

- By and large, labour markets in developing countries that do not have a relatively large public-sector are flexible and work well, except with respect to gender.
- But there is enormous variance in the degree to which countries try to affect labour markets directly. And there is even more variance in the degree to which they actually affect employment outcomes. So, another lesson is that some policies are enacted but often have no bite (minimum wage, occupational health & safety).
- There are also new experiments countries are trying (such as shorter work weeks) which may or may not provide new answers.
- Other lessons: policy-enforcement is endogenous to political and social consensus; while inaction in some areas is salutary (minimum wage, severance pay) inaction in others is irresponsible (occupation safety?); even though non-enforcement of counter-productive policies is desirable, getting around these policies may be costly for society so, if politically feasible, get rid of them.

IV. Employment and Adjustment

Even if we knew what to do in the long-run, what are the short-term needs and constraints for the allocation of arguably the most politicized factor of production, labor?

- Adjusting countries, especially in Latin America and Sub-Saharan Africa, have been confronted with the need to reduce real wages and restructure employment (a) among tradeables, exportables and importables; and (b) between the private and public sectors. Some issues are:
 - o Have real wages been flexible downwards?



- o Has restructuring led to unacceptable levels of employment?
- o Have specific interventions -- compensation packages for retrenched workers, training programs, social funds -- been effective?
- o Have benefitting sectors -- agriculture, for example -- witnessed increased returns to labour?
- Political economy issues

Message: Adjustment can have short-run adverse employment outcomes, although this is not inevitable. If so, slowing down reform is not the way to address the problems. Rather, broadly targeted compensatory policies measures can be designed to alleviate the pain.

V. Labour and the transition from socialism.

- In the long-run overall economic reform hinges on a successful effort to break away from a long tradition of poor labour market incentives, leading to low productivity and shrinking output.
 - o Successful privatization hinges on successful take-up of performance-based incentives for workers and the enterprises for which they work.
 - o In more advanced reformers, labour reallocations and absorption by private enterprises have begun to have salutary effects.
- But there are various short-run issues, some of which are critically dependent on labour market policy.
 - o Public sector employment and privatization: how much short-term unemployment is socially and politically acceptable?
 - o The social safety net: how can it help without compromising the basis for incentive-based reform?

Message: Because public employment is initially significant, the most important interventions are those that

- o down-size public-employment as it is often not the most efficient solution to enhance income-earning opportunities in the long-term and on a large-scale;
- o tailor safety-net adjustments to address transition issues in that down-sizing.

VI. Global Issues

Outcomes within countries hinge mostly but not wholly on country policies. The critical international issues are:

- International migration.



- o Some recent trends are disturbing: less flexibility
- o Is there a need for global action on this front?
- Global trade, investment and employment

Messages:

- o Multilateral and global trade negotiations will likely have more of an impact on general employment outcomes across countries than conventions to affect international migration flows directly.
- o Country policies that affect labour costs (e.g., social security) and productivity (e.g., skill-enhancement through training) need to reflect this competitive international environment.



OFFICE MEMORANDUM

Chon.

DATE: November 2, 1993

TO: Mr. Timothy Thahane, VP SECGE

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Africa Adjustment Study

This report has been cleared for distribution to the Executive Directors.

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

ROUTING SLIP		DATE: November 1, 1993	
NAME		ROOM NO.	
Miguel Kiguel		N-11-059	
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		SEE MY EMAIL
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		LET'S DISCUSS
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: Attached (2)			
REMARKS: Miguel, Who in IEC could be interested in these? Please forward. Thanks. Michael MB			
FROM: Michael Bruno, VP DEC		ROOM NO.: S9-035	EXTENSION: 33774

Discussion Paper Series

A DYNAMIC MODEL OF BARGAINING
IN A UNIONIZED FIRM WITH
IRREVERSIBLE INVESTMENT

By

Curtis J. Eberwein ¹ and
Tryphon Kollintzas ²

Discussion Paper Number 44
May 1993

HELLENIC



REPUBLIC

ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS

76, PATISSION STREET - ATHENS 104 34 - GREECE

DEPARTMENT OF ECONOMICS

Department of Economics
Athens University of Economics
and Business
(ASOEE)

Athens, Greece

8935

Elio H. Londero
(703) 323-6308 (home)
(202) 623-2449 (off.)

FAX (off.) (202) 623-2449

9233 Lake Braddock Dr.
Burke, VA 22015
U.S.A.

RECEIVED
DEVELOPMENT ECONOMICS
UNIT

Washington, D.C., October 19, 1993.

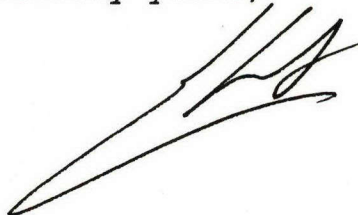
Michael Bruno
The World Bank
1818 H Street, NW
Washington, D.C. 20433

Dear Dr. Bruno:

I have recently completed a draft version of a paper on *Trade Liberalization with a Fixed Exchange Rate*. I am sending you a copy in the hope that it will be of interest to you. I would be particularly grateful for any comments you could send me.

Thank you for your attention.

Sincerely yours,



OFFICE MEMORANDUM

Chao

DATE: October 29, 1993

TO: Mr. Timothy Thahane, SEC

FROM: Michael Bruno, VP DEC *MB*

EXTENSION: 33774

SUBJECT: Distribution to the Board of the World Debt Tables 1993-94

I am pleased to attach the above report which has now been cleared for distribution to the Executive Directors. As you know, the Board seminar on this report is scheduled for Monday, November 15. Questions by the ED's on this report should be directed to Mr. Kwang Jun (X36728) or Mr. Masood Ahmed (X33801).

Attachment

cc: Mr. Rao

SecM93-

FROM: Vice President and Secretary

November 1, 1993

WORLD DEBT TABLES - EXTERNAL FINANCE FOR DEVELOPING COUNTRIES

1. Attached is a paper entitled "World Debt Tables - External Finance for Developing Countries." This paper is scheduled for discussion at a Seminar of the Executive Directors to be held on Monday, November 15, 1993.
2. Questions about this paper should be referred to Mr. Masood Ahmed (Ext. 33801), or Mr. Kwang W. Jun (Ext. 36728).

Distribution

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

WORLD DEBT TABLES
1993-94

External Finance for Developing Countries

Volume 1

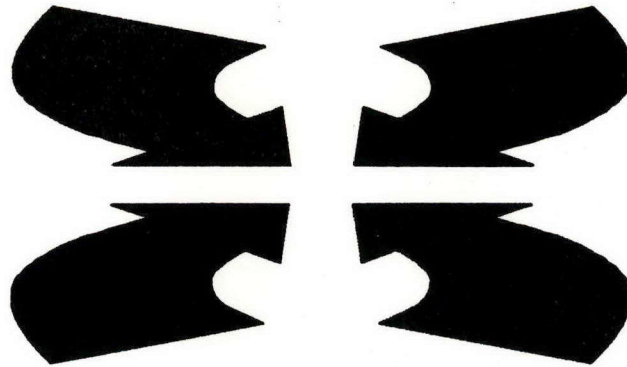
THE WORLD BANK

ROUTING SLIP		DATE: October 29, 1993	
NAME		ROOM. NO.	
Michael Bruno		S-9-035	
☐	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:			
FROM D. C. Rao <i>DCL</i>		ROOM NO. S-8-055	EXTENSION 33800

ROUTING SLIP		DATE: 10/29/93	
NAME		ROOM NO.	
Mr. Ken Choi			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS: The attached document is cleared for Board distribution. Thanks Michael Bruno			
FROM:		ROOM NO.: S9 035	EXTENSION: 33774

New views of economic growth

Outline for informal Board seminar on November 22, 1993



AGENDA

Monday, November 22 at 2:30 p.m. in the Boardroom

Chairman -- Michael Bruno

2:30 **Introduction** -- Lyn Squire

2:40 **Policies to raise growth in a volatile world** -- William Easterly

3:00 Discussion

3:20 **Macroeconomic stability and growth** -- Stanley Fischer

3:40 Discussion

4:00 **Finance and growth** -- Ross Levine

4:20 Discussion

4:40 **Conclusion: Next steps in research on growth** -- Michael Bruno

5:00 General discussion

Introduction

by Lyn Squire

Relationship to other PRD research

◆ *The East Asian Miracle*

◆ *The Africa Study*

A summary of themes to be presented

◆ *Shocks like movements in a country's terms of trade do matter for growth. But economic policies can overcome even bad luck and make new East Asia-style miracles possible.*

◆ *Macroeconomic stability is a necessary but not a sufficient condition for rapid growth.*

◆ *Financial development promotes future economic growth to a much greater extent than analysts thought.*

First Presentation: Policies to raise growth in a volatile world

by William Easterly

◆ *The fragility of success, the reversibility of failure. Both success and failure are surprisingly temporary; no countries have permanently superior growth performance. There is hope for failures to recover; successes cannot be complacent.*

◆ *The role of luck. Movements in external commodity prices have a strong effect on country growth rates -- a terms of trade loss of 1 percent of GDP lowers growth by .85 percentage points. Analysts have to remove the effect of luck when evaluating country policy performance.*

◆ *Policy can override luck. Country policies like development of the financial system, public infrastructure investment, macroeconomic stabilization, promotion of equipment investment, openness to foreign direct investment and capital goods imports, and investment in education have a powerful effect on growth. A policy package that includes these elements will more than compensate for bad luck on commodity prices.*

Second presentation: Macroeconomic stability and growth

by Stanley Fischer

◆ *Inflation and budget deficits reduce growth by reducing investment. High inflation increases uncertainty for businessmen about the relative prices that will determine the profitability of their investment in new capital. An increase in inflation of 100 percentage points would lower the growth of the capital stock by 3.7 percentage points. An increase of 5 percentage points of GDP in the budget deficit would lower investment by 1 percentage point of GDP*

◆ Inflation and high budget deficits reduce growth by reducing productivity. *A decline in inflation by 100 percentage points would raise productivity growth by 1.8 percentage points per annum. A higher budget deficit of five percentage points of GDP is associated with lower growth of one percentage point.*

◆ Macroeconomic stability is necessary but not sufficient for growth. *Examples like India show that macroeconomic stability alone does not guarantee high growth.*

Third Presentation: Finance and Growth

by Ross Levine

◆ Finance promotes growth. *The level of financial development predicts future economic growth over the next 10 to 30 years.*

◆ Finance enhances productivity and investment. *Well developed financial systems promote growth both by raising investment and by improving the efficiency with which economies allocate capital.*

◆ Finance helps other policies. *The state of the financial system when World Bank structural adjustment programs are initiated predicts the ultimate success of those programs.*

Conclusion: Next steps in research on growth

by Michael Bruno

◆ Macroeconomics and Growth. *Does macroeconomic mismanagement of commodity shocks explain some of the strong effects of terms of trade shocks on economic growth? Do short-run macro mistakes have long run effects?*

◆ Structural Adjustment and Growth. *Do policies that are good for long-run growth also make for rapid response of output to structural adjustment in the short run? What other pre-conditions like financial depth make other structural adjustment policies more effective?*

◆ Poverty and Growth. *How well does growth translate into poverty reduction? Which growth strategies are most effective in reducing poverty?*

List of papers from research project

*We would be happy to provide papers upon request. Please have your secretary call or send an E-Mail to
Rebecca Martin, X39065*

Robert Barro, Harvard University
Jong-wha Lee, IMF

"International Comparisons of Educational Attainment"

Bradford De Long, U.S. Treasury
Lawrence Summers, U.S. Treasury

"How Strongly Do Developing Countries Benefit From Equipment Investment?"

William Easterly, World Bank
Michael Kremer, MIT
Lant Pritchett, World Bank
Lawrence Summers, U.S. Treasury

"Good Policy or Good Luck? Country Growth Performance and Temporary Shocks"

William Easterly, World Bank
Sergio Rebelo, University of Rochester

"Fiscal Policy and Economic Growth: an Empirical Investigation"

Stanley Fischer, MIT

"Macroeconomic Factors in Growth"

Robert King, University of Virginia
Ross Levine, World Bank

"Finance, Entrepreneurship, and Development"

Paul Romer, University of California at Berkeley

"Idea Gaps and Object Gaps in Economic Development"

Foreword

With the unprecedented transition taking place in most historically planned economies, there is a growing need for reliable statistical indicators to monitor economic development and to assess the effects of newly introduced policies on these economies. Traditional methodologies aimed at controlling plan fulfilment are ill suited to assessing market-oriented developments, and the coexistence of old and new statistical methodologies makes the task of analysts and policymakers even more challenging.

This publication aims mainly to help readers understand statistical indicators and related methodologies for historically planned economies. It updates the 1992 volume of the *Historically Planned Economies: A Guide to the Data* by presenting more recent data and including 17 additional countries—the Czech Republic, the Slovak Republic, and the 15 new states of the former Soviet Union. It also expands discussion on statistical issues faced by these countries during transition.

The data presented on the 15 new states of the former Soviet Union are drawn mainly from a new socio-economic database established by a joint effort of the 15 national statistical offices, the Statistical Committee of the Commonwealth of Independent States, and the World Bank.

We hope to continue these efforts, to improve the quality and comparability of socio-economic data of historically planned economies and facilitate international comparisons among countries.



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

Historically Planned Economies

A Guide to the Data

1993 Edition

Featuring the Economies of the Former Soviet Union

The World Bank
Washington D.C.

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

9139

October 29, 1993

93 OCT 29 AM 10:35

Mr. M. Bruno

RECEIVED
DEVELOPMENT ECONOMICS
ECONOMIST

Michael:

Attached is the completed Historically
Planned Economies, 1993 Edition.

The book will go to the printshop on
Monday, November 1, unless you have further
comments.

DC

D. C. Rao

(I understand you have cleared the
foreword which will appear under your
name.)

OFFICE MEMORANDUM

9/13

file MB's Chron

93 OCT 20 PM 4:07

RECEIVED
DEVELOPMENT ECONOMICS
ECONOMIST

DATE: October 20, 1993
TO: Mr. Richard Lynn, Director, PBD
FROM: Lyn Squire, Acting Vice President, DEC
EXTENSION: 36099
SUBJECT: **FY95-97 Prospects Summaries**

1. Attached are Prospects Summaries for DEC (excluding EDI) and EDI, together with the required tables. As suggested in the guidelines we have presented two scenarios for DEC: zero growth and a five percent cut, and two for EDI: zero growth and a five percent increase. The tables assume a price adjustment of 3.7% in FY95 and FY96.
2. There are two resource issues which will affect DEC's and EDI's work programs, but which are assumed to be outside of the Prospects Summary exercise.
 - **IEC's Enhanced Dissemination Program.** The first year of the three-year trial phase of this program was funded outside of DEC's regular budget. It is assumed that this incremental funding (around \$320,000 per year) will continue in FY95 and FY96.
 - **Space Charges.** We are assuming that we will be budgeted for, and be required to pay for office space in FY95, and that this will be budget neutral. While the numbers are not yet final, preliminary indications are that, under the recently announced chargeback policy for "excess" space, EDI could be charged up to \$500,000 in FY95 (50% of that for half a year in FY94) over and above the budget provided for space. Our view is that standard Bank coefficients cannot be used for EDI space allocations in view of the requirements of its specialized training function, and we will be discussing this further with ITF and PBD. However, if the outcome is that EDI is to be charged for "excess" space, its work program for the three year period FY95-97 will have to be cut back accordingly.

cc: Mss/Messrs. Bruno (o/r), Rao, Golan, Ingram, Ray, Yusuf, Walton, Chander, Bhatia, Garcia-Thoumi, Rizo, Calleja, Eltezam, Siveroni, Mannan, Mataac, Angeles, Dhomun

Attachments

OFFICE MEMORANDUM

DATE: October 14, 1993

TO: Mr. Samir K. Bhatia, Chief, PBDPR

FROM: Lesley Davis, DECVP

EXTENSION: 33775

SUBJECT: **FY94 Budget and Work Program - First Quarter Monitoring Report**

1. As requested, attached is the first quarter monitoring report for DEC and EDI. At this stage of the fiscal year there are very few major deviations to report from the original contract:

- **WDR:** Agreement was reached with the Japanese in September 1993 for a \$500,000 grant from the PHRD Trust Fund in support of the 1994 WDR.
- **EDI:** The significant increase in the number of EDI activities in Central Asia is being made possible by new co-financing from the Netherlands amounting to about \$9.8 million over a period of three years, of which \$1.5 million will be used in FY94.
- **Major Outputs:** Two major outputs have been added since the Contract was finalised: (a) PRD's Africa Adjustment Study - a paper in the Policy Research Series (which was assumed, at the time of the Contract, to be completed by the end of FY93); and (b) a paper on regional trading blocs, to be prepared by IEC at the request of the Board and presented at a Board seminar in January 1994.

2. Note that the classification of DEC's own-managed outputs has changed slightly since the Contract. This is not an indication of any changes to the substance of the outputs, but merely reflects the new classifications in the revised Chart of Accounts and policy output types. You will also note that I have changed the way in which budgets are reported in Section II - Resource Indicators. While I understand the need for a separation of budgets for EDI and the rest of DEC, including a proportionate share of the VP's Office budget, for Contract purposes, this is a very cumbersome split for monitoring purposes. I trust that my proposed revised format is acceptable to you.

Attachment

cc: Mss/Messrs. Bruno, Walton, Garcia-Thoumi, Rizo, Tandon
DEC Administrative Officers.

FY94 FIRST QUARTER MONITORING REPORT

**WORK PROGRAM INDICATORS
DEVELOPMENT ECONOMICS (DEC)**

	FY94		
	ORIGINAL	REVISED	ACTUAL
I. Work Program Indicators			
Operational Cross Support (\$m)	3.9	4.3	0.9
Africa	0.6	0.8	0.2
East Asia and Pacific	0.4	0.4	0.1
Middle East and Northern Africa	0.4	0.4	0.1
Latin America	0.5	0.5	0.2
Europe and Central Asia	1.4	1.5	0.2
South Asia	0.6	0.7	0.1
Own-Managed Outputs (#)	26	28	3
Policy Papers	4	7	2
Progress Reports/Special Studies	1	1	0
Research	8	9	0
Guidelines, etc.	13	11	1
Of the above, those for Board Presentation	10	12	2
EDI Training Courses and Seminars (#)	136	140	21
Africa	46	43	3
South Asia	2	4	1
East Asia and Pacific	21	18	1
Middle East and Northern Africa	9	9	-
Europe and Central Asia	32	46	14
Latin America	17	12	1
Non-Regional	9	8	1
II. Resource Indicators			
Funded Positions (#)			
Regular	413	413	358
Special: Fee Income	5	5	2
Special Grant	2	2	2
DEC (excl. EDI and VP Office)) Budget (\$m)	49.4	49.0	13.2
Of which: Regular Funds	46.7	45.8	12.4
Fee Income	0.1	0.1	0.0
Trust Fund Principal	2.6	3.1	0.8
EDI Budget (excluding VP Office) (\$m) /a	41.0	43.1	8.7
Of which: Regular Funds	26.0	26.0	7.2
Fee Income	0.7	1.2	0.1
Trust Fund Principal	9.8	11.4	1.2
WBGSP	4.5	4.5	0.2
VP OFFICE (\$m) /a	1.9	2.8	0.5

/a Includes regular budgets, reimbursable programs and fees, and principal of Bank-executed trust funds.

FY94 FIRST QUARTER MONITORING REPORT WORK PROGRAM INDICATORS

DEVELOPMENT ECONOMICS (DEC)

III. List of Major Products

		BOARD		COMPLETION	
		PAPER	TYPE /a	ORIGINAL	REVISED
Completed in First Quarter					
IEC	Per Capita Income Guidelines	x	A	Sep-93	Sep-93
	Outlook Chartbook (GEP Update)	x	A	Oct-93	Sep-93
	Trends in Developing Economies		D	Oct-93	Sep-93
To Be Completed					
WDR	World Development Report	x	C	Apr-94	Apr-94
RAD	World Bank Economic Review		C	Jun-93	Jun-93
	World Bank Research Observer		C	Jun-93	Jun-93
	Annual Review of Research	x	B	Jan-94	Jan-94
	Proceedings of the Annual Bank Conference on Development Economics		C	Mar-94	Mar-94
PRD	Old Age Security	x	C	Jan-94	Jan-94
	Enterprise Reform	x	C	Jun-94	Jun-94
	Africa Adjustment Study	x	C	/b	Dec-93
	Fiscal Policy to Control Pollution		D	Mar-94	Mar-94
	Adult Fatal Illness Due to AIDS		C	Jun-94	Jun-94
IEC	World Debt Tables	x	A	Dec-93	Dec-93
	Market Outlook for Primary Commodities		D	Dec-93	Dec-93
	Regional Trading Blocs - Board Seminar	x	A	/b	Jan-94
	World Bank Atlas		D	Jan-94	Jan-94
	Portfolio Investment in Developing Countries		C	Jan-94	Jan-94
	Global Economic Prospects (GEP)	x	A	Apr-94	Apr-94
	Methodology for Estimating Per Capita Income	x	A	Apr-94	Apr-94
	Development Committee Paper on Debt Strateg	x	A	Apr-94	Apr-94
	World Tables		D	Apr-94	Apr-94
	Liberalization of Services Trade		D	Apr-94	Apr-94
	Social Indicators of Development (SID)		D	Jun-94	Jun-94
	The IEC Quarterly		D	Jun-94	Jun-94
	World Development Indicators (WDI)		D	Jun-94	Jun-94
	Economic Indicator Tables (EITs) /Country Briefs		D	Jun-94	Jun-94
	Debt Compendium for Sub-Saharan Africa		D	Jan-94	Jan-94

/a Output Types: A: Policy/Best Practice Papers
B: Progress Reports/Special Studies
C: Research
D: Guidelines/Handbooks/Statistical/Analytical Outputs

/b Added since finalization of the Contract.

OFFICE MEMORANDUM

DATE: October 13, 1993

TO: Mr. Harold W. Messenger, Acting Vice President, PAA

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

EXTENSION: 33774

SUBJECT: **Long-Term Consultants and Bank Temporaries**

*LD has the
background
paper if MB needs
to see it*

1. I agree that the Bank should abandon the four-year rule. I see the issue as one of a trade-off between two discomforts. First, the discomfort for managers (arising from inefficiencies and potential damage to work programs) inherent in terminating long-term consultants who are performing a useful function, simply because of an artificial cut-off date. Second, the discomfort to consultants inherent in the perceived "two-tier" system of staff on positions and long-term consultants.
2. Given the choice between these two, I see the need to eliminate the discomfort to managers as the higher priority. The problems for consultants could be alleviated quite simply by doing two things: first, instituting a rule that decisions to renew (or not to renew) the contracts of consultants who have been on board for more than, say, two years, must be taken at least six months before the expiry date of the current contract. Second, ensuring that consultant appointment letters make it clear that multiple long-term contracts do not of themselves imply entitlements beyond the terms of those contracts.

cc: DEC Senior Managers

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

DATE: October 13, 1993 12:16pm

TO: Mieko Nishimizu

(MIEKO NISHIMIZU)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: Re your invitation to "Retreat"

Mieko,

Thanks for the invitation. Unfortunately I will be away during that week. Perhaps some other time.

Best, Michael

CC: Johannes Linn

(JOHANNES LINN)

CC: Paula Donovan

(PAULA DONOVAN)

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

DATE: 11-Oct-1993 02:18pm

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Mieko Nishimizu, FRSDR

(MIEKO NISHIMIZU)

EXT.: 80600

SUBJECT: An Invitation to "Retreat"

Michael,

On behalf of Johannes who is away at present, my FPR colleagues and I would like to ask whether you could speak at our annual retreat.

We are planning to hold the retreat to discuss strategic issues for our Vice Presidency among other topics, from November 11 to 12. The location is within an easy commuting distance from Washington, near the Dulles International Airport. A "dinner speech" -- on any topic of your choice -- in the evening of November 11 (Thursday) is what we have in mind.

We can't promise a good food, but can certainly promise a lively audience. Would you be able to accept this invitation?

Mieko -.

CC: Johannes Linn (o/r)

(JOHANNES LINN)

CC: Paula Donovan

(PAULA DONOVAN)

Mieko,
Thanks for the invitation
Unfortunately will be away
during that week. Have
other time.

Best

M. Linn

L

EM

whole package filed
EDI - Golan

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

MICHAEL BRUNO
Vice President Development Economics
and Chief Economist

October 12, 1993

Alexander H. ter Weele

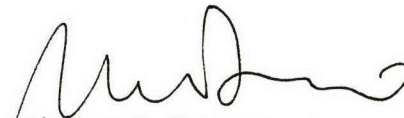
Alex,

Re your October 7 document

All areas are, of course, important. In terms of priorities - it would seem that management of external assistance (A) and housing (C) are a priority, then came E and B. Development of statistics is also important but does EDI have a comparative advantage in that?

But I would wait until after your visit to form a better view on the perceived order of priorities and also on the question of Israel's involvement - Israelis obviously could be very helpful, but one would have to gauge the sensitivities.

Will be glad to hear more about it when you get back.



Michael Bruno

P.S. - Miki Eran at the Bank of Israel would be a good person to consult on the issues and on who else to talk to on the Israeli side.

9069

3 93 OCT -7 PM 4:29
RECEIVED
DEVELOPMENT ECONOMICS
DEPARTMENT OF ECONOMICS

The Occupied Territories

Michael--Regarding EDI activities for the Occupied Territories, if you have any comments on the relative importance of the five possible areas for EDI's assistance (page 2 of the attached), I would welcome them. Marginal comments would be more than adequate.

I will be in the Occupied Territories to overlap the tail-end of Prem Garg's mission in about the first week of November to pursue the attached.

Alexander H. ter Weele

cc. Mr. Golan

OFFICE MEMORANDUM

MF

DATE: October 12, 1993
TO: Distribution
FROM: Michael Bruno *MB*
EXTENSION: 33774
SUBJECT: Delegation of Authority

During my absence from the office November 8 through November 12, Mr. Lyn Squire 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.

Distribution:

Mmes./Messrs.	L. Preston
	A. Karaosmanoglu
	S. Sandstrom
	E. Stern
	I. Shihata
	A. Golan
	G. Ingram
	D. C. Rao
	A. Ray
	L. Squire
	R. Chander
	L. Davis
	M. Walton
	R. Voight
	ISC Files

OFFICE MEMORANDUM

DATE: October 10, 1993

TO: Distribution

FROM: Michael Bruno, DECVP MB

EXTENSION: 33774

SUBJECT: Topic for 1995 WDR

Complete
package
filed under
"Future WDRs"

1. This is to advise you on where I am on deciding on a recommendation for the 1995 World Development Report. I am grateful for the inputs from various staff in this process.

2. A range of topics have been suggested. These included social development/participation, transition, gender, education, the role of ideas and technology in development, reform, the legal and institutional basis for development, aid and water. Jobs has more recently been suggested by a couple of Executive Directors.

3. I asked for short notes on a subset of these to help the decisionmaking process. I then had a first round of consultations with the regional chief economists and staff in the central vice presidencies. This process helped narrow the list:

(a) I believe that transition is a good topic, but after a careful evaluation, decided that it was premature to undertake a WDR since most transition economies are still too early in the process of restructuring to draw robust conclusions. Instead I have asked the Policy Research Department to design a research program on a series of building blocks that could form the basis of a future WDR, should we decide to do one in this area. These focused areas of research could be converted to papers on particular areas for the Board as we go along.

(b) Two others topics--the legal and institutional basis for development and social participation--may be good topics in a few years time, but we do not yet have yet the core of research work and cross-country experience that a WDR requires. For the coming ABCDE conference, we have decided to have institutions as one theme. This will help us to start exploring this area.

(c) Amongst other topics suggested, several do not appear to appropriate for a WDR. Aid effectiveness is undoubtedly important, but is not a good WDR topic since the Bank is itself such a big player. We are undertaking a review of the literature in this area, and should then decide how to handle any work in this area. Water, while interesting, is too narrow. Reform is insufficiently focused. Jobs is unlikely to go far enough beyond the 1990 WDR in messages to justify it as a selfstanding topic--the priority for the Bank should be research on labor market functioning (that we are starting), and the continued implementation of country-level analyses of the links between economy-wide policies and

October 10, 1993

poverty (that has increased significantly since the 1990 WDR, especially in the more recent poverty assessments).

4. This leaves education, gender and ideas as potential candidates. For each of these we have an outline, that is attached. To complete the consultation process, I will chair a meeting on Wednesday November 3rd at 3.45 in S9021, to which you are invited. Any comments prior to the meeting would be welcome. In assessing these options, I would also welcome views on the variant of expanding an education-centered WDR to include some of the issues raised in the gender and ideas proposals, as well as interactions between education and the labor market.

Distribution:

Messrs/Mss: Choksi, Psachoropoulos, Amoako, de Merode, Nguyen, Mooock, Burnett (HRO) Serageldin, El-Ashry, Steer, Petit, Pouliquen, Davis (ESD) Linn (FPR), Rischard, Stern, Perlin, Iskander, Dahlman (FPD) Edwards (LAC), Husain, Salop (AFR), Nankani (SAS), Page (MNA), Selowsky (ECA), Thomas (EAP)

DEC Senior Managers (w/o attachment), Gelb, Jimenez (DEC)

cc. Ms. Kalantzopoulos

EDUCATION: The Case for WDR 1995

It's Education's Turn. The 1991 WDR identified three sectors in which public finance and public policy are of particular importance: education, health and infrastructure. Two have now been covered by WDRs. An education WDR will complete the agenda set implicitly by the 1991 WDR. Moreover, despite education's critical importance for development and poverty reduction, it has not been the subject of any of the 17 WDRs so far written. Several have emphasized education's significance, notably those on Poverty and Human Development (1980), Poverty (1990) and Development (1991). Yet no WDR has been devoted to the education sector, although every other productive and social sector has now been covered. A Bank position on education sector is also overdue; the last Bank policy paper on education as a whole was published in 1980.

The Bank Has Something to Say. Developing countries' educational systems face important challenges on which the Bank has views. The first challenge is to respond to the dramatic shifts in labor markets that have resulted from adjustment and economic liberalization, the integration of the world economy, technological change and migration. The second challenge is to meet new demands which result from widespread political liberalization and decentralization. The third challenge is to move beyond the goal of meeting the demand for primary education, where relative success has been achieved; the goals now should be to restore quality, to achieve equity (with the uneducated increasingly consisting of the poor, of women and of ethnic minorities), to meet rapidly rising demand for secondary and higher education, and to attain sustainability in the light of almost universal fiscal restraint.

Meeting these challenges requires redefining the role of government in education, focusing on three important dimensions: the relative roles of the state and of individuals/households, of the different levels of government -- national, provincial and local, and of the public and private sectors. The role of government in financing and delivering educational services also needs redefining in the light of new research which has documented the contribution of education to economic growth (including the new growth economics), health, fertility and poverty reduction; analyzed the preschool prerequisites for effective schooling; and teased out the factors influencing effective learning during schooling. A WDR on education is the most effective way to deliver the Bank's messages about the role of government and to disseminate the new research.

Education Has Become Big Business for the Bank. Bank lending for education is now over \$2 billion a year, and education's share of total lending has doubled in the last decade to almost 10 percent. The Bank is now the single largest source of external finance for education. Governments, other donors and the academic community are influenced increasingly by what the Bank says and does in regard to education. A WDR is the best way to say what we think and to influence what we and others do.

EDUCATION: CHAPTER OUTLINE

- 1. THE CHALLENGE: TAKING EDUCATION INTO THE NEXT CENTURY**
 - A. Education Today
 1. Delivery and Financing Patterns
 2. Enrollment Achievements
 3. The Quality Issue
 - B. The Challenge of Mass Education
 1. Human Capital, Technology and Economic Growth
 2. Poverty Reduction
 3. Political Liberalization and Nation-Building
 - C. The Solution: Redefining the Role of Government
- 2. GOVERNMENT AND THE EDUCATION SYSTEM**
 - A. The Policy Process
 1. Defining Outcome Objectives
 2. Policymaking Capacity
 - B. Diversifying the Educational Marketplace
 1. Public and Private Institutions
 2. Promoting Diversity of Supply
 3. Promoting Equity of Access
 4. Supplying Information
 5. Assuring Quality
- 3. GOVERNMENT AND THE FINANCING OF EDUCATION**
 - A. Family and State Responsibilities
 - B. Mobilizing Resources
 1. Public Revenues
 2. Cost-Sharing
 - C. Allocating Public Expenditure
 1. Setting Priorities
 2. Financing Demand or Supply?
- 4. MANAGING PUBLIC SECTOR EDUCATION**
 - A. Managing the Public Sector
 1. Decentralization and Autonomy
 2. Professional Management
 3. Contracting Out
 - B. Ensuring Effective Learning
 1. The Content of Education
 2. Organizing the Curriculum
 3. The Student-Teacher Interaction
 4. The Family and the Student
 5. The Teacher
 6. Enhancing the Student-Teacher Interaction
 7. Substituting for the Interaction
 8. Cost-Effective Interventions
- 5. AN AGENDA FOR ACTION**
 - A. The Direction of Reform
 - B. The Political Economy of Reform
 - C. Issues for the International Community

OFFICE MEMORANDUM

Chiron

DATE: October 8, 1993

TO: Robert Picciotto

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Annual Report on Operations Evaluation

Thank you for the opportunity to review this. We have a few comments on the section on Development Training (p. 23) where the description of the review being undertaken on EDI is not quite accurate. See the attached marked up page. I do not have issues with the accuracy of the remainder of the report.

cc: A. ter Weele

4.20 The report of the Task Force will focus on the performance evaluation criteria to assess the additionality of cofinancing, particularly of official cofinancing, and the impact of cofinancing. The report is expected to be completed in the Fall of 1993.

4.21 In addition to resource mobilization CFS's policy objectives include aid coordination. On this front there has not been any self-evaluation attempt to date. Independent evaluations of cofinancing and aid coordination is expected to form part of OED's country reviews, e.g. The Caribbean Region: A Review of World Bank Assistance.

Development Training

4.22 EDI is responsible for the Bank's development training programs. In order to assess the quality and usefulness of the Institute's training activities, the EDI's Strategic Plan (FY90-FY94) outlined a comprehensive program of evaluation. In May 1992, EDI presented to the Board a review of the FY92 program which focused on how to improve the effectiveness of EDI's activities. Detailed ex-post assessments were carried out concentrating on (i) seminar and course accomplishments in achieving regional and thematic objectives; (ii) the improvement of training methods; and (iii) training materials (see Box 8) *← Good as is: no change suggested*

4.23 Most of the evaluations raised significant issues in the areas of teaching methodology, the impact of senior policy seminars, and institutional development efforts. In its FY94-96 Business Plan, EDI indicated that in preparation of a new Strategic Plan for FY95-99, it would be looking back and reviewing the experience of the past five years. This review started in late FY93 by an internal task force who would consult with Bank staff and outside experts. The key issues being reviewed include:

- The role of EDI in Institutional Development. ~~Should EDI conduct courses or train trainers?~~
- The impact and cost effectiveness of national versus regional programs.
- ~~The conflict between the needs of large borrowers and the pressures to focus more on small borrowers.~~
- How far should EDI respond directly to Bank operational needs in relation to the PMTF report?

• *The effectiveness and use of training materials*

4.24 A preliminary report by an outside reviewer on the quality and use of the evaluations produced has concluded that, ~~while the quality of the evaluations seems very good, it was not yet apparent how the evaluations' findings might affect EDI's future activities, specifically, the preparation of EDI's new five-year plan.~~ *and that* The report concludes that wider dissemination of the evaluations is needed both in EDI and among the other agencies that have financed or co-financed either the evaluations or the activities being evaluated.

provide an important input into the

Amnon Golau

Amnon,

OED report

I apologize : this gov
shuck let. Do you have
any problems with the
facts on ~~OED~~ EOI. I'm
fixing the highlights and
2 pages on EOI. OED was
extended the deadline to tomorrow.
Feel free Fed free to get such
straight to OED Mike

OFFICE MEMORANDUM

DATE: September 29, 1993

TO: Distribution List

FROM: R. Picciotto, DGO

EXTENSION: 84569

SUBJECT: Annual Report on Operations Evaluation (FY93)

Please find attached a draft of the above report which presents an overview of evaluation activities in the Bank and IFC.

I would be grateful for your comments by October 6 so that the report can be finalized for Joint Audit Committee consideration scheduled for October 27, 1993.

Messrs:

A. Karaosmanoglu, EXC
S. Sandstrom, EXC
E. Stern, EXC

M. Bruno, DECVP
A. Choksi, HROVP
S. Eccles, CTRVP
K. Kashiwaya, CFSVP
J. Linn, FPRVP
J. F. Rischard, FPDVP
I. Serageldin, ESDVP

S. Husain, LACVP
E. Jaycox, AFRVP
G. Kaji, EAPVP
C. Koch-Weser, MNAV
W. Thalwitz, ECAVP
J. Wood, SASVP

Sir William Ryrrie, CEXVP

ANNUAL REPORT ON OPERATIONS EVALUATION (FY93)

September 29, 1993

**Office of the Director-General
Operations Evaluation**

FOR OFFICIAL USE ONLY

Int. Chron

The World Bank

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



Mr. Stephen Hyneman

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

10/8/93

This is the paper in which
the slide appeared. (p. 11).
I hope you find it
useful. Michael Bruno

Leading article

Stabilization and the macroeconomics of transition - How different is Eastern Europe?

Michael Bruno

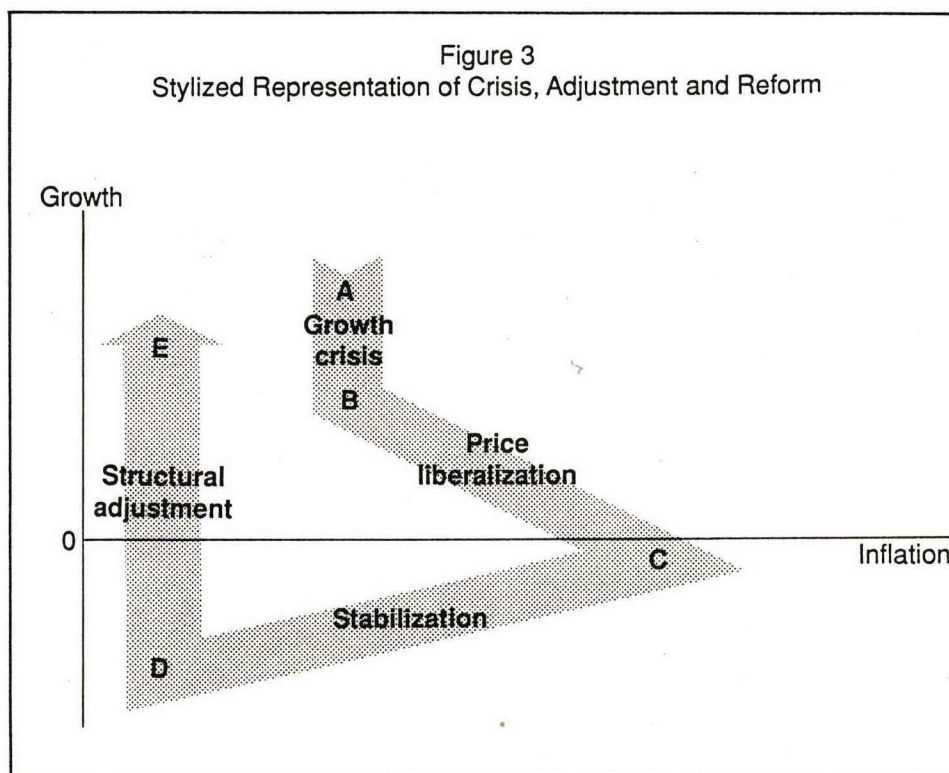
Faculty of Social Sciences
The Hebrew University of Jerusalem
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Jerusalem 91905
Tel: +(972)(0)2-882111

1. Introduction¹

Attempting to understand, let alone give prescriptions for policy making in an entirely different political and institutional setting is always fraught with great difficulties. It takes a long period of new experience, successively and flexibly building on the lessons of earlier mistakes, before the relevant paradigm for the new setting develops. In this respect and several others the transformation of the centrally planned economies to market economies provides one of the greatest intellectual challenges to the economics profession since the encounter with the issues of economic development and industrialization policies for the Developing Economies as it emerged in the post World War II period.

The subject of this paper, that of macroeconomic instability and stabilization strategy is one in which cumulative experience across countries of different regimes and institutional set-ups has hitherto exhibited greater similarity in essence than in other areas of structural transformation or policy design. The roots of macroeconomic imbalance, of open (or repressed) high or hyper-inflation, originate in government deficits and government finances, and the dynamics of price shocks and of the inflationary process, once it bursts out into the open, tend to follow common routes which transcend political or socio-economic regimes. The stabilization cure must likewise incorporate some common basic rules. Nonetheless the interaction of macroeconomic policies with the economy, in the context of an economic reform process, heavily depends on initial micro-structures and institutional environments that differ markedly across regimes and phases of development. Thus even the issue of stabilization in an Eastern European economy, is one that requires careful attention to special institutional features and serious learning from whatever mistakes have been made in the past.²

Are there any lessons to be learnt for Eastern and Central Europe from past experience of adjustment and structural reform processes elsewhere? Further, in view of whatever experience has accumulated in the region since 1989, are there any new policy lessons that have emerged? We take up these questions in the context of three major



3. Structural features and fiscal fragility

The major source of macroeconomic imbalance in all recent case histories, in both groups of countries discussed earlier, has been the fiscal deficit which in the case of Eastern and Central Europe was compounded by a particularly large *quasi*-fiscal deficit originating in the central bank's subsidized lending activities. A key feature of the initial stabilization phase in all cases has thus been the balancing of the budget, primarily through a substantial permanent cut in government subsidies. Set against that, a certain increase in expenditure on the social safety net was envisaged. While the initial budget outcome seems to have been satisfactory in most countries, the subsequent developments (usually starting in the second half of the first year) point to the transitory nature of the budget balance and to the emergence of serious problems for the second and third years of the programmes.

The budget balance always requires careful scrutiny to isolate transitory from permanent changes, a lesson that could again be learnt from recent Latin American experience. The main reason for the failure of Argentina's 1985 Austral Plan, for example, has been the transitory nature of the fiscal balance that was temporarily achieved in 1985. Argentina's subsequent attempts to stabilize without achieving balance in the public sector accounts have all failed. It is only after a systematic reform of budget procedures, starting in 1988, of the relationship between central budget control and the overspending local governments, of tax revenue collection and tax compliance, that the

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

DATE: 07-Oct-1993 10:32am

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Stephen Heyneman, EMTHR

(STEPHEN HEYNEMAN)

EXT.: 32848

SUBJECT: Your slide on ECA economies

Mr. Bruno:

Would you be kind enough to have someone in your office send me a copy of the slide you put on the screen this morning at the Labor Market seminar?

My unit works human resources and social policy here and I think your snapshot of where countries are in the transition could be quite useful for us.

Thank you.

Steve Heyneman.

Rm. H 8-047

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

DATE: 06-Oct-1993 09:03am

TO: Joanne Salop

(JOANNE SALOP)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: WDR on Gender

Joanne,

Many thanks for a very interesting and thought-provoking proposal. I will seriously consider it and will let you know soon.

Michael

CC: Minhchau Nguyen

(MINHCHAU NGUYEN)

CC: Michael Walton

(MICHAEL WALTON)

CC: Lyn Squire

(LYN SQUIRE)

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

DATE: 05-Oct-1993 06:50pm

TO: See Distribution Below

FROM: Joanne Salop, AF4CO

(JOANNE SALOP)

EXT.: 37499

SUBJECT: WDR on Gender

Minhchau's comments on an earlier draft of the outline are attached. They reflect a somewhat different perspective on the treatment of the topic, which you may want to be aware of. They reached me as I was sending the outline to you, so are not reflected in it.

DISTRIBUTION:

TO: Michael Bruno

(MICHAEL BRUNO)

TO: Lyn Squire

(LYN SQUIRE)

TO: Michael Walton

(MICHAEL WALTON)

CC: Minhchau Nguyen

(MINHCHAU NGUYEN)

Return EIR to Joanne Salop

Joanne,

Many thanks for ~~a~~
a very interesting and thought
provoking proposal. I will
~~seriously~~ seriously consider it and I
will let you know soon.
~~See back for your comments.~~

Michael

OFFICE MEMORANDUM

DATE: 6 October 1993

TO: Regional Vice-Presidents

FROM: Michael Bruno, ^{MB}DECVP, and Johannes Linn, FPRVP

SUBJECT: FY94 Unified Survey

1. Attached for your information is a note describing plans and the schedule for the FY94 Unified Survey. We request your support for this important Bankwide activity and ask you to forward this material to your Country Departments for further distribution to their country teams.

2. The Unified Survey generates valuable information for a variety of Bank products such as the Global Economic Prospects paper, the World Development Indicators, the Country Briefs (Economic Indicator Tables), and, internally, for the Portfolio Review and IDA replenishment papers. It brings central and regional staff together to produce meaningful country projections based on common assumptions about the evolution of the world economy, commodity prices, and external finance. The availability of comparable data sets permits the regional chief economists and other Bank staff to see more clearly how disparate country circumstances fit together into subregional, regional, and worldwide aggregates. Results of the Unified Survey are published for use by Bank staff in the SAVEM Tables and the complete dataset is available in the central database. (Projected data for individual countries will remain confidential and will not be published, except for internal use, without clearance from the regions concerned.)

3. After an intensive review of recent surveys and consultations with regional staff, we have made some significant changes both to reduce the burden of the survey and increase the value of the exercise to all participants. The survey will focus on the countries which, because of their size, are of greatest importance to the analysis of the global economy or which, because of creditworthiness concerns or their share of the IBRD portfolio, require special review. The list of countries has been agreed with the regional chief economists. The reporting requirements for many of the remaining countries have been reduced. The final form of the questionnaire is under review and will be circulated as soon as it is available. The historical phase of the survey, which is conducted as part of the semi-annual country briefs exercise, will continue to be based on the Standard Tables.

4. This year's survey starts next week; the full schedule will be found in Annex 1. The full review process is in line with comments received during last year's survey. Individual country projections will be reviewed by DEC and FRS and discussed with the CODs. This will permit us to present the final projections at the subsequent regional review meeting and allow the group to focus on broad, regional issues. As in previous

Revised

paras. 3 & 4

cleared by DEC/ROO

years we will ask the regional chief economists to act as chair of the meeting in their region. IEC will act as secretariat and will provide a summary packet of survey results, including regional summary tables in SAVEM format.

5. Annex 2 contains the list of countries nominated to participate in the years survey. Countries not on the "A" list may, at their discretion, submit complete projections for review. Projections should reflect the most likely macroeconomic and financial outcomes given available financing, rather than a normative projection.

6. Annex 3 provides notes on the inclusion of estimates provided by regional staff in the Bank's central databases. The key point is that under most circumstances, IEC will accept estimates of historical data supplied by the region, provided that they are adequately documented. Regional staff are encouraged to talk directly with the data specialists in IEC.

7. The Unified Survey will be managed this year by IEC. Staff from FRS, FRM, and PRD will also participate in the regional meetings and meet with selected countries for detailed review of their projections. Questions concerning the management of the Unified Survey should be directed to Shaida Badiee, Chief, IEC Systems Division.

Attachments

cc: Regional Chief Economists; Rao, IECDR; Squire, PRDDR; Nishimizu, FRSDR; Donovan, FRMDR; Baird, OEDD2

OK, signed.

Michael

This is for signature,
to launch the

process. Johannes
was keen that you

and he signed off
on it (previously it
was directors), seems fine
to me
Mike

OFFICE MEMORANDUM

DATE: 5 October 1993

TO: Regional Vice-Presidents

FROM: Michael Bruno, DECVP, and Johannes Linn, FPRVP *MB*

SUBJECT: FY94 Unified Survey

1. Attached for your information is a note describing plans and the schedule for the FY94 Unified Survey. We request your support for this important Bankwide activity and ask you to forward this material to your Country Departments for further distribution to their country teams.

2. The Unified Survey generates valuable information for a variety of Bank products such as the Global Economic Prospects paper, the World Development Indicators, the Country Briefs (Economic Indicator Tables), and, internally, for the Portfolio Review and IDA replenishment papers. It brings central and regional staff together to produce meaningful country projections based on common assumptions about the evolution of the world economy, commodity prices, and external finance. The availability of comparable data sets permits the regional chief economists and other Bank staff to see more clearly how disparate country circumstances fit together into subregional, regional, and worldwide aggregates. Results of the Unified Survey are published for use by Bank staff in the SAVEM Tables and the complete dataset is available in the central database. (Projected data for individual countries will remain confidential and will not be published, except for internal use, without clearance from the regions concerned.)

3. After an intensive review of recent surveys and consultations with regional staff, we have made some significant changes both to reduce the burden of the survey and increase the value of the exercise to all participants. The survey will focus on the countries which, because of their size, are of greatest importance to the analysis of the global economy or which, because of creditworthiness concerns or their share of the IBRD portfolio, require special review. The reporting requirements for many of the remaining countries have been reduced. The final form of the questionnaire is under review and will be circulated as soon as it is available. The historical phase of the survey, which is conducted as part of the semi-annual country briefs exercise, will continue to be based on the Standard Tables.

4. The schedule for this year's survey will be found in Annex 1. Following comments received during last year's survey we have decided to return to a schedule in which the regional review meetings follow the individual country reviews. This will permit us to present the final projections at the regional review meeting and allow the group to focus on broad, regional issues. As in previous years we will ask the regional chief economists to act as chair of the meeting in their region. IEC will act as secretariat and will provide a summary packet of survey results, including regional summary tables in SAVEM format.

5. Annex 2 contains the list of countries nominated to participate in the years survey. Countries not on the "A" list may, at their discretion, submit complete projections for review. Projections should reflect the most likely macroeconomic and financial outcomes given available financing, rather the upper range of possible outcomes.

6. Annex 3 provides notes on the inclusion of estimates provided by regional staff in the Bank's central databases. The key point is that under most circumstances, IEC will accept estimates of historical data supplied by the region, provided that they are adequately documented. Regional staff are encouraged to talk directly with the data specialists in IEC.

7. The Unified Survey will be managed this year by IEC. Staff from FRS, FRM, and PRD will also participate in the regional meetings and meet with selected countries for detailed review of their projections. Questions concerning the management of the Unified Survey should be directed to Shaida Badiee, Chief, IEC Systems Division.

Attachments

cc: Regional Chief Economists; Rao, IECDR; Squire, PRDDR; Nishimizu, FRSDR; Donovan, FRMDR; Baird, OEDD2

Information on the FY94 Unified Survey for Country Operations Divisions

Overview

1. This note is intended to alert you to the forthcoming FY94 Unified Survey, so that your data gathering and model preparation may be accomplished smoothly. Please share the following information with your country teams and encourage them to plan ahead. The Unified Survey schedule is attached as Annex 1.
2. The Unified Survey will be conducted in substantially the same manner as last year. Following a review of the historical data, regional staff will be sent an electronic file containing the cleared historical series through the current base year (1992). They will then be asked to provide projections for selected series through the year 2002. Projections will be reviewed by staff from IEC, PRD, FRS, and FRM. Where necessary, meetings will be held with country teams. Following the country review, a comprehensive regional review meeting will be held.
3. To reduce the burden on regional staff, many countries will be asked to produce projections of fewer indicators, similar to last year's "C" list. Countries included on the "A" list will find that most, if not all, of the required projections can be generated using a standard RMSM-X model. As in previous years, the survey "questionnaire" and completed projections can be submitted as electronic files over the Bank's Banyan network.

Historical phase

4. The first step in this year's Survey, as in previous years, will be to update the historical data for each country. At the start of the historical phase, an electronic file for each participating country will be sent to you. This file, in Standard Table format, represents the current holdings of the central database (BESD/ANDREX). The country teams will be asked to review and revise these series through 1992. The validated information will be used to produce the Economic Indicator Tables that are attached to your Country Briefs. To assist you in preparing your return, a set of validation tables has been included in the Javelin Plus version of the electronic questionnaire. (The validation tables are not available in the Lotus version of the questionnaire.)
5. Paper copies of the draft pages of the World Debt Tables will also be included with the historical Standard Tables. COD staff will be asked to review and clear these data for publication.
6. A number of questions have been raised by regional staff concerning the treatment of their responses to the historical phase of the survey. Please see Annex 3 for a discussion of IEC policy in reviewing and validating data.

Projections phase

7. The second step in the Unified Survey is to project each economy through the year 2002. The final year of the historical time series, 1992, will be the initial or "base year" of the projected series.
8. The guiding principle for the projections is that they should reflect the most likely macroeconomic outcomes, given the common set of PAC assumptions, existing policy conditions, and the external financing likely to be available to the country. Projections should therefore adopt an "availabilities," rather than a "requirements" approach. Large financing gaps should not be built into the projections. On the other hand, a realistic assumption about future IMF financing should be made, and, where likely, debt rescheduling should be included in the financing plan.
9. At the commencement of the projections phase, you will receive an instruction package. This package will include:
- assumptions about major commodity prices and selected global indicators
 - data definitions and standard acronyms
 - specific instructions for completing the Unified Survey using either Javelin Plus or Lotus 123 software
 - the names of contacts for assistance in completing the Unified Survey.
10. You will also receive an electronic file, available on diskette or through the Bank's electronic network, in Standard Table format. The file will include:
- the validated historical data
 - projected population figures
 - external debt pipeline
 - an error-checking routine to ensure the arithmetic consistency of your numbers
 - a table-generator that will produce an executive summary table for your review and approval
11. Please note that the projection package cannot be sent out until the historical questionnaire has been completed and returned. Because the last year of the historical series (1992) will be used as the initial year for projections, you are urged to review these data thoroughly during the historical survey.

Indicator coverage

12. For the purpose of this year's Unified Survey, countries are classified into two categories according to the level of detail required in their projections. Countries are placed in the "A" category based on their share of LMIC GNP, creditworthiness concerns as determined by FRS, and their relative share in the IBRD portfolio. All other countries have been put in the "C" category. There is no "B" category this year.
13. Countries on the "A" list are required to submit a complete set of projections in Standard Tables format. We are presently reexamining the Standard Tables to determine whether some indicators can be dropped from the projections. The "A" country projections are most effectively done using the RMSM-X model and the data

management tools of the "Economist's Workstation." The "C" countries should be able to complete their projections using the RMSM or similar model.

14. We recognize that all of the requested data are not available in every country and that some indicators will require the judgment of staff members familiar with the country. In general, we expect country teams to supply historical data only where reliable (or at least plausible) information is available. A complete set of projections should be supplied, except where adequate base-year data are unavailable.

Submission memo and executive summary table

15. When your staff have made a satisfactory projection, one that is numerically consistent and economically plausible, they should prepare a brief memo describing the main macroeconomic, policy, and financing assumptions underlying the projection - including the treatment of external debt if rescheduling or reductions or the creation/elimination of arrears are anticipated - to which should be attached a printed copy of the Executive Summary table. This memo, bearing the signature of the Division Chief, should be sent the electronic file to the Systems Division of the International Economics Department (IECSD) for processing and electronic distribution to the central staff who will be reviewing the projections.

Review process

16. IECSD will recheck and load your data into a central database. (Note that if the rechecking indicates serious numerical inconsistencies or major gaps, your submission will be rejected automatically and returned to you with a computer-generated message.) Staff in IEC, PRD, FRM, and FRS will then review the numbers for accuracy and plausibility in terms of global consistency, macroeconomic policy, external financing, and debt management. Please note that countries not on the "A" list who would like a more thorough review of their projections should submit a complete projections survey in the "A" country format and request an in-depth review in their cover memo to the chief of the IEC Systems Division.

17. A limited number of informal, country-specific meetings will be held between the country teams and staff from IEC, PRD, FRS, and FRM. The purpose of these meetings is to clarify key assumptions underlying the projections and their relationship to broader regional and global conditions.

18. A series of regional meetings will be held, chaired by the regional chief economist, to review the projections and to identify significant regional and global trends. As an aid to discussion at the regional meetings, preliminary tables in SAVEM format will be generated based on the information submitted up to that point.

19. In some cases, it may prove necessary to request a resubmission of the projections for a particular country. Once all country projections have been accepted as complete, consistent, and economically plausible, the electronic files will be closed and SAVEM (Selected Analytical Variables for Economists and Managers) tables will be printed. The Survey will be finished. Please note that country projections remain

confidential and are not disseminated outside the Bank except in aggregate form or with the permission of the regions concerned.

20. We stand prepared at all times to assist CODs in organizing their databases and in developing RMSM-X projection models. Special seminars on preparing the Unified Survey will be conducted during the month of October. Please advise your country teams to contact Eric Swanson, IECSD, for more information concerning the Unified Survey and the Economist's Workstation. He can also help to put them in touch with data specialists in IEC or with members of the Unified Survey team to answer specific questions.

Annex 1: FY94 Unified Survey Schedule;

Annex 2: FY94 Unified Survey Countries;

Annex 3: Notes on the inclusion of regional estimates in the central database

Annex 1: FY94 Unified Survey Calendar

12 October	Historical survey and WDT pages sent to CODs
26 October	Deadline for return of cleared historical files
27 October	PAC assumptions and price projections ready
1 November	Projection packages distributed
24 November	Deadline for receipt of projections
25-28 November	Thanksgiving holiday
29 November -7 January	Survey review and country meetings
10-24 January	Regional meetings
24 January	Final date for receipt of revised projections

Annex 2: FY94 Unified Survey Countries

"A" Countries

1. Algeria
2. Argentina
3. Belarus
4. Brazil
5. Bulgaria
6. Cameroon
7. China
8. Colombia
9. Cote d' Ivoire
10. Dominican Republic
11. Ecuador
12. Egypt
13. Guatemala
14. Hungary
15. India
16. Indonesia
17. Iran
18. Jordan
19. Kazakhstan
20. Korea
21. Malaysia
22. Mexico
23. Morocco
24. Nigeria
25. Pakistan
26. Panama
27. Peru
28. Philippines
29. Poland
30. Romania
31. Russia
32. Slovak Republic
33. South Africa
34. Thailand
35. Turkey
36. Ukraine
37. Venezuela
38. Zimbabwe

"C" Countries

1. Albania
2. Angola
3. Armenia
4. Azerbaijan
5. Bangladesh
6. Benin
7. Bolivia
8. Botswana
9. Burkina Faso
10. Burundi
11. Central African Rep.
12. Chad
13. Chile
14. Congo
15. Costa Rica
16. Czech Republic
17. El Salvador
18. Equatorial Guinea
19. Estonia
20. Ethiopia
21. Fiji
22. Gabon
23. Gambia
24. Georgia
25. Ghana
26. Guinea
27. Guinea-Bissau
28. Guyana
29. Haiti
30. Honduras
31. Jamaica
32. Kenya
33. Kyrgyzstan
34. Laos
35. Latvia
36. Lebanon
37. Lesotho

"C" countries, cont'd

38. Lithuania
39. Madagascar
40. Malawi
41. Mali
42. Mauritania
43. Mauritius
44. Moldova
45. Mongolia
46. Mozambique
47. Myanmar
48. Nepal
49. Nicaragua
50. Niger
51. Papua New Guinea
52. Paraguay
53. Rwanda
54. Senegal
55. Slovenia
56. Somalia
57. South Africa
58. Sri Lanka
59. Sudan
60. Syria
61. Tajikistan
62. Tanzania
63. Togo
64. Trinidad
65. Tunisia
66. Turkmenistan
67. Uganda
68. Uruguay
69. Uzbekistan
70. Vietnam
71. Yemen
72. Zaire
73. Zambia

Annex 3: Notes on the Inclusion of Regional Estimates in the Central Database

1. The process of clearing and validating the historical data is frequently a source of frustration, just as much to central staff as to regional staff. It may, therefore, be useful to provide some guidelines concerning IEC's treatment of different types of data collected during the Survey.

a. In the case of the National Accounts, IECSE generally accepts estimates reported by the country economist, provided that a minimum explanation of sources and methods is provided. If there are internal inconsistencies, the staff of IECSE will work with the COD to resolve discrepancies.

b. As we did during the Spring Survey, we will accept the country's version of the Balance of Payments and will generate Economic Indicator Tables using these data. In published outputs (for example, World Tables) IEC attempts to adhere to international standards and sources in order to ensure comparability. For the BOP, IECSE give precedence to estimates from the Fund's Department of Statistics' estimates. Note that rules for compiling the Standard Tables were established in the Stern/Kreuger memo of 30 October 1984 and have been incorporated by reference in Operational Directive 2.10 governing Country Strategy Papers. However, when the country economist presents a well-documented case for "over-writing" the Fund data, IECSE does so.

c. The trade, government finance, and monetary estimates provided by the country economist will be accepted without question by IEC (assuming they pass the validation checks incorporated in the Unified Survey questionnaire), but data from authoritative international sources may be substituted in external publications.

d. A common source of misunderstanding between COD and IEC staff seems to be the debt data. One of the purposes of the fall survey is, of course, to obtain the COD's clearance of the debt figures that will be published in the forthcoming World Debt Tables. COD staff should, therefore, take this opportunity to raise questions with the debt specialists responsible for their country. For countries that have rescheduled debt service in past year, please note the "adjustments" that are included in the historical series to arrive at the total interest and principal DUE.

2. Although the preceding comments apply strictly to the historical phase of the Survey, we frequently encounter, while processing the projection returns, abrupt and unexplained changes in the historical data series. We urge country teams to include all revisions to their historical series during the first phase of the survey. Should it be necessary to revise these data later, please note and explain the changes in the covering memo.

3. Questions are sometimes raised concerning the differences between the real growth rates derived from the CODs projections and those derived from the 1987 base-year series produced by IEC. The partial-rebasing methodology used to convert the countries' original base-year data to a common base-year will sometimes lead to such differences. IEC applies a uniform procedure to all countries and regional staff are not expected to calculate their own estimates in 1987 base-year or to correct those from IEC.

4. Please note that all data -- history and projections -- returned during the Unified Survey are stored "as is" in the central database where they are accessible through ANDREX. These data can be used by the country teams to produce standard Bank reports such as Economic Indicator Tables or the SAVEM country pages.

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

DATE: 06-Oct-1993 08:57am

TO: Amnon Golan

(AMNON GOLAN)

FROM: Michael Bruno, DECV

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: Letter from William Rhodes

Thanks for your EM. We have not yet received the letters. Would strongly prefer if you found someone else.

Thanks,

Michael

CC: Kate Oram

(KATE ORAM)

CC: Michael Walton

(MICHAEL WALTON)

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

DATE: 28-Sep-1993 11:55am

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Amnon Golan, EDIDR

(AMNON GOLAN)

EXT.: 36300

SUBJECT: Letter from William Rhodes

You should receive in a day or two a letter signed by William Rhodes inviting you to serve as a member of an External Review Board for the Columbia University/EDI Program in Economic Policy Management.

The purpose of the Review Board is to review and advise on the Columbia University/EDI Program. The amount of time required to serve on the Board will be modest--the Board is expected to meet once each year.

We urge you to accept the invitation of William Rhodes to serve on the Board.

Thank you.

CC: Michael Walton

(MICHAEL WALTON)

CC: Kate Oram

(KATE ORAM)

Michael:

My sense is that this is a successful program, but not a priority use of your time - could equally get good external people. I asked DC as a separate opinion and he agrees. So the onus is back on Amnon to persuade you. Mike

Mike,

is this important?

MB

9/30

Shrugly advise
to find someone else.

MB 10/5

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

DATE: 06-Oct-1993 08:43am

TO: Raquel Fernandez

(RAQUEL FERNANDEZ)

FROM: Michael Bruno, DECVF

(MICHAEL BRUNO)

EXT.: 33774

SUBJECT: RE: welcome

Hi Raquel,

What a pleasant surprise! We should indeed get together. Hope to see you Thursday or Friday.

Best

Michael

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

DATE: 04-Oct-1993 03:43pm

TO: Michael Bruno

(MICHAEL BRUNO)

FROM: Raquel Fernandez, EC2CO

(RAQUEL FERNANDEZ)

EXT.: 32986

SUBJECT: welcome

hi!

now that i'm back from a rather busy 2 months (argentina econometric society meetings and a mission to slovakia) i thought i would take the opportunity to say congratulations on your new appointment. i am spending 6 months at the bank, working at EC2CO (i assume you are by now an expert at these acronyms), and returning to bu in january. there is nothing like getting tenure to precipitate an existential crisis and lead one to look around for a change. i exaggerate, but i was feeling a need to do something a bit more practical for a change, hence country operations at the bank...

if you ever have the time, we should get together for a cup of coffee or lunch. i will be at the labor market conference this thurs. and friday and hope to see you then.

take care,
raquel.

10/5
Urgent - P/s.
Send E.M.
↓

hi Raquel,
What a pleasant surprise!
We should indeed
~~be~~ get together -
hope to see you Thursday or
Friday. Best,
Michael



Record Removal Notice



File Title Michael Bruno - Internal Chronological Records - Correspondence October - December 1993		Barcode No. 30321948		
Document Date October 4-5, 1993	Document Type Memorandum			
Correspondents / Participants Bimal Jalan, EDS12, and Michael Bruno				
Subject / Title [Questions raised during Annual meeting lunch and related books]				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by K. Brenner-Delp</td><td>Date June 25, 2025</td></tr></table>	Withdrawn by K. Brenner-Delp	Date June 25, 2025
Withdrawn by K. Brenner-Delp	Date June 25, 2025			

OFFICE MEMORANDUM

DATE: October 4, 1993
TO: Distribution
FROM: Michael Bruno MB
EXTENSION: 33774
SUBJECT: Delegation of Authority

During my absence from the office October 14 through October 27, Mr. Lyn Squire 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.

Distribution:

Mmes./Messrs.

L. Preston
A. Karaosmanoglu
S. Sandstrom
E. Stern
I. Shihata — Kolan E1235
A. Golan
G. Ingram
D. C. Rao
A. Ray
L. Squire
R. Chander
L. Davis
M. Walton
R. Voight
ISC Files

OFFICE MEMORANDUM

Int. Chm

DATE: September 29, 1993

TO: Mr. Lyn Squire, Director, PRD

FROM: Michael Bruno, Chief Economist/DECVP *mb*

EXTENSION: 33774

SUBJECT: Terms of Reference: Cairo - October 2-7

1. You will depart Washington on October 2 and travel to Cairo where you will attend the meeting of the Board of Trustees of the Economic Research Forum.
2. On your return to Washington on October 8, you will prepare a short back-to-office report on the meeting.

cc: Messrs: Koch-Weser, Page, Diwan

9032
→ MW

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 29, 1993

93 SEP 30 AM 11:47

TO: Mr. Lyn Squire, Director, PRD

RECEIVED
DEVELOPMENTAL ECONOMICS
SEP 30 1993

FROM: Michael Bruno, Chief Economist/DECVP

EXTENSION: 33774

SUBJECT: Terms of Reference: Cairo - October 2-7

1. You will depart Washington on October 2 and travel to Cairo where you will attend the meeting of the Board of Trustees of the Economic Research Forum.
2. On your return to Washington on October 8, you will prepare a short back-to-office report on the meeting.

cc: Messrs: Koch-Weser, Page, Diwan

MBruno:cmb

OFFICE MEMORANDUM

DATE: October 1, 1993

TO: Mr. Armeane Choksi

FROM: Michael Bruno *mb*

EXTENSION: 33774

SUBJECT: Development Committee Paper on Population

Armeane: Mr. Jean-Claude Milleron, U.N. Under-Secretary, in the course of an extended conversation, mentioned that the U.N. Population Division, a unit reporting to him, would be more than happy to provide inputs for the preparation of the above paper. I do not know if they have anything substantive to offer, but your staff may wish to contact Mr. Joseph Chamie and open a possible channel.

Regards, Michael

cc: R. Chander

ROUTING SLIP		Date Oct 1 1993	
NAME		ROOM NO.	
Mr Bruno			
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			
If you agree, may I have your signature please. Thanks			
From	Room No.	Ext.	
R. Inando		31314	