THE WORLD BANK AND ITS FUNCTIONS

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The World Bank And Its Functions

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Objectives and Purposes of the World Bank: The objectives of the World Bank is related to Bretton Woods System. There was less attention and preliminary meetings in order to establish this fund. to create an international adjustment mechanism, dealing with such controversial matters as exchange rate policy and access, to liquid currency resources. The fundamental aim of this organization is to create an international investment agency seeking international co-operation in long term and medium term foreign lending. The Bank's scope was limited. There was no direct authority or influence over members as the Fund was supported to have. Its function was not to monopolise international investment but the encourage it and to make it possible in certain marginal cases.

The Bank's potential contribution to a stable world economy was very real one. The essential condition of international stability is an overseas investment by creditor countries. The bank had an complementary role to play with the fund. The international investment would prove to be of crucial importance. The Great Britain play an important role in this regard. The Great Britain as the great creditor used her export surplus to develop overseas areas, and was content to take payment for her loans in flow of primary products. The United States was the creditor and she possessed the trade structure to promote widespread foreign lending nor the inclination to undertake it. International Investment play the equilibrium role in a dollar world. The institution was created as the complement of the Fund. Its purpose was the facilitate the international investment of Capital for productive purposes.

They tend to make and quarantee loans as long and medium terms. Its projected scale of operations and conditions laid down for it in the Article of Agreement. Its immediate task was to aid in reconstruction by promoting loans for the rebuilding of productive machinery. Its aim is to develop the resources and productive capacity of the world's backward regions. They tend to promote and maintain equilibrium in the international balance of payments of all member countries. The purpose of this institution is changed and it focused on "human being" and his/her brain. Because brain is the essential thing in the world. It can create everything and it can establish everything we can imagine.

Functions, Duties, activities and performances of the World Bank:

According to the World Bank publications, activities and functions of the World Bank can be classified as follows:

1. Controlling of Moderate Inflation
2. To eliminate shocks, arranging purchasing power parity, and the equilibrium Real Exchange rate.
3. To determine obstacles to Developing Indigenous small and medium Enterprises.
4. Estimating Returns to scale with large, imperfect panels:

5. The oretical implications of Imperfect competitor on Quota License Prices and Auctions:
6. To apply sovereign dept
7. Modeling the macro economic effects to Tanzania
8. Trade Reforms in the partially liberalized economy of Turkey
9. A medium-term Framework for analyzing the Real Exchange rate, with applications to the Philippines and Tanzania
10. An Institutional Analysis of the Design and sequence of trade and investment Policy Reform.
11. correcting for Sampling Bias in the measurement of welfare and poverty in the Cote d'lvoire living standards survey.
12. Household welfare and the pricing of cocoa and coffee in Cote d'lvoire: Lessons from the living standards survey.
13. The determinants and consequences of the placement of Government Programs in Indonesia.
14. Labor Markets and Adjustment in open Asian Economies. The Republic of Korea and Malaysia.
15. Explaining the relative decline of Agriculture: A supply side Analysis for Indonesia.
16. To arrange tariff rates, Tariff revenue and tariff reform.
17. To determine the effect of Financial liberalization on the Capital Structure.

18. To determine investment decisions of Indonesian manufacturing Establishments

19. To determine the scope for Fuel substitution in manufacturing industries.

20. To determine the impact of Two-tier producer and consumer Food pricing in India.

21. Domestic content and compensatory Export requirements: Protection of the motor vehicle. Industry in the Philippines.

22. To measure the restrictiveness of Trade Policy.

23. To adjust the trade restrictiveness of the multi-Fibre Arrangements.

24. To arrange Labor supply and Targeting in poverty Alleviation Programs.

25. To apply duel exchange rates in Europe and Latin America.

26. To determine the impact of Mexico's retraining programs on Employment and Wages.

27. To adjust the distribution of subsidies through public health services in Indonesia.

28. To adjust capital mobility in Developing countries: Some measurement issues and Empirical Estimates

29. To determine the political of growth: a critical survey of the Recent literature:

30. To apply presumptive Pigo vian Tax: Complementing regulation to mimic an emission fee.

31. To change labor market conditions and economic development in Hong Kong, the Republic of Korea, Singapore and Taiwan, China.

32. To determine the welfare cost of price controls for cars and color Televisions in Poland: Contrasting estimates of Rent - Seeking from recent experience.
33. To develop parallel exchange rates in developing countries.
34. To apply gradual unification in highly distorted economies.
35. To build incentives and the Resolution of Bank Distress
36. To finance infrastructure in developing countries: policy implications.

Most of the countries whose experiences are studied here reached moderate or high inflation as a result of external shocks, particularly in commodity prices. Countries that remained in the moderate-inflation range after arriving there, notably Colombia, Chile, and, for a shorter time, Mexico, did so only by taking decisive action to prevent inflation from rising at certain specific points. Brazil, which was not willing to slow growth to stay in the moderate-inflation range, found itself as a result with high, sometimes extreme, inflation.

Three of the countries that successfully disinflated to low inflation-Ireland, Korea, and Spain - did so at a significant cost to output. Each of those countries used nonmarket measures-the equivalent of an incomes policy-to assist the disinflation. In Korea wage growth was reduced through restraints on public sector wages and by exercising moral suasion on the private sector. Even in Indonesia subsidization of rice constituted an unorthodox, incomes-type policy. There is little evidence in the data that the Indonesian disinflation imposed significant output costs.

Each of the disinflations was accompanied by a very strong fiscal contraction. Fiscal contractions were also undertaken in Chile and Mexico to reduce high inflation to the moderate range, and in Colombia to keep inflation moderate.

Countries in the moderate-inflation range typically had exchange rates that were managed, such as crawling pegs or rates with intermittent depreciation. The

European disinflators, Ireland and Spain, used an exchange rate commitment as part of their disinflationary strategy. Mexico likewise relied on an exchange rate anchor in bringing down high inflation. None of the evidence reviewed for this article, nor evidence in other studies, establishes firmly that the exchange rate commitment significantly reduced the costs of disinflation.

Indexation and disindexation appear to have played an important role in the Latin America inflations and disinflations. In Mexico, in the context of the Pacto, the departure from backward-looking pay increases was an essential part of the stabilization. Colombia in effect decided to live with inflation by permitting the introduction of indexation. Neither Korea nor Indonesia used explicit indexation widely, nor did Spain or Ireland. Whether disinflation is easier in the absence o indexation, or whether the absence of indexation, or whether the absence of indication indicates a government's commitment not to live with inflation, is difficult to say at this point.

Seigniorage revenue accounted for a significant share of government revenue in most of the moderate-inflation countries. Seigniorage was especially high at the start of most of the inflationary episodes. This affected the fiscal effort that had to be made to reduce inflation, but there is little evidence in the literature that Seigniorage considerations played an important role in the thinking of any government. This absence may reflect a general lack of understanding of the inflationary process, or may rather mean that Seigniorage is rarely an explicit

reason for a government to pursue inflationary policies. We believe the latter interpretation.

In summary, there is unfortunately little encouragement in these case studies for the view that an exchange rate commitment, or incomes policy, allows a country to move at low cost from moderate to low inflation. Governments have successfully reduced moderate inflations to low inflations through a combination of tight fiscal policy, incomes policy, and generally some exchange rate commitment-and by taking advantage of favorable supply shocks to ratchet the inflation rate down.

Modeling the Macro-economic Effects of Rich

The World Bank. A policy's impact on the size and composition of the labor force would first have to be simulated by using epidemiological and demographic models. The output from these models plus information on the effects of alternative programs on budgets and savings could then be used as inputs in macroeconomics models, such as the one presented here. When considering policies to control and cope with a devastating disease such as AIDS, it is imperative to account for the direct effects of the disease on individuals' well-being through increased morbidity and portality rates as well as the indirect effects of the disease on worker productivity and hence the potential to earn income. If linked to an epidemiological and demographic simulation model, a macroeconomics model such as the one described here should be able to analyze

the effect of various interventions in the health sector on the productive capacity of the economy. To the extent that such interventions reduce the rate at which the disease spreads, one would expect macroeconomics outcomes that lie between the extremes of the no-AIDS scenarios.

Finally, the sensitivity of the findings presented here to the assumptions regarding saving points to the urgency of careful reconsideration of government budget priorities. In economies in which the public sector bears a large proportion of medical costs, the government must make difficult decisions about how of finance medical expenditures as AIDS-related spending rises. To what extent should other current or capital expenditures, or both, be cut? The demographic shifts caused by AIDS will, of course, factor into these decisions. In light of the negative consequences of AIDS on the labor force, policy initiatives to restore productivity and maintain the stock of human capital will be critical for achieving economic growth with high levels of employment.

The World Bank discuss the theoretical and empirical shortcomings of different approaches to computing the equilibrium real exchange rate. We present a small model that distinuighes between imports, exports and domestic goods and incorporates imperfect substitutability between imports and domestic goods in demand and imperfect transformability between exports and domestic goods in supply. We argue that this 1-2-3 model is an extension of the Salter-Swan model, and that it reconciles the tradable-nontradable goods model with the purchasing-power-parity approach.

The 1-2-3 model can be used to compute the equilibrium real exchange rate when there are changes in the sustainable balance of trade and in international prices. Estimates using this model depart quite substantially from those using PPP approach, which neglects terms of trade shocks-arguably the main cause of changes in the equilibrium real exchange rate since the 1970s. The results from the 1-2-3 model agree closely with the results from larger computable general equilibrium (CGE) models. The 1-2-3 model estimates of changes in the equilibrium real exchange rate agree closely with those obtained from larger, more elaborate CGE models, such as have been used to analyze issues of structural adjustment in Cameroon and Indonesia. In practice, using the 1-2-3 model to compute changes in the equilibrium real exchange rate requires little more information than is required to make PPP calculations.

The 1-2-3 models does requiring information to calculate two elasticities whose values are difficult to estimate with limited. And the required real exchange rate depreciation can be quite sensitive to these elasticities. Nevertheless, experience with larger models as well as empirical estimation in some countries helps us narrow the range of values for these elasticities, thereby narrowing the range of estimates of the required depreciation.

As the empirical analysis has shown, SMES operate in a complex environment and confront a diverse array of constraints; it is chimerical to search for a single constraint, common across countries, that, once released, will lead to rapid development of SMES. Not only is there substantial variation among

countries as to which constraint is binding, but the release of one constraint is likely to bring to the forefront some other constraint whose inhibiting influence had not previously been evident. Yet for all of this complexity, the analysis has outlined an approach to learning how SMES perceive the impact of the various nonprice constraints and to evaluating the results in relation to other empirical indicators.

The applications of the approach uncovered quite different patterns of SMES constraints in Tanzania and Sri Lanka and, within Sri Lanka, between relatively finance represents the binding constraint on expansion for all classes of SMES in Tanzania, as well as for smaller, less established firms in Sri Lanka. Furthermore, this constraints appears more severe for the smallest Tanzania SMES than for their Sri Lankan counterparts: although formal banks do not lend to the smallest firms in either country, both informal finance and trade credits appear to be more readily available in Sri Lanka. In Tanzania, the financing constraint was followed-again for all SMES, but with a disproportionately severe impact on the smallest-by the burdens of pervasive and nontransparent tax and regulatory obligations. By contrast, the smallest and least established Sri Lankan enterprises remained informal and reported no difficulties with regulatory authorities. Neither the smallest Sri Lankan nor any of the Tanzanian firms reported technical, marketing, or input constraints to be significant obstacles to expansion, although this appears to reflect more their narrow market and limited information than any underlying capabilities.

The World Bank are aware of to provide systematic panel-based econometric estimates of the returns to scale in manufacturing industries in a developing country. As such, we believe it sheds new light on several issues of interest to policy makers. One issue is whether increases in size cause improvements in efficiency. If such causality is present over the production ranges in which plants operate, there are productivity gains associated with policies that promote bigness in manufacturing plants. We find that although several four-digit sectors show increasing returns, general expansion of the manufacturing sector cannot be expected to yield strong plant-level scale economies. Specifically, if we take our best estimates at face value, they imply that the returns to scale in manufacturing are scattered across the range of 0.8 to 1.2 at the three-digit level, and 0.7 to 1.6 at the four-digit level. None of the estimates of returns to scale using four-digit industries, are significantly different from unity. The findings complement those of a related study where we found that Mexico's dramatic trade liberalization was associated with modest increases in scale efficiency.

There are three different approaches to incorporating institutional considerations in the design of structural adjustment lending. The first approach is an ignore institutional considerations entirely and design programs on the assumption that public organizational capabilities and the political commitment reform will be forthcoming. If this approach is taken, the policy changes and

subsequent economic responses are likely to be quite different from what were reformers initially intended.

The second approach is to acknowledge the institutional constraints, but an earmark technical assistance for weak institutions only after the reform packages has been designed on the basis of other considerations. This approach is clear preferable to entirely ignoring institutional capabilities. Even so, its potential at limited because it does not address political obstacles to reform and presume (optimistically) that technical assistance will be sufficient to enhance organizational capability even in the short term.

The third approach is to bring institutional considerations to center stage designing and sequencing programs in ways that are consistent with the capabilities of the reforming country. Assessments of organizational capabilities within the public sector and of the political preferences and room to maneuver of the national leadership are crucial to any such effort. A body of knowledge emerging about how to proceed with political and organizational assessment.

The focus of this articles is rather on evaluating political and organizational obstacles to clarify concretely how programs to reform trade and investment policy might usefully be matched to a country's capabilities. Figure 1 highlight alternative approaches to policy reform, each of which can be viable if appropriately matched to country capabilities. Yet even after careful assessment there may be substantial uncertainty in many countries about the kinds of reform the political and administrative systems will be able to absorb.

For domestic competition (at least for those elements examined in this article these residual uncertainties complicate only marginally the question how is proceed with reform). The analysis also reveals that even organizationally well endowed countries, such as Mauritius, Mexico and Tunisia, have preferred to follow the organization-light route of dismantling disabling institutions and regulations. It follows that in virtually all countries the strong presumption should be for reform to dismantle-not reconfigure-restrictive entry rules and dysfunctional systems of discretionary investment incentives.

By contrast, the analysis implies that there is no single approach, common across countries, through which trade policy reform should proceed. In countries where administrative capabilities are weakest, the export development tools to secure trade neutrality will be unworkable and hence powerless to alter the relative incentives of production for domestic and export markets toward increased outward orientation. In these settings, reform efforts should push to the limit of what is politically feasible to liberalize imports. If many domestic producers appear too weak to withstand the discipline of increased import competition (and if widespread bankruptcies appear politically and economically intolerable), exchange rate undervaluation should be seriously considered as an alternative source of protection in a liberalized trade regime.

In some countries the administrative capabilities are moderate, but the political limits of import liberalization have unequivocally been reached. In such countries the case might be strong for technical assistance targeted to strengthen

the capability of enclave institutions to provide duty-free access to imported inputs that operate entirely separately from the wider bureaucratic apparatus of government. Consistent with this roundabout strategy is the recent establishment of bonded factories in Kenya (and, earlier, enclave efforts in the Philippines and Tunisia). Instruments of trade neutrality can help sustain the dynamic of reform only if they extend participation in exporters and firms that produce for protected domestic markets. It remains unclear whether administrative enclaves can be organized in ways that reach a broad range of firms.

As for countries that are administratively strong, there is by now abundant evidence from East Asia (as well as from Thailand, which is included in this analysis) that skillful use of the instruments to achieve trade neutrality can secure outward orientation without full-scale prior import liberalization. Once clear implication of this analysis is that the East Asian pattern will not be replaceable in countries that are administratively weak. But a second implication is that in administratively strong countries it may not be necessary to provoke confrontation with powerful protected interests. These countries can readily move forward with roundabout policies that make intensive use of the instruments of trade neutrality as well as other administration-intensive measures to induce firms to export. As the successful East Asian examples of development reveal, these latter policies-although illiberal in the short-term-can be highly effective in promoting dynamically efficient economic development (Amdsden 1989; Johnson 1982; Wade 1990).

The World Bank illustrates the need for analysts to investigate the properties of the data in use, including its sampling design, although this does not appear to be a frequent practice among users of household survey data. Out study of the Cote d'Ivoire Living Standards Survey, 1985-88, reveals flawed sampling procedures, which have not been corrected by previous users of data The flawed procedures have resulted in biases in estimates of household size, which in turn have yielded biased estimates of household expenditure and of poverty. Basic-needs indicators reported for the country as a whole have been less affected, but the bias has proved to be more pronounced at the lower end of the distribution.

The correction procedure described here applied suitably constructed household-size weights to the data. The quantitative adjustments to estimated variables proved to be nontrivial and underlined the seriousness of problems arising from sampling biases. For example, the head count estimate of poverty in Cote d'lvoire was found to have been overestimated by 14 percent in 1986. The bias proved to differ widely across regions and socioeconomic groups and was frequently in the order to magnitude of 20 to 30 percent. Such differences are not merely of academic interest; they can affect policy interventions that are guided by survey results.

The correction of sampling bias also affects time-series analysis of CILSS data. Original results displayed a gradually rising trend in poverty in Cote d'lovire from 1985 to 1987. In fact, poverty did not change (or even fell marginally) from 1985 to 1986, although it did increase rapidly in 1987. These results clearly affect

the assessment of macroeconomics policies conducted during the period, especially because in 1987 the government of Cote d'lvoire abandoned a previously sustained adjustment program. The overestimation of poverty in 1985 obviously also means that the total increase in poverty from 1985 to 1988 was underestimated. Taking the head count ratio as an example, poverty was recorded as increasing from 32.4 percent in 1985 to 45.9 percent in 1988 (an recorded as increase of 41.7 percent). However, the weighted head count for 1985 is only 30.0 percent, so poverty in fact increased by 53 percent during the period.

Although the operations of equity markets in developing countries have become significantly more efficient, there is still room for further improvement, particularly in terms of infuriation. In many countries there are significant barriers to the dissemination of information, and companies appear to divulge less information with a greater time lag than is customary in well-developed markets. Most of the developing equity markets lack substantial breadth, in the sense that trading values decrease markedly outside the small set of stocks-usually fewer than twenty-with high trading values, and many stocks rarely trade. For instance, even in markets as developed as those in Hong Kong and Mexico, ten stocks have accounted for nearly half the turnover on the entire market.

There has recently been considerable debate, both regional (Alfaro and others 1994) and international (FAO 1993; Oram and Scherr 1993), about the types of policy reforms necessary to promote agroforestry as well as forestry. In general, the issues raised, such as macro- and interesctoral policy linkages, trade

policies, institutional development, and conservation policy, are also relevant to agroforestry promotion in Central America and the Caribbean. The findings of this study suggest that particular attention should be paid to improving the institutional structure for tree product markets (information, monitoring, grading, and standards); modifying regulations that restrict markets for farm produced products; public support services for decentralized NGO extension and paraextension efforts; and incorporation of agroforestry into planning efforts.

Institutional responsibilities for agroforestry extension and support need to be defined. Because agroforestry falls between the ministries of forestry and agriculture, the institutional "home" for agroforestry activities has been uncertain. Nongovernmental organizations have taken a leading role in providing information and support, but have sometimes undertaken isolated and uncoordinated efforts. Semi-autonomous projects coordinated closely with host government agencies have been effective.

Even though lack of land title was not a variable that was systematically analyzed in our study, some observations indicate that it does not of itself appear to be a significant constraint to agroforestry adoption in most areas. The important point is how secure farmers feel in their property rights with or without an official title.

The attitude of the individual farmer to agroforestry is crucial to the success of agroforestry projects. Farmers' perception of the role the system will play in their farm's production system, as well as its costs, benefits, and profitability, will

determine the extent and durability of adoption and should guide project strategies on extension services and institutional and policy issues.

Agroforestry, in many ways, is comparable to other parts of the farming system. Its special characteristics are that it includes a large number of species, configurations, and management intensities; that it has a longer gestation than most agricultural crops; and that its components have multiple uses.

In addition to the estimated financial return, farmers attach considerable importance to the way an agroforestry system fits into the overall farm production system and the existing land, labor, and capital constraints. Even more important for a farmer's decision than the absolute profitability of agroforestry systems may be the returns relative to alternative options. The most profitable agroforestry systems sometimes entail the most market risks. Some marginally profitable systems are widely used to meet specific household subsistence needs. Once those are met, there is an interest in market opportunities. The existence or development of markets is crucial for expansion Mexico in Alvarez-Brylla, Lazos-Chavero, and Garcia-Barrios 1989; for Ecuador in Mussak and Laarman 1989; and for Asian in French and van der Beldt (1994).

Our study found that many agroforestry systems are profitable to farmers finder a considerable range of economic conditions, and various types of (low-intensity) traditional agroforestry are indeed practiced in many areas; the tentative economic analyses indicated that many agroforestry systems are profitable at real discount rates of 20 percent or higher.

Recycling and Composting (ERCPS), were operated by private entrepreneurs who were all former scavengers or small-scale middleman in the recycling industry. The government supported the pilot projects by

- Providing partial start-up grants, technical assistance, worker training, and a guaranteed purchase arrangement for the compost.
- Securing access to suitable land and arranging for the daily delivery of fresh MSW and the removal of noncompostable residuals and hazardous materials as they accumulated.
- Providing experimental analyses of the benefits of compost in Indonesian agriculture and aquaculture.

The pilot projects served as a testing ground for solutions to problems of odor, files, aesthetics, and community relations, all of which had to be addressed before the program could be expanded. Because the pilot projects appear to demonstrate that high-quality compost can be produced at a relatively low cost, a tenfold expansion is currently under way. Nevertheless, given government subsidization of chemical fertilizer and uncertainties about the magnitude and price sensitivity of the demand for compost, the long-term viability and expansion of the program remains an open question.

In addition to coordinating official waste-management activities with those of the informal sector, local governments in lower-middle-income countries can contract with private firms for collection. Moreover, large metropolitan areas with sufficiently strong municipal governments can take advantage of economies of

scale in the operation of transfer stations and landfills by setting up metropolitan authorities to manage these facilities. For example, Mexico City recently closed seven open-air, polluted dumps, and replaced them with ten waste transfer stations and two operating landfills that meet strict environmental standards, including clay linings to prevent seepage of leachate and 0.3 meters of daily soil cover to contain orders and prevent runoff after a rain (Meade 1992).

Higher-income countries are unlikely to have a significant informal sector recycling industry and therefore may benefits from pricing policies that encourage households to recycle. Initial participation levels were low because of inadequate public information programs, inconvenient drop-off locations and a low deposit of two cents a bottle. But in 1992 the government strengthened the program by providing 13.500 collection bins in stores, opening up a toll-free telephone information line, and raising the deposit to eight cents a bottle, an amount thought to correspond more closely to the social cost of inadequate disposal (Taiwan, China 1992) By making recycling more convenient and increasing the deposit, participation levels, and presumably social welfare, improved. By contrast, recycling programs for aluminum and tin cans, glass, batteries, and tires have relatively low participation rates because these programs are not as convenient as the plastic-bottle deposit-refund program.

Experience with parallel exchange rates in developing countries has, on the whole, been disappointing. Most of the countries in the World Bank study

tolerated high premiums for long periods, with damaging effects on the allocation of resources and growth and no clear gains from maintaining a dual system.

Legal dual systems were misused more often than not, both because they were overextended and because the premium was excessive. Venezuela maintained in dual system for eight years, Mexico for five and Argentina for eight (counting official and quasi-official parallel exchange rates). Average premiums during these periods were 30 percent in Mexico, 44 percent in Argentina, and 120 percent in Venezuela. In Argentina and Venezuela, governments made no clear efforts during this "temporary" period to restore external balance by altering monetary and fiscal policies. It is unlikely that the macroeconomic gains from protecting reserves and avoiding inflation in these countries were larger than the costs resulting from the misallocation of resources. These experiences weakness the case for recommending the adoption of dual exchange rates, even in circumstances where, theoretically, such as a recommendation would be appealing.

In other cases, the parallel market was a quasi-permanent arrangement, the result of prolonged periods of overvalued exchange rates and expansionary macroeconomic policies. In Ghana and Tanzania, for example, the authorities had to rely on extensive foreign exchange controls to avoid to a full depletion of reveres. The large premiums in these economies (exceeding 700 percent at times) were clear evidence of a dramatic inconsistency between exchange rate policy and monetary and fiscal policies.

Although examples of macroeconomic mismanagement associated with the coexistence of official and parallel foreign exchange markets are numerous, in come cases parallel systems were used judiciously. Belgium operated a dual system for more than three decades without producing major distortions. Colombia has maintained a substantial unofficial parallel foreign exchange market for years, while preserving macroeconomic balance. In these cases, however, the premium was kept low on average; larger premiums were tolerated only as a short-term safety value during crises. Serious distortions were avoided in these countries because the governments followed sound macroeconomic policies. What is more difficult to determine is whether the parallel regime delivered greater macroeconomic benefits than a unified rate would have.

How important is unification? Large and persistent parallel premiums create numerous microeconomics distortions and induce rent-seeking and corruption.

Recent suggestions for reforming the ways infrastructure in developing countries is provided and financed include encouraging private provision as a way to avoid the inefficiencies of public administration and tapping local savings as a way to avoid excessive reliance on external borrowing. These suggestions have a back-to-the-future quality: private provision and local finance were characteristic of infrastructure investments in many countries-notably the North American case considered here-for much of the nineteenth century. Consequently, the historical record is a potentially rich source of information on the circumstances under which these approaches are workable and on their limitations.

What the record reveals is that government intervention continued to be important. The ability of domestic financial markets to underwrite the construction of ports, canals, and railways was constrained, in part because of informational asymmetries characteristic of markets in the early stages of development. To help with these problems and to attract private investment, lenders turned to financial institutions that specialized in assessing projects and monitoring management. These were typically foreign institutions with foreign clienteles whose experience with privately financed projects had given them a head start in raising capital and judging risk. This approach relieved-but did not eliminate-concerns about inadequate information. Nor did private investment and local capital reduce the government's involvement or the need for foreign borrowing.

All too often, however, government intervention simply replaced one set of problems with another. Investors, assured of a guaranteed return, had less incentive to hold management accountable. Management, freed of investor scrutiny and provided with access to capital markets, courtesy of the government, arranged deals with construction companies that left taxpayers holding the bag. Guaranteed loans encouraged investors to finance infrastructure projects, but without built-in mechanism to monitor spending and protect the public interest, it was impossible to ensure that resources were allocated efficiently.

These failings imply that exploiting nontraditional approaches to financing infrastructure requires two further policy initiatives. First, efforts should be made to enhance the effectiveness of public administration.

The estimated economic impact of AIDS using dual-economy model for Tanzania developed here suggests that the aggregate size of the economy will be 15 to 25 percent smaller by 2010 than it would have been without AIDS. The negative impact on per capita GDP by that time is expected to be 0 to 10 percent. Although these estimated macroeconomic consequences for Tanzania turn out to be roughly of the same order of magnitude as those obtained from a single sector, full-employment model in Cuddington (1993), they could, in principle, be larger or smaller for reasons outlined in section I.

The dual-economy simulations also suggest that more rapid labor market adjustment could yield considerable real income gains. Interestingly, the output loss from AIDS in the present dual-economy framework is roughly similar in size tot he output gain from policies designed to increase the speed of labor market adjustment. The exercise is crude, but nonetheless encouraging: labor market adjustment policies in economies devastated by AIDS may play a potentially important role in at least ameliorating some of the negative economic effect of the epidemic, although they would certainly not offset the devastating personal and social costs. Further research analyzing possible policy actions for coping with the disease-whether at the health-sector or macroeconomic level-is urgently needed.

The theoretical literature attributes the (relative) decline of the agricultural sector under economic growth to three broad groups of potential causes: declining relative prices of agricultural products, differential rates of technical change, and changes in relative factor endowments. The relative importance of these influences

was assessed by applying the dual approach with the translog functional form. The dual approach has been widely used to analyze resource allocation within agriculture, but to our knowledge, this and Martin and War (1992) are the first studies in which it has been used to analyze the behavior of the agricultural sector as a whole. Because of the potentially substantial lags involved in the adjustment process, and because of the apparently nonstationary nature of the data series, an ECM that was nonlinear in its parameters was used.

In Indonesia is at all typical of developing countries, the results obtained in this analysis appear to require a reorientation of the literature on the declining share of agriculture in open economies. The relative price effects that have been the focus of most of this literature turned out to have limited importance in this context and were dominated by pure valuation effects rather than real quantity adjustment effects. Whereas the literature on structural change frequently assumes that developing-country agriculture is technologically stagnant, the results of this study suggest that technological stagnation need to be the case. Indeed, technical change in the Indonesian economy during our sample period appears to have been biased toward the agricultural sector. Finally, the factor accumulation, effect, which have received scant attention in the literature on agricultural economics, appeared to be overwhelmingly important. These findings are consistent with the results of a companion study for Thailand. The findings suggest that the process of capital accumulation, through Rybczynski-type effects, may be extremely

important in determining the economic process whereby the share of agriculture declines with economic growth.

The type of structural change examined in this article has important implications for policy in Indonesia. The result suggest that further accumulation of capital in relation to labor will have significant effects on agriculture's share of GDP, creating new opportunities outside agriculture. The mechanism of adjustment is one of "pull" rather than "push" factors. It need not create a policy dilemma and should not be resisted. Continuation of the process is likely to be accompanied by continued reductions in poverty (World Bank 1990b), especially in rural areas.

The World Bank have reported estimates of the effects of several important public programs associated with human resource investments (in schools, clinics, and family planning clinics) on basic human capital indicators (school attendance, fertility, and child morality). The estimates were based on a "new" data set constructed from a pool of kecamatan-level observations on human capital outcomes, socioeconomic variables, and program coverage based on the successive sets of cross-sectional household an administrative data describing Indonesia in 1976-86. This data set also enabled the investigation of the biases in conventional cross-sectional estimates of program effects arising from two sources: the lack of comprehensive information on programs and the nonrandom placement of governmental programs across areas. The data were also used to examine how the spatial allocation of programs in Indonesia in 1980 and the growth in program

coverage by area were related to area-specific endowments in the 1980s and contributed to the efficiency of program effects and spatial and socioeconomic equity.

The empirical results, based on matched 1980 and 1985-86 information on more than 3.000 kecamatans, indicated that the presence of grade schools and to a lesser extent, middle schools in villages has a significant effect on the school attendance rates of teenagers. The results also indicated that the presence of health clinics in villages positively affects the schooling of females ages 10-18. Estimates based on the data stratified by the educational attainment of adult women also indicated that the effects of grade school proximity on the school attendance rates of teens ages 1014 was significantly greater in households in which mothers had little or no schooling compared with households in which mothers had more than a grade school education. However, no other program effects appeared to differ across education classes of women.

The estimates also suggested that the use of cross-sectional data, which does not take into account the possibly nonrandom spatial location of programs, results in substantial biases in the estimates of program effects because of the evident nonrandom spatial allocation of public programs. The cross-sectional estimates also indicated clearly counterintuitive results, for example, that family planning clinics significantly raise fertility and reduce schooling investments. These results are not apparent when the nonrandomness of program placement is taken into account.

The estimates pertaining to the spatial and intertemporal allocation of programs in Indonesia indicated that the 1980 spatial distribution of each of the five programs examined here was significantly related to the unmeasured fixed factors relating to the six policy outcomes; the placement across kecamatans in the coverage of programs is not random with respect to the unmeasured factors determining outcomes and behaviors. Most notably, kecamatans with a propensity to have higher fertility received less family planning support, suggesting that such support is provided where it is most desired. The coverage of programs also tended to be lower in areas in which the educational levels of mothers was high, an allocation consistent with an efficiency criterion, given the finding that the effect of grade school proximity on school attendance is greater in households with less-educated mothers. However, this relation is also true for all of the programs studied for which there was no evidence of nonlineraities with respect to the schooling attainment of adult women. Finally, the examination of the change in the spatial program distribution became more equal; there was clear evidence of area specific convergence in program coverage.

Although there was some evidence of significant program effect, particularly of school proximity on school attendance, it is apparent from exploiting the constructed longitudinal data that the quantitative estimates of these effects cannot account for a larger part of the actual growth in human capital outcomes in Indonesia in the 1980s. In part this may be the result of measurement error in the program variables, on which there is some evidence, which would bias

the program estimates toward zero. Some of the improvements in the human resource outcomes examined may reflect economic growth, which the data do not measure. Even with income information, however, the endogeneity of income must be considered as well as the possibility that human capital programs contribute to economic growth. Controlling for incomes could thus result in a misleading inference about the long-term consequences of public investments in human resource investments.

To obtain a geographically consistent set of intertemporal observations, we matched the data set-specific geographic codes in two stages: the 1986 codes were matched to the 1980 codes, and the matched using their receptive master files. The province and district codes between two consecutive master flies were matched, and then the subdistricts were matched by name. However, many names had changed or new subdistricts emerged because there were different abbreviations between periods or because some subdistricts split. The nonmatched subdistricts were then visually matched, but still the matching was not complete.

The subdisctricts that were not matched based on names were brought to the attention of the Mapping Department at the BPS. From internal documents we tried to find the origin of the nonmatched subdistricts. However, the Mapping Department updated their maps in 1980 and 1986 only, not in 1983, and their documents listing code changes were not complete. For the remainder of the subdistricts that we could not match, we used various issues of the Lembaran Negara Republik Indonesia, the annual, official documents recording villages

changing subdistricts, new villages, new subdistricts, and boundary changes. This publication does not contain location codes, just names. To obtain the origin of the villages in the nonmatched subdistricts, we matched the village names from the gazette with village names from the master files. We changed the subdistrict codes according to the origin of most of the villages of the subdistricts in the master file. There were 103 location code changes between 1983 and 1986 and 217 location code changes at the subdsitrict level from 1980 through 1983. Once we completed the master file changes, we converted the 1986 PODES into 1983 codes and then into 1980 codes.

The 1976-77 FASDES contains just one code for the province and district combined; ranging from 1 to 287, whereas subsequently provinces and districts were identified with separate two-digit codes. To convert the FASDES geographic codes into 1980 codes, documentation on the three-digit location codes for the provinces and districts combined was used to update to the 1980 scheme of two-digit province codes and two-digit district codes. However, conversion of the FASDES codes to 1980 codes at the subdistrict level was made difficult by the fact that the FASDES subdistrict codes and names are not available. Thus, we had to match the village names from the FADES master file along with their subdistrict codes with the village names and subdistrict codes on the 1980 master file. If five or more villages matched, we took the subdistrict codes from the 1980 master file. Village naming was sufficiently stable over time to permit the matching of all of the sunbdistrict codes between 1976 and 1980.

The convert the 1985 SUPAS into 1980 codes necessitated the use of the 1985 Sample List (Daftar Sampel), which contains the sample code number along with the province, district, subdistrict, and village codes. The raw data for SUPAS includes only the province and district codes, along with the sample code number. The three codes combined-for the province, the district, and the sample number- were used to obtain the subdistrict codes using the sample list. These codes were based on the 1983 master file, so we then converted them from 1983 codes into 1980 codes.

Once the geographic codes of all of the data sets were made comparable, we aggregated the data at the common subdistrict level. With the PODES and FADES, well calculated for each subdistrict the proportion of households whose village of residence contained each program, type of infrastructure, or environmental variable.

Because the 1986 PODES was converted to 1980 codes, there were some duplicate location codes as villages and kecamatans split between 1980 and 1986. In 1986 there were 66.922 villages. Knowing which kecamatans and villages split between 1980 and 1986 allowed us to reaggregate 1986 administrative units back to their 1980 form. If areas were combined, we were, of course, unable to disaggregate program coverage into 1980 codes. There were 65.924 villages in 1986 with the 1980 codes. The FASDES did not contain any duplicate location codes after the conversation to 1980 codes. The total number of kecamatans in the

1980 PODES is 3.318. Of these, we were able to match all but 16 in the 1986 PODES.

A World Bank study reported:

A substantial proportion of the foreign borrowing (57 percent in 1983-84) was undertaken by public enterprises. This recourse to external funds helped these agencies escape the surveillance and discipline that could have been imposed by the federal government had there been a greater reliance on the Treasury as a source of funds. Overall net foreign inflows more than compensated for the current account deficits being registered. Central Bank foreign exchange reserves built up steadily, and pressure to depreciate the exchange rate was temporarily diverted. (World Bank 1989: 15)

There were real counterparts to the external financial flows in the two periods. In late the 1970s the inflow as a result of the current account surplus led to an increase in aggregate savings. In the 1980s the inflow of capital as a result of foreign borrowing was used to increase public sector spending, much of it bolstering demand in the domestic nontradable sector, leading to an increase in the DRER on top of the nominal exchange rate appreciation.

The last point underlines another difference between the Korean and Malaysian experiences, a difference pertaining to the efficiency with which foreign borrowing was used. It has already been mentioned that although Korea increased its foreign debt ratio significantly following the oil shocks, the productivity of the investment it made possible was high, as evidenced by the high

TFP growth. However, a substantial part of the foreign borrowing in Malaysia in the 1980s was used to finance public sector projects of doubtful profitability. Evidence suggests that the TFP decline in this period.

This article has discussed how two open economies with different factor market institutions responded differently to external shocks and the need to maintain international competitiveness. The variable used in the analysis is the unit cost of labor in dollars. A country's international competitiveness depends on sustaining a satisfactory unit cost of labor in relation to that of its competitors in the world market. This is particularly true of the newly industrializing countries in the world market for manufactured goods. A simple decomposition of the determinants of the unit cost of labor showed that the three related elements constitute this critical ratite: the wage-productivity gap, the normal exchange rate, and the domestic real exchange rate (DRER). but policies regarding the behavior of the labor market would specifically affect the first element, policies regarding the exchange rate would affect the second, and both sets of policies would affect the third. In addition, fiscal and monetary policies used to influence the economy's internal and external balance would have an impact on all three factors.

The analysis of the development of the two economies following the international shocks has demonstrated the usefulness of concentrating on the unit cost of labor and its determinants as the focus of the analysis. For most developing economies, except the very closed ones, the unit cost of labor in manufacturing seems to be a crucial variable, whose behavior determines the degree of success

attained in adjustment to external shocks as well as in longer-run growth. Comparison of the determinants of the unit cost of labor for two or three economies in other regions might be a useful way to cut through a maze of diverging trends and experiences.

The two Asian countries considered here did not suffer from fiscal indiscipline or monetary mismanagement to the extent that countries in other regions have. Hence this article has concentrated on the behavior of the labor and foreign exchange markets and the policies and institutions affecting them. Fiscal and monetary factors have entered the discussion only insofar as they have had an impact on the markets for labor and foreign exchange. In studies of the adjustment of Latin American economies, for example, imbalances caused by fiscal and monetary factors would need much more attention. But this article is not meant to provide generalizations across countries of different regions or even the same region. Instead, the analysis of two countries in the same region, both of which managed successful adjustments to external shocks and also sustained long-run growth, should convince readers of the importance of looking carefully at differences in policies and institutions between countries. The focus on the unit cost of labor provides the necessary framework for studying these differences.

The role of Korea's managed system, both for wage setting and for exchange rate determination, has been shown to have been critically important to adjustment. The crucial role of successfully managing the direction of change in

the determinants of the unit cost of labor at critical periods of the cycles has been highlighted.

The contrasting case of Malaysia is interesting because, in spite of the low degree of institutional wage setting in much of the formal sector, rules of behavior seem to have emerged that produced inflexibilities in wages. Perhaps this illustrates the way a "free" labor system evolves in the formal sector. Institutional intervention may, in fact, be necessary to make the wage system respond to economic fluctuations in the desirable way. The value of institutional intervention can be seen in Malaysia's plantation industries, which have been strongly unionied for a long time: wage contracts negotiated in that sector have allowed wages to be tied to the (volatile) price of the output (rubber) in a conscious attempt to make wage cost vary with fluctuations in the international market for rubber. But, as we have seen, this adjustment mechanism was absent in the other segments of the formal sector in Malaysia, notably in the growing manufacturing sector. Thus, average earnings apparently increased in those sectors in periods of recession and increasing unemployment in the first half of the 1980s.

Source: Economist, 3/26/94, Vol. 330 Issue 7856, p107, 2p, 1bw.
Item Number: 9404147627

Magazine: Economist, December 10, 1994
Section: ASIA

Kirgizstan

THE INVALID RESPONDS TO TREATMENT

Dateline: BISHKEK

A HEADLINE in Akipress, the leading Kirgiz commercial weekly, says "World Bank adopts Kirgizstan". Askar Akaev, the Kirgiz president, echoes the sentiment: "Our reforms have only been possible with the help of the World Bank and International Monetary Fund. They have supported us from the very beginning." Rarely do the Bank and IMF receive such praise from politicians, let alone the press. More often they are portrayed as villains, the cause of the economic mess that their presence in a country implies. Why is Kirgizstan different?

Largely because the Bank and the IMF have come up with some cash. When the Soviet Union broke up, the Kirgiz lost about 12% of GDP that they used to receive in subsidies from Russia; they also had to start paying near world-market prices for their fuel. Once convinced that the Kirgiz were serious about reform, the IMF and the World Bank stepped in quickly to cover the bills. Between them they have lent the country $150m to support the balance of payments, almost 10% of this year's GDP. Their support also brought help from other donors. The Japanese, for example, matched a recent $60m World Bank loan. The Americans have given aid worth almost $200m--mostly food and technical help, rather than the more useful cash in hand.

More importantly, the economic prescriptions from the Bank and the IMF seem to be working. The Kirgiz have followed the advice of their adopted mentors with a vengeance. They have liberalised their economy, privatised their shops and some enterprises and (at least this year) become zealous disciples of low inflation.

Kirgizstan has the lowest inflation rate in the former Soviet Union, excluding the Baltic states. The som is now the strongest currency in Central Asia: the Russian rouble's plunge in October was barely noticed in the currency markets of Bishkek, the capital. Interest rates are coming down; capital is flowing in. Even taxi-drivers--a barometer of popular opinion--point approvingly to the stable prices and strong som.

But low inflation will not last without underlying reform. The factories that used to rely on cheap credit need to be reorganised or shut down. Here the Kirgiz have taken an innovative, but potentially dangerous, approach. With the help of the World Bank, they have set up something

called the Enterprise Restructuring and Rehabilitation Agency. Twenty-nine of the most indebted enterprises have been removed from the banking system; their wage bills and running costs are being paid from the government budget, which in turn receives money from the Bank.

This approach, the first of its kind in the former Soviet Union, seems a clever short-term solution. Bankrupt enterprises no longer sully the banking system; but nor are they simply shut down overnight, with the increase in unemployment that implies.

Yet there could be problems, largely because the Kirgiz and their mentors see the agency's job very differently. World Bank officials talk about a "morgue" where unviable enterprises will gradually die. Mr Akaev, though, sees the agency as a hospital where ailing enterprises will be nursed back to health. This vision, shared by many of the factories themselves, is dangerous: it implies a grand government industrial policy in a country that can ill afford it, particularly when the Bank money dries up. Having set up this agency, the Bank now needs to ensure this does not happen.

Government finances are another problem. At the moment the budget deficit is held low by drastic spending cuts. The screws have been tightened on everything from medical services to bureaucrats' salaries; public investment is almost non-existent. The deficit that is left is mainly financed, rightly, by borrowing from abroad rather than from the central bank. But these spending cuts are not a long-term answer. Eventually, tax revenues, among the lowest in the world, need to be increased. New tax systems need to be built, so that the private sector can be taxed more effectively.

The best indicator of successful reform will ultimately be a return to economic growth. Here the statistics remain gloomy: a drop in GDP of at least 14% is expected this year. Paradoxically, some of this decline is a good sign; factories are no longer producing goods that no one wants.

But, as the private sector grows, the official statistics are increasingly unreliable. Imports of energy, for example, are supposed to have fallen by 70% this year, yet car sales in Bishkek are up, and petrol is freely available. Private industry, and individuals, are doubtless importing more, all of it unrecorded. Just look at advertisements for charter flights to India in the Kirgiz press or watch the lorries rumble on the road to China and you can see that this is an economy where much more is going on than the government would have you believe.

No one in Bishkek is under any illusions that Kirgizstan is now rich. Turning its economy round has been, and will continue to be, a hard slog. But the combination of committed reformers and effective outside help has produced fast progress. In a region where many still remain to be convinced of the "western recipe", and where many westerners still remain sceptical about the usefulness of open-handed financial support, the Kirgiz example has much to teach them.

GRAPH: Conquering inflation: Kirgizstan's consumer prices (Source: National statistics)

PHOTO: Akaev welcomes the money

Source: Economist, 12/10/94, Vol. 333 Issue 7893, p33, 2p, 1 graph, 1bw.
Item Number: 9412197734

Magazine: Progressive, December, 1994
Section: ON THE LINE

DOWN WITH THE WORLD BANK

As the World Bank celebrates its fiftieth anniversary, it is under fire from activists, members of Congress, and citizens of the countries suffering from environmental and social problems linked to the Bank's funding policies.

The most organized criticism of the World Bank comes from the 50 Years Is Enough campaign, comprised of more than 200 religious, environmental, labor, student, and human-rights organizations around the globe. The campaign is calling for the World Bank to open itself to public accountability, give decision-making power to women and the poor who are most affected by its policies, put an end to environmentally destructive practices, and reduce the debt that is crushing the ability of Third World countries to finance real development.

Among the points raised by members of the campaign:

The World Bank has lent tens of billions of dollars to dictatorial governments which trample the human rights of their own citizens. The Indonesian government, for example, received some $630 million for the Transmigration Project, which forcibly relocated millions of poor Indonesians to rain-forest land to make way for Bank-funded dam construction.

In the area of energy development, the Bank has overwhelmingly funded nonrenewable, polluting types of energy. Many construction projects have also caused significant environmental damage.

By imposing "structural adjustment" programs, which eliminate subsidies on such basic items as food and fuel, the Bank increases the suffering of millions of people all over the Third World.

The 50 Years Is Enough campaign is conducting seminars and publishing pamphlets on the World Bank's harmful activities. The group has also pushed for legislation that holds Bank projects to democratic and environmental standards.

For more information, write 50 Years Is Enough, Suite 300, 1025 Vermont Avenue, Washington, DC 20005; (202)879-3187.

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By KEVIN DANAHER

(Kevin Danaher is the editor of "50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund. ")

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Source: Progressive, Dec94, Vol. 58 Issue 12, p14, 1/3p.
Item Number: 9411297673

Magazine: The Economist, March 26, 1994
Section: ARTS, BOOKS AND SPORT

Economic growth without environmental ruin
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THE GREENING OF THE WORLD BANK

MORTGAGING THE EARTH.
By Bruce Rich.
Beacon Press; 376 pages; $29.
Earthscan; paperback 12.95

SPEND a few days at the World Bank's head offices in Washington and it is hard not to come away impressed. They are packed with intelligent, well-meaning people, with thoughtful views on development and as much openness about their institution and its customers as anybody might reasonably expect from a large bureaucracy.

Open Bruce Rich's book and quite a different organisation appears: secretive, insensitive and inept. In his eyes the Bank must be vastly reformed--or get no more money. In fact, Mr Rich, a campaigner at the Environmental Defence Fund, claims to be the originator of a slogan popular with green lobbyists as the Bank celebrates its 50th anniversary: "Fifty years is enough".

People listen. Of all the criticisms directed at the Bank, those of the environmentalists have been the most effective. They have imposed a sort of green conditionality on American support for the Bank, and thus on the Bank's lending to everybody else.

Environmentalists would not have achieved such a feat had the Bank not been involved in some devastating environmental damage. Mr Rich's book is a detailed catalogue of such misdemeanours. Among his horror stories are the Indonesian transmigration and the Brazilian Polonoroeste plan. Both schemes, most Bank officials would now agree, were ill-conceived economically as well as environmentally. Such cases, Mr Rich argues, are the culmination of a form of development that emphasised capital-intensive projects and brushed aside objections from local people and, sometimes, also from consultants hired by the Bank itself.

Big projects have always been attractive to the Bank because of their relatively low overhead costs. The Bank also faces great internal and external pressures to get the money out: its culture has long rewarded departments which push through the most loans, rather than those which lend less but whose projects achieve more.

So far, so uncontroversial. Many of Mr Rich's criticisms appear in the Bank's own documents, and his arguments draw on reports by the Bank's own staff (such as a study by Willi Wapenhans, commissioned by Lewis Preston, the Bank's president, in 1992). The Bank has been trying to emphasise quality in lending and to improve the environmental controls on its investments.

But part of Mr Rich's complaint is not against the Bank. It is against the idea of development itself. The Bank is "the quintessential institution of high mid-20th-century modernity", and "the fundamental problem of modernity may be that development pursued as an absolute goal

is nihilistic." As many environmentalists do, Mr Rich sees the Bank as a symbol and agent of economic growth in developing countries; and such growth as the main cause of environmental destruction.

It is certainly possible to have economic development without current levels of environmental damage--and that was the theme of the Bank's "1992 World Development Report". But the poor world is unlikely to give up the quest for faster growth, whatever policies the Bank pursues.

"Population growth" is a phrase that appears only once in this book; yet the need to provide jobs and food for millions of extra people increasingly drives the struggle for development in the poorest countries. Sometimes, not surprisingly, the poor take a more cavalier approach to environmental protection than greens in rich countries. That may be an argument for, not against, encouraging poor countries to grow rich.

Mr Rich wants the transfer of resources from the rich world to the poor world to continue, but also wants far more to flow through non-governmental organisations (NGOs). That, he says, would give local people more say in the way that their lives were changed, and would steer development finance away from roads and dams towards more modest projects which would do more to defeat poverty. This is already starting to happen: grants to NGOs account for a gently-rising share of official assistance, and the number of NGOs in the aid business is multiplying rapidly.

As this happens, a new problem will emerge. NGOs are as open to corruption and mismanagement as any other bodies dishing out money. Much less has been done to monitor their effectiveness than the World Bank has done to examine its own. Because aid dispensed through NGOs will come in smaller sums it may do less environmental harm than the World Bank's loans do but it may also be less efficiently spent.

Because development is likely to continue, and continue to be an environmentally messy affair, people such as Mr Rich need the Bank just as much as the Bank needs them. The Bank needs Mr Rich and his kind to alert it to the unintended consequences of its activities, and to question its assumptions about development. Many of the environmental disasters he recounts began before most people thought the environment mattered much. But Mr Rich and his movement need the Bank to teach governments of developing countries to care for their environments, and to design environmental policies that work. It is much easier to lobby the Bank than, say, the Indonesian or Brazilian government.

Obligingly for the greens, the Bank expects "environmental" projects--which include sewage treatment, soil improvement, waste disposal and habitat protection--to be a big growth area of its lending. For the next 50 years.

PHOTO: No part of Bruce Rich's equation

Magazine: Economist, November 26, 1994
Section: INTERNATIONAL

Kenya
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HARSH MEDICINE, BUT IT WORKS

Dateline: NAIROBI

WHEN Kenya's assistant minister for lands and settlement, Japhet Ekidor, recently bit off the ear of an opponent during a public meeting, and his victim was charged with assault, Kenyans simply sighed. Risible behaviour is what they have come to expect of their politicians.

After years of cannibalistic corruption, they have also become accustomed to an economy run for the benefit of a handful of Kenya African National Union stalwarts, complete with huge inflation, food shortages and crumbling public services. But now Kenya is gripped by a structural-adjustment programme imposed by the World Bank and IMF, which requires that government finances be closely managed, state companies privatised, agriculture and other marketing boards abolished, the Kenyan shilling floated and the civil service sharply cut. This rush of economic and fiscal probity has so far brought few visible benefits to ordinary citizens, but extra opportunities for the KANU cliques to grow fat.

The government this week said it would sell Kenya Airways; but to date, only four minor companies have been privatised (and no one knows who bought them). When news trickled out of the imminent deregulation of the oil industry, those in the know were able to make a killing on the foreign-exchange market, as oil companies--which would thus be freed to import refined products--cashed in their shillings for dollars.

But World Bank and private-sector economists say these will be among the last opportunities for the elite to get their fingers in the national till. They insist that, provided Kenya stays on the tracks, the economy could move smartly forward.

The signs are there already. Most obvious is the strength of the currency. It stood at about 80 shillings to the dollar last year. Recently floated, it strengthened to 35 earlier this month, and now hovers around 47. Kenya's finance minister, Musalia Muda-vadi, has sponged up the lake of unbacked shillings pumped into the economy--the money supply doubled in six months--by President Daniel arap Moi during his 1992 election campaign. With interest rates on treasury bills of up to 70% and commercial banks forced to hold 20% of their cash reserves at the central bank, the number of shillings in circulation has plunged. Inflation, running at over 100% annually a year ago, is now down to about 13%; the World Bank thinks prices have actually fallen over the past three months.

High interest rates have also attracted flight capital back. World Bank statistics show that $18m held by Kenyans overseas returned to the country between July 1993 and March this year. The word in the market is that there is $400m of hot money sloshing around in Nairobi, some of it pinched from the government and recently returned from Switzerland, some quick profits from the bond market and other speculations.

The money may flee offshore again, but many economists expect half to stay. Already the price of good residential property has soared. Some of the money has gone into manufacturing. But the swift appreciation of the currency is making life tough for manufacturers and exporters. Even giants like Unilever are operating well below full capacity. A car-assembly company, AVA, undermined by the now relatively cheap imports of finished cars, has switched to making tents.

Farmers too have been hit. Coffee and tea, Kenya's second- and third-largest exports, have enjoyed good world prices this year--but prices that look far less attractive once expressed in the strong new shilling. This year 900,000 or more tourists are expected to come to Kenya. Their holidays were sold to them by tour operators with the shilling priced at between 55 and 80 to the dollar. Now the operators are squealing.

Even so, economic growth of 2% is foreseen this year, against last year's 0.4%. The cure, it seems, is working. Not that it seems so to everyone. Doctors and university lecturers, stuck on modest salaries, have been hurt by the soaring prices of the past and have taken revenge in month-long--and illegal--strikes. Electricity workers recently walked out in a dispute over wages.

President Moi is trying to persuade the World Bank and aid donors to help him protect those worst hit by economic austerity. The Bank recognises that causes such as education are deserving, and has put up $70m for schools, $70m for farmers and $100m to support small businessmen.

But President Moi faces hostility to privatisation among his own supporters, notably the "Rift Valley mafia", led by his close friend and former energy minister, Nicholas Biwott, his vice-president, George Saitoti, and the minister for local government, William Ntimama. "We are waiting for real commitments to privatisation, real bidding for state companies and strict improvements to their management systems," says one World Bank official. "Until then, Kenya will be struggling to get more out of aid donors."

GRAPH: At last: Kenya's GDP (Source: EIU)

Source: Economist, 11/26/94, Vol. 333 Issue 7891, p45, 2p, 1 graph.
Item Number: 9412077619

Magazine: Presidents & Prime Ministers, November, 1994
Section: Economy & Finance; News Briefs

WORLD BANK MILESTONE

In July 1994, in observation of the 50th anniversary of its founding, the World Bank released a special report to chart its course through the challenges of the post-Cold War world.

According to the report, The World Bank Group: Learning from the Past, Embracing the Future, the bank will boost its efforts to meet fundamental development objectives such as universal primary education, access to basic health care, and elimination of malnutrition within the next generation. The bank faces enormous challenges: More than a billion people in the developing world struggle to survive on less than a dollar a day; two out of every five people do not have basic sanitation or clean water; and 100 million children have no access to primary education.

The report summarizes five major challenges that will dominate the development agenda and shape the bank's future work, including pursuing economic reforms; investing in people through better education, health care, nutrition, and family planning; protecting the environment; stimulating the private sector; and reorienting government.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p36, 2p.
Item Number: 9411293586

Magazine: Presidents & Prime Ministers, November, 1994
Section: Environment; News Briefs

POLLUTION CONTROL PROJECT

On July 26, 1994, the World Bank approved a loan of $143 million and an International Development Association (IDA) credit of $25 million for a project to help India deal with problems associated with pollution from industrial sources. Despite past successes, pollution from industrial sources continues to threaten sustained growth. As the economy expands, the potential impact of industrial activities on the environment stresses the country's natural resource base and causes the welfare of the population to suffer.

The project focuses on pollution prevention through the use of cleaner means of manufacture. It follows a policy of "the polluter pays," which establishes fees for the release of toxic wastes and charges the source of the pollution. The loan and credit will promote a program to recycle municipal waste. Buyers will purchase raw sewage and recycle it for industrial use, creating a supply of water for industry in an area of acute water shortages.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p41, 1/6p.
Item Number: 9411293639

Magazine: Nation, October 10, 1994
Section: BEAT THE DEVIL

SAVING HAITI

Poor Haiti. All the hopes that accompanied Aristide into power after his electoral victory in 1990 have now been extinguished, and the status quo ante restored.

"Who are we going back to save?" asked Maj. Louis Kernisan rhetorically of Allan Nairn, as reported in Nairn's very fine Nation story last week. "... It's not going to be the slum guy from Cite Soleil.... It'll be the same elites, the bourgeoisie and the five families that run the country."

While Kernisan and his Pentagon comrades restructure and streamline Haiti's repressive apparat, Aristide or a stand-in will carry forward the World Bank plan, approved by a meeting of international bankers in Paris in August.

The idea of "structural adjustment" and its attendant austerity measures might seem laughable in the poorest country in the Western Hemisphere, but the World Bank sprints past satire like a cheetah past a greyhound.

"The objective," the plan primly states, "is to secure the voluntary departure of about half the 45,000 civil servants." A Bank official concedes this will hurt the poor "to some extent." Public services will be privatized, tariffs and import restrictions abolished, and special courts created to ease life for international investors.

In return for such measures, Haiti is to receive $770 million in financing, of which $80 million will go to retire debts to international financial institutions. The plan was shoved down Aristide's throat without the knowledge of some of his exiled Cabinet members. Chavannes Jean-Baptiste, a peasant leader and Cabinet member, says he'd never heard of it and, after reviewing its terms, told Nairn, in another good story in Multinational Monitor, that "it's the same plan they've always offered for years, what they used to call 'The American Plan.'"

The racism of the U.S. press has been more than usually intolerable. One of the worst was Elaine Sciolino in The New York Times for September 18. She seemed to regard it as evidence of mental instability that Aristide and his Cabinet were "deeply suspicious of foreign meddling." This reminds me of the anthropologist Alfred Kroeber, who brooded about the inexplicable "paranoia" of California Indians--this after a half-century of decimation by the whites.

Sometimes I wonder what Sciolino and the rest of them would balk at. "To help Father Aristide for his return," Sciolino wrote, "Administration officials have tried to force feed him large doses of economics and theories of public administration." Of course this translates as "Administration officials have twisted Aristide's arm till he's succumbed to the rapacious demands of bankers and businessmen," but one has the feeling that Sciolino is so brainwashed by the bullshit that's pumped into her on a daily basis that she doesn't even think about what she's writing. It's the Connie Chung syndrome. What wouldn't Chung read off the teleprompter in those flat, affectless tones? (Incidentally, Connie Chung masks will be this year's big Halloween sensation. Buy

smart, buy early!)

One of the few good stories in the press was by A.P. reporter John Solomon, who on September 19 described in detail how the Bush Administration quashed any investigation of Texaco's breaches of the embargo on oil shipments to Haiti. In 1992, Nicholas Brady, then Treasury Secretary, had ordered the Office of Foreign Assets Control, which enforces trade embargoes, "to go slow on Texaco." Solomon assembles a store of evidence showing that OFAC director Richard Newcomb deliberately held the case in abeyance for more than a year and that Texaco deserved a $1.6 million civil penalty. Texaco's solution was to transfer its assets to a foreign trustee, a move that OFAC deemed illegal but nevertheless did nothing to impede. The Clinton Administration was told of the case a year ago but made no urgent move against the company.

Let's leave this horrible farce with the man from Plains, who described Cedras and his fellow butchers as "men of honor." Defending his delegation's failure to demand exile for Cedras, Carter went so far as to say, "It's a serious violation of inherent human rights for a citizen to be forced into exile." But then, he always could defend his sellouts as the moral equivalents of victory.

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By Alexander Cockburn

Source: Nation, 10/10/94, Vol. 259 Issue 11, p371, 2/3p.
Item Number: 9410037514
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Magazine: Economist, October 8, 1994
Section: FINANCE

THE FIGHT FOR THE FUND

Dateline: MADRID

Cocktail parties rather than controversy usually mark the annual meetings of the World Bank and the International Monetary Fund. In Madrid this year things were different

A FURIOUS row between industrialised and developing countries over proposals to raise world liquidity and give more financial assistance to ex-communist countries soured the 50th anniversary gathering of the World Bank and the IMF. For the first time, a united block of developing countries rejected proposals put forward by the G7 group of industrialised countries (America, Britain, Canada, France, Germany, Italy and Japan). Some participants said the fight had opened a new north-south divide. Others mused whether there was any future for the IMF. Reality is more banal: the meeting was a diplomatic disaster that can probably be sorted out once tempers cool.

The fight centred on arcana. The basic disagreement was whether to boost global liquidity through a general allocation of Special Drawing Rights (SDRs). Introduced in the late 1960s when people believed the world suffered from a liquidity shortage, these are an artificial asset that the IMF can allocate to its member countries.

The best analogy is that of a global overdraft facility. Countries short of liquidity can ask the IMF to swap some of their SDRs for a normally traded currency such as the dollar. As with an overdraft, the debtor pays interest on these dollars, but can use them to pay for imports. Until the dollars are paid back, America holds a higher proportion of its reserves in the form of SDRs. The last SDRs were issued in 1981. Their role in the international economy is now minor: they make up little more than 2% of global reserves excluding gold. But the principle remains that new SDRs can be allocated when there is seen to be a need for liquidity.

The IMF's managing director, Michel Camdessus, believes that this is such a time. In recent months he has been pushing for a new allocation of 36 billion SDRs ($52.6 billion). He gives two arguments. One is that world demand for reserves will rise by about 400 billion SDRs over the next five years as emerging economies increase their imports. The other is that the 37 countries which have joined the IMF since 1981 have no SDRs, and deserve some out of fairness.

Many countries disagree with him. Germany, in particular, is adamant that no global need for additional liquidity exists. Its officials think that issuing SDRs would result only in higher inflation. Other industrialised countries feel the same, while accepting the fairness argument for a one-off allocation to new members. After much unseemly haggling in Madrid, the G7 agreed on a compromise that would allow an allocation to the tune of 16 billion SDRs in total, but spread among all members; technically, this would not be a global allocation.

In the IMF's policy-making meeting, the developing countries, led by Brazil and India and egged on by Mr Camdessus, held out for a global

allocation. As part of the spat they also refused to back a proposal to extend the so-called Systemic Transformation Facility (STF), a temporary route for financing ex-communist countries, which is due to be closed in December.

The most worrying short-run consequence is that former communist countries will get less of the cash they urgently need. They will receive no SDRs, although under the G7 plan the former Soviet Union would have received around 2.4 billion SDRs, and under Mr Camdessus's plan somewhat more. Worse, the non-renewal of the STF could mean a loss of $2 billion for Russia alone. These countries have huge financing needs, and reform programmes are unlikely to succeed without substantial outside help. Using the IMF was a cheap way for western countries to provide this.

SDR wars

The larger issues raised by the fight are ones of principle and precedent. Neither the case for nor the case against an SDR allocation has much real economic merit. Mr Camdessus's claim that there is a global need for new reserves is difficult to justify. Most of the world's bigger economies are building up reserves: in industrialised countries these rose by 4% last year, and in emerging-market economies by 16%. In an environment of reasonably free capital flows it is nonsense to say that the world lacks liquidity. The problem is one of dispersal rather than shortage.

Where Mr Camdessus is right is that some countries--particularly poor ones with little access to capital markets--have small reserves: more than a fifth of the countries in transition have reserves which cover less than a month's worth of imports. An SDR allocation would help them to buy more imports more cheaply. And it is hard to believe that 36 billion SDRs would fuel world inflation. The amount is simply too small. Moreover, since each country's share of SDRs depends on the size of its economy, most would have been allocated to the big industrialised countries which are least likely to use them.

There is a deeper issue, however. Mr Camdessus wants to reinvigorate the SDR as a global asset by gradually increasing its share of world reserves. This would, of course, also strengthen the role of the IMF--which is precisely what his opponents, particularly the Bundesbank, are worried about. Creating SDRs too often could indeed be inflationary, and would imply an increased role for a monetary asset not directly controlled by individual central banks. Even a hint of either of these outcomes is too much for Hans Tietmeyer, the Bundesbank's president. For him, the IMF's job should be to lend money to poor countries under strict conditions, not meddle with global monetary management.

Whether this fracas permanently weakens the IMF depends on how much weight both sides place on the issue of principle. If no one budges, the institution could be reduced to impotence. And it may be that developing countries are as concerned as Mr Camdessus about the principle of the SDR. More likely, though, the real reasons for their revolt lie elsewhere.

First, older developing countries resent the IMF's evident fondness for ex-communist states (largely at the G7's prompting). They see the special money going to these economies as help denied to them, even though they would gain as much as anyone from stability in these

countries. To the extent that the two camps compete for resources, this division may continue.

Second, developing countries are fed up with what they see as G7 bullying. At Madrid they wanted to show that a G7 consensus would not automatically translate into IMF policy. The G7 may well be the most powerful economic show in town, but it should not ignore the others.

So what are the lessons? Assertive behaviour by an increasingly rich and powerful developing world will make managing international institutions more difficult. It will also demand a more considered appraisal of Mr Camdessus's role. How far can the head of an international institution stray from the views of its major shareholders? The G7 felt that Mr Camdessus was siding too obviously with developing countries. He would argue that he was simply backing a proposal that was right for the institution. There is always a fine line between leading and seeking a consensus, and Mr Camdessus's attempt to lead has failed.

If he learns from this, the clouds will probably blow away. A deal will be struck that gives the old developing countries enough to persuade them to agree on more money for the former Soviet states, and eases German worries about SDRs. The Madrid meeting may then be remembered as the one at which the complexity of the post-cold-war financial order first became clear.

CARTOON

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Magazine: Technology Review, October, 1994
Section: Reviews

Books
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REINVENTING THE BANK

Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development, by Bruce Rich, Beacon Press, $29

This year, the institutions created at Bretton Woods to jump-start the global postwar economy turn 50. Stock-taking is inevitable. The International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (IMF) have together been a major force for economic growth and modernization in developing countries. "The Bank"--insiders' Kafkaesque moniker for both institutions--has taken credit for boosting life expectancy, income levels, and public health standards by supporting construction of the physical and institutional infrastructure that can enhance international trade. And amid the recent debt crisis, the Bank has helped curb hyperinflation in some borrowing nations. Arguably, its new loans to Eastern Europe, the former Soviet Union, and other disintegrating economies work the ground for democracy. Yet in Mortgaging the Earth, lawyer Bruce Rich of the Environmental Defense Fund says that Bank failures outweigh accomplishments, especially if viewed from ground level.

Rich shows how an institution created in the early aftermath of World War II to further world peace and freedom by nurturing trade-based prosperity took on the colors of its early presidents. Notably, John J. McCloy made the Bank a top-notch lending and borrowing institution by winning Wall Street's confidence, and Eugene Black and George Woods involved the Bank in large infrastructure projects and export-crop agriculture. But "more than any of his predecessors or successors," says Rich, "Robert McNamara made the Bank into what it is today," carrying centralized planning and control of information to new heights, upping pressure on staff to meet ever higher lending targets, and banking on the elite in developing nations to watch out for the poor, the powerless, and the environment.

Rich contends that the legacy of the McNamara years is a free-standing colossus, answerable only to its own laws, morally adrift, and indifferent to the havoc its policies and loans visit on poor people and the natural world. In its drive to invest, says Rich, the World Bank has pushed loans on poor countries that couldn't absorb large blocks of capital effectively, and then used the IMF, which makes short-term loans to cover balance-of-payments deficits, to bully those facing default into adopting austerity measures. The result has been cuts in social services and at least temporary unemployment. The pressure to repay loans has also forced debtor governments to sell off natural resources to raise foreign exchange.

If Rich is right, in developing countries the road to hell is paved with grand plans and expensive infrastructure. He describes scores of Bank-funded dams, roads, irrigation works, forestry and agriculture schemes, and energy facilities that didn't deliver as promised but did trigger deforestation, displace native peoples, drive land speculation, spark

THE WORLD BANK AND ITS FUNCTIONS

FoR GCM 622 International Financial Markets / Institutions.

Near East University

Institute of Research and Graduate Studies

The World Bank And Its Functions

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Nicosia ,1997

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Objectives and Purposes of the World Bank: The objectives of the World Bank is related to Bretton Woods System. There was less attention and preliminary meetings in order to establish this fund. to create an international adjustment mechanism, dealing with such controversial matters as exchange rate policy and access, to liquid currency resources. The fundamental aim of this organization is to create an international investment agency seeking international co-operation in long term and medium term foreign lending. The Bank's scope was limited. There was no direct authority or influence over members as the Fund was supported to have. Its function was not to monopolise international investment but the encourage it and to make it possible in certain marginal cases.

The Bank's potential contribution to a stable world economy was very real one. The essential condition of international stability is an overseas investment by creditor countries. The bank had an complementary role to play with the fund. The international investment would prove to be of crucial importance. The Great Britain play an important role in this regard. The Great Britain as the great creditor used her export surplus to develop overseas areas, and was content to take payment for her loans in flow of primary products. The United States was the creditor and she possessed the trade structure to promote widespread foreign lending nor the inclination to undertake it. International Investment play the equilibrium role in a dollar world. The institution was created as the complement of the Fund. Its purpose was the facilitate the international investment of Capital for productive purposes.

They tend to make and quarantee loans as long and medium terms. Its projected scale of operations and conditions laid down for it in the Article of Agreement. Its immediate task was to aid in reconstruction by promoting loans for the rebuilding of productive machinery. Its aim is to develop the resources and productive capacity of the world's backward regions. They tend to promote and maintain equilibrium in the international balance of payments of all member countries. The purpose of this institution is changed and it focused on "human being" and his/her brain. Because brain is the essential thing in the world. It can create everything and it can establish everything we can imagine.

Functions, Duties, activities and performances of the World Bank:

According to the World Bank publications, activities and functions of the World Bank can be classified as follows:

1. Controlling of Moderate Inflation
2. To eliminate shocks, arranging purchasing power parity, and the equilibrium Real Exchange rate.
3. To determine obstacles to Developing Indigenous small and medium Enterprises.
4. Estimating Returns to scale with large, imperfect panels:

5. The oretical implications of Imperfect competitor on Quota License Prices and Auctions:
6. To apply sovereign dept
7. Modeling the macro economic effects to Tanzania
8. Trade Reforms in the partially liberalized economy of Turkey
9. A medium-term Framework for analyzing the Real Exchange rate, with applications to the Philippines and Tanzania
10. An Institutional Analysis of the Design and sequence of trade and investment Policy Reform.
11. correcting for Sampling Bias in the measurement of welfare and poverty in the Cote d'lvoire living standards survey.
12. Household welfare and the pricing of cocoa and coffee in Cote d'lvoire: Lessons from the living standards survey.
13. The determinants and consequences of the placement of Government Programs in Indonesia.
14. Labor Markets and Adjustment in open Asian Economies. The Republic of Korea and Malaysia.
15. Explaining the relative decline of Agriculture: A supply side Analysis for Indonesia.
16. To arrange tariff rates, Tariff revenue and tariff reform.
17. To determine the effect of Financial liberalization on the Capital Structure.

18. To determine investment decisions of Indonesian manufacturing Establishments
19. To determine the scope for Fuel substitution in manufacturing industries.
20. To determine the impact of Two-tier producer and consumer Food pricing in India.
21. Domestic content and compensatory Export requirements: Protection of the motor vehicle. Industry in the Philippines.
22. To measure the restrictiveness of Trade Policy.
23. To adjust the trade restrictiveness of the multi-Fibre Arrangements.
24. To arrange Labor supply and Targeting in poverty Alleviation Programs.
25. To apply duel exchange rates in Europe and Latin America.
26. To determine the impact of Mexico's retraining programs on Employment and Wages.
27. To adjust the distribution of subsidies through public health services in Indonesia.
28. To adjust capital mobility in Developing countries: Some measurement issues and Empirical Estimates
29. To determine the political of growth: a critical survey of the Recent literature:
30. To apply presumptive Pigo vian Tax: Complementing regulation to mimic an emission fee.
31. To change labor market conditions and economic development in Hong Kong, the Republic of Korea, Singapore and Taiwan, China.

32. To determine the welfare cost of price controls for cars and color Televisions in Poland: Contrasting estimates of Rent - Seeking from recent experience.
33. To develop parallel exchange rates in developing countries.
34. To apply gradual unification in highly distorted economies.
35. To build incentives and the Resolution of Bank Distress
36. To finance infrastructure in developing countries: policy implications.

Most of the countries whose experiences are studied here reached moderate or high inflation as a result of external shocks, particularly in commodity prices. Countries that remained in the moderate-inflation range after arriving there, notably Colombia, Chile, and, for a shorter time, Mexico, did so only by taking decisive action to prevent inflation from rising at certain specific points. Brazil, which was not willing to slow growth to stay in the moderate-inflation range, found itself as a result with high, sometimes extreme, inflation.

Three of the countries that successfully disinflated to low inflation-Ireland, Korea, and Spain - did so at a significant cost to output. Each of those countries used nonmarket measures-the equivalent of an incomes policy-to assist the disinflation. In Korea wage growth was reduced through restraints on public sector wages and by exercising moral suasion on the private sector. Even in Indonesia subsidization of rice constituted an unorthodox, incomes-type policy. There is little evidence in the data that the Indonesian disinflation imposed significant output costs.

Each of the disinflations was accompanied by a very strong fiscal contraction. Fiscal contractions were also undertaken in Chile and Mexico to reduce high inflation to the moderate range, and in Colombia to keep inflation moderate.

Countries in the moderate-inflation range typically had exchange rates that were managed, such as crawling pegs or rates with intermittent depreciation. The

European disinflators, Ireland and Spain, used an exchange rate commitment as part of their disinflationary strategy. Mexico likewise relied on an exchange rate anchor in bringing down high inflation. None of the evidence reviewed for this article, nor evidence in other studies, establishes firmly that the exchange rate commitment significantly reduced the costs of disinflation.

Indexation and disindexation appear to have played an important role in the Latin America inflations and disinflations. In Mexico, in the context of the Pacto, the departure from backward-looking pay increases was an essential part of the stabilization. Colombia in effect decided to live with inflation by permitting the introduction of indexation. Neither Korea nor Indonesia used explicit indexation widely, nor did Spain or Ireland. Whether disinflation is easier in the absence o indexation, or whether the absence of indexation, or whether the absence of indication indicates a government's commitment not to live with inflation, is difficult to say at this point.

Seigniorage revenue accounted for a significant share of government revenue in most of the moderate-inflation countries. Seigniorage was especially high at the start of most of the inflationary episodes. This affected the fiscal effort that had to be made to reduce inflation, but there is little evidence in the literature that Seigniorage considerations played an important role in the thinking of any government. This absence may reflect a general lack of understanding of the inflationary process, or may rather mean that Seigniorage is rarely an explicit

reason for a government to pursue inflationary policies. We believe the latter interpretation.

In summary, there is unfortunately little encouragement in these case studies for the view that an exchange rate commitment, or incomes policy, allows a country to move at low cost from moderate to low inflation. Governments have successfully reduced moderate inflations to low inflations through a combination of tight fiscal policy, incomes policy, and generally some exchange rate commitment-and by taking advantage of favorable supply shocks to ratchet the inflation rate down.

Modeling the Macro-economic Effects of Rich

The World Bank. A policy's impact on the size and composition of the labor force would first have to be simulated by using epidemiological and demographic models. The output from these models plus information on the effects of alternative programs on budgets and savings could then be used as inputs in macroeconomics models, such as the one presented here. When considering policies to control and cope with a devastating disease such as AIDS, it is imperative to account for the direct effects of the disease on individuals' well-being through increased morbidity and portality rates as well as the indirect effects of the disease on worker productivity and hence the potential to earn income. If linked to an epidemiological and demographic simulation model, a macroeconomics model such as the one described here should be able to analyze

the effect of various interventions in the health sector on the productive capacity of the economy. To the extent that such interventions reduce the rate at which the disease spreads, one would expect macroeconomics outcomes that lie between the extremes of the no-AIDS scenarios.

Finally, the sensitivity of the findings presented here to the assumptions regarding saving points to the urgency of careful reconsideration of government budget priorities. In economies in which the public sector bears a large proportion of medical costs, the government must make difficult decisions about how of finance medical expenditures as AIDS-related spending rises. To what extent should other current or capital expenditures, or both, be cut? The demographic shifts caused by AIDS will, of course, factor into these decisions. In light of the negative consequences of AIDS on the labor force, policy initiatives to restore productivity and maintain the stock of human capital will be critical for achieving economic growth with high levels of employment.

The World Bank discuss the theoretical and empirical shortcomings of different approaches to computing the equilibrium real exchange rate. We present a small model that distinuighes between imports, exports and domestic goods and incorporates imperfect substitutability between imports and domestic goods in demand and imperfect transformability between exports and domestic goods in supply. We argue that this 1-2-3 model is an extension of the Salter-Swan model, and that it reconciles the tradable-nontradable goods model with the purchasing-power-parity approach.

The 1-2-3 model can be used to compute the equilibrium real exchange rate when there are changes in the sustainable balance of trade and in international prices. Estimates using this model depart quite substantially from those using PPP approach, which neglects terms of trade shocks-arguably the main cause of changes in the equilibrium real exchange rate since the 1970s. The results from the 1-2-3 model agree closely with the results from larger computable general equilibrium (CGE) models. The 1-2-3 model estimates of changes in the equilibrium real exchange rate agree closely with those obtained from larger, more elaborate CGE models, such as have been used to analyze issues of structural adjustment in Cameroon and Indonesia. In practice, using the 1-2-3 model to compute changes in the equilibrium real exchange rate requires little more information than is required to make PPP calculations.

The 1-2-3 models does requiring information to calculate two elasticities whose values are difficult to estimate with limited. And the required real exchange rate depreciation can be quite sensitive to these elasticities. Nevertheless, experience with larger models as well as empirical estimation in some countries helps us narrow the range of values for these elasticities, thereby narrowing the range of estimates of the required depreciation.

As the empirical analysis has shown, SMES operate in a complex environment and confront a diverse array of constraints; it is chimerical to search for a single constraint, common across countries, that, once released, will lead to rapid development of SMES. Not only is there substantial variation among

countries as to which constraint is binding, but the release of one constraint is likely to bring to the forefront some other constraint whose inhibiting influence had not previously been evident. Yet for all of this complexity, the analysis has outlined an approach to learning how SMES perceive the impact of the various nonprice constraints and to evaluating the results in relation to other empirical indicators.

The applications of the approach uncovered quite different patterns of SMES constraints in Tanzania and Sri Lanka and, within Sri Lanka, between relatively finance represents the binding constraint on expansion for all classes of SMES in Tanzania, as well as for smaller, less established firms in Sri Lanka. Furthermore, this constraints appears more severe for the smallest Tanzania SMES than for their Sri Lankan counterparts: although formal banks do not lend to the smallest firms in either country, both informal finance and trade credits appear to be more readily available in Sri Lanka. In Tanzania, the financing constraint was followed-again for all SMES, but with a disproportionately severe impact on the smallest-by the burdens of pervasive and nontransparent tax and regulatory obligations. By contrast, the smallest and least established Sri Lankan enterprises remained informal and reported no difficulties with regulatory authorities. Neither the smallest Sri Lankan nor any of the Tanzanian firms reported technical, marketing, or input constraints to be significant obstacles to expansion, although this appears to reflect more their narrow market and limited information than any underlying capabilities.

The World Bank are aware of to provide systematic panel-based econometric estimates of the returns to scale in manufacturing industries in a developing country. As such, we believe it sheds new light on several issues of interest to policy makers. One issue is whether increases in size cause improvements in efficiency. If such causality is present over the production ranges in which plants operate, there are productivity gains associated with policies that promote bigness in manufacturing plants. We find that although several four-digit sectors show increasing returns, general expansion of the manufacturing sector cannot be expected to yield strong plant-level scale economies. Specifically, if we take our best estimates at face value, they imply that the returns to scale in manufacturing are scattered across the range of 0.8 to 1.2 at the three-digit level, and 0.7 to 1.6 at the four-digit level. None of the estimates of returns to scale using four-digit industries, are significantly different from unity. The findings complement those of a related study where we found that Mexico's dramatic trade liberalization was associated with modest increases in scale efficiency.

There are three different approaches to incorporating institutional considerations in the design of structural adjustment lending. The first approach is an ignore institutional considerations entirely and design programs on the assumption that public organizational capabilities and the political commitment reform will be forthcoming. If this approach is taken, the policy changes and

subsequent economic responses are likely to be quite different from what were reformers initially intended.

The second approach is to acknowledge the institutional constraints, but an earmark technical assistance for weak institutions only after the reform packages has been designed on the basis of other considerations. This approach is clear preferable to entirely ignoring institutional capabilities. Even so, its potential at limited because it does not address political obstacles to reform and presume (optimistically) that technical assistance will be sufficient to enhance organizational capability even in the short term.

The third approach is to bring institutional considerations to center stage designing and sequencing programs in ways that are consistent with the capabilities of the reforming country. Assessments of organizational capabilities within the public sector and of the political preferences and room to maneuver of the national leadership are crucial to any such effort. A body of knowledge emerging about how to proceed with political and organizational assessment.

The focus of this articles is rather on evaluating political and organizational obstacles to clarify concretely how programs to reform trade and investment policy might usefully be matched to a country's capabilities. Figure 1 highlight alternative approaches to policy reform, each of which can be viable if appropriately matched to country capabilities. Yet even after careful assessment there may be substantial uncertainty in many countries about the kinds of reform the political and administrative systems will be able to absorb.

For domestic competition (at least for those elements examined in this article these residual uncertainties complicate only marginally the question how is proceed with reform). The analysis also reveals that even organizationally well endowed countries, such as Mauritius, Mexico and Tunisia, have preferred to follow the organization-light route of dismantling disabling institutions and regulations. It follows that in virtually all countries the strong presumption should be for reform to dismantle-not reconfigure-restrictive entry rules and dysfunctional systems of discretionary investment incentives.

By contrast, the analysis implies that there is no single approach, common across countries, through which trade policy reform should proceed. In countries where administrative capabilities are weakest, the export development tools to secure trade neutrality will be unworkable and hence powerless to alter the relative incentives of production for domestic and export markets toward increased outward orientation. In these settings, reform efforts should push to the limit of what is politically feasible to liberalize imports. If many domestic producers appear too weak to withstand the discipline of increased import competition (and if widespread bankruptcies appear politically and economically intolerable), exchange rate undervaluation should be seriously considered as an alternative source of protection in a liberalized trade regime.

In some countries the administrative capabilities are moderate, but the political limits of import liberalization have unequivocally been reached. In such countries the case might be strong for technical assistance targeted to strengthen

the capability of enclave institutions to provide duty-free access to imported inputs that operate entirely separately from the wider bureaucratic apparatus of government. Consistent with this roundabout strategy is the recent establishment of bonded factories in Kenya (and, earlier, enclave efforts in the Philippines and Tunisia). Instruments of trade neutrality can help sustain the dynamic of reform only if they extend participation in exporters and firms that produce for protected domestic markets. It remains unclear whether administrative enclaves can be organized in ways that reach a broad range of firms.

As for countries that are administratively strong, there is by now abundant evidence from East Asia (as well as from Thailand, which is included in this analysis) that skillful use of the instruments to achieve trade neutrality can secure outward orientation without full-scale prior import liberalization. Once clear implication of this analysis is that the East Asian pattern will not be replaceable in countries that are administratively weak. But a second implication is that in administratively strong countries it may not be necessary to provoke confrontation with powerful protected interests. These countries can readily move forward with roundabout policies that make intensive use of the instruments of trade neutrality as well as other administration-intensive measures to induce firms to export. As the successful East Asian examples of development reveal, these latter policies-although illiberal in the short-term-can be highly effective in promoting dynamically efficient economic development (Amdsden 1989; Johnson 1982; Wade 1990).

The World Bank illustrates the need for analysts to investigate the properties of the data in use, including its sampling design, although this does not appear to be a frequent practice among users of household survey data. Out study of the Cote d'Ivoire Living Standards Survey, 1985-88, reveals flawed sampling procedures, which have not been corrected by previous users of data The flawed procedures have resulted in biases in estimates of household size, which in turn have yielded biased estimates of household expenditure and of poverty. Basic-needs indicators reported for the country as a whole have been less affected, but the bias has proved to be more pronounced at the lower end of the distribution.

The correction procedure described here applied suitably constructed household-size weights to the data. The quantitative adjustments to estimated variables proved to be nontrivial and underlined the seriousness of problems arising from sampling biases. For example, the head count estimate of poverty in Cote d'lvoire was found to have been overestimated by 14 percent in 1986. The bias proved to differ widely across regions and socioeconomic groups and was frequently in the order to magnitude of 20 to 30 percent. Such differences are not merely of academic interest; they can affect policy interventions that are guided by survey results.

The correction of sampling bias also affects time-series analysis of CILSS data. Original results displayed a gradually rising trend in poverty in Cote d'lovire from 1985 to 1987. In fact, poverty did not change (or even fell marginally) from 1985 to 1986, although it did increase rapidly in 1987. These results clearly affect

the assessment of macroeconomics policies conducted during the period, especially because in 1987 the government of Cote d'lvoire abandoned a previously sustained adjustment program. The overestimation of poverty in 1985 obviously also means that the total increase in poverty from 1985 to 1988 was underestimated. Taking the head count ratio as an example, poverty was recorded as increasing from 32.4 percent in 1985 to 45.9 percent in 1988 (an recorded as increase of 41.7 percent). However, the weighted head count for 1985 is only 30.0 percent, so poverty in fact increased by 53 percent during the period.

Although the operations of equity markets in developing countries have become significantly more efficient, there is still room for further improvement, particularly in terms of infuriation. In many countries there are significant barriers to the dissemination of information, and companies appear to divulge less information with a greater time lag than is customary in well-developed markets. Most of the developing equity markets lack substantial breadth, in the sense that trading values decrease markedly outside the small set of stocks-usually fewer than twenty-with high trading values, and many stocks rarely trade. For instance, even in markets as developed as those in Hong Kong and Mexico, ten stocks have accounted for nearly half the turnover on the entire market.

There has recently been considerable debate, both regional (Alfaro and others 1994) and international (FAO 1993; Oram and Scherr 1993), about the types of policy reforms necessary to promote agroforestry as well as forestry. In general, the issues raised, such as macro- and interesctoral policy linkages, trade

policies, institutional development, and conservation policy, are also relevant to agroforestry promotion in Central America and the Caribbean. The findings of this study suggest that particular attention should be paid to improving the institutional structure for tree product markets (information, monitoring, grading, and standards); modifying regulations that restrict markets for farm produced products; public support services for decentralized NGO extension and paraextension efforts; and incorporation of agroforestry into planning efforts.

Institutional responsibilities for agroforestry extension and support need to be defined. Because agroforestry falls between the ministries of forestry and agriculture, the institutional "home" for agroforestry activities has been uncertain. Nongovernmental organizations have taken a leading role in providing information and support, but have sometimes undertaken isolated and uncoordinated efforts. Semi-autonomous projects coordinated closely with host government agencies have been effective.

Even though lack of land title was not a variable that was systematically analyzed in our study, some observations indicate that it does not of itself appear to be a significant constraint to agroforestry adoption in most areas. The important point is how secure farmers feel in their property rights with or without an official title.

The attitude of the individual farmer to agroforestry is crucial to the success of agroforestry projects. Farmers' perception of the role the system will play in their farm's production system, as well as its costs, benefits, and profitability, will

determine the extent and durability of adoption and should guide project strategies on extension services and institutional and policy issues.

Agroforestry, in many ways, is comparable to other parts of the farming system. Its special characteristics are that it includes a large number of species, configurations, and management intensities; that it has a longer gestation than most agricultural crops; and that its components have multiple uses.

In addition to the estimated financial return, farmers attach considerable importance to the way an agroforestry system fits into the overall farm production system and the existing land, labor, and capital constraints. Even more important for a farmer's decision than the absolute profitability of agroforestry systems may be the returns relative to alternative options. The most profitable agroforestry systems sometimes entail the most market risks. Some marginally profitable systems are widely used to meet specific household subsistence needs. Once those are met, there is an interest in market opportunities. The existence or development of markets is crucial for expansion Mexico in Alvarez-Brylla, Lazos-Chavero, and Garcia-Barrios 1989; for Ecuador in Mussak and Laarman 1989; and for Asian in French and van der Beldt (1994).

Our study found that many agroforestry systems are profitable to farmers finder a considerable range of economic conditions, and various types of (low-intensity) traditional agroforestry are indeed practiced in many areas; the tentative economic analyses indicated that many agroforestry systems are profitable at real discount rates of 20 percent or higher.

Recycling and Composting (ERCPS), were operated by private entrepreneurs who were all former scavengers or small-scale middleman in the recycling industry. The government supported the pilot projects by

- Providing partial start-up grants, technical assistance, worker training, and a guaranteed purchase arrangement for the compost.
- Securing access to suitable land and arranging for the daily delivery of fresh MSW and the removal of noncompostable residuals and hazardous materials as they accumulated.
- Providing experimental analyses of the benefits of compost in Indonesian agriculture and aquaculture.

The pilot projects served as a testing ground for solutions to problems of odor, files, aesthetics, and community relations, all of which had to be addressed before the program could be expanded. Because the pilot projects appear to demonstrate that high-quality compost can be produced at a relatively low cost, a tenfold expansion is currently under way. Nevertheless, given government subsidization of chemical fertilizer and uncertainties about the magnitude and price sensitivity of the demand for compost, the long-term viability and expansion of the program remains an open question.

In addition to coordinating official waste-management activities with those of the informal sector, local governments in lower-middle-income countries can contract with private firms for collection. Moreover, large metropolitan areas with sufficiently strong municipal governments can take advantage of economies of

scale in the operation of transfer stations and landfills by setting up metropolitan authorities to manage these facilities. For example, Mexico City recently closed seven open-air, polluted dumps, and replaced them with ten waste transfer stations and two operating landfills that meet strict environmental standards, including clay linings to prevent seepage of leachate and 0.3 meters of daily soil cover to contain orders and prevent runoff after a rain (Meade 1992).

Higher-income countries are unlikely to have a significant informal sector recycling industry and therefore may benefits from pricing policies that encourage households to recycle. Initial participation levels were low because of inadequate public information programs, inconvenient drop-off locations and a low deposit of two cents a bottle. But in 1992 the government strengthened the program by providing 13.500 collection bins in stores, opening up a toll-free telephone information line, and raising the deposit to eight cents a bottle, an amount thought to correspond more closely to the social cost of inadequate disposal (Taiwan, China 1992) By making recycling more convenient and increasing the deposit, participation levels, and presumably social welfare, improved. By contrast, recycling programs for aluminum and tin cans, glass, batteries, and tires have relatively low participation rates because these programs are not as convenient as the plastic-bottle deposit-refund program.

Experience with parallel exchange rates in developing countries has, on the whole, been disappointing. Most of the countries in the World Bank study

tolerated high premiums for long periods, with damaging effects on the allocation of resources and growth and no clear gains from maintaining a dual system.

Legal dual systems were misused more often than not, both because they were overextended and because the premium was excessive. Venezuela maintained in dual system for eight years, Mexico for five and Argentina for eight (counting official and quasi-official parallel exchange rates). Average premiums during these periods were 30 percent in Mexico, 44 percent in Argentina, and 120 percent in Venezuela. In Argentina and Venezuela, governments made no clear efforts during this "temporary" period to restore external balance by altering monetary and fiscal policies. It is unlikely that the macroeconomic gains from protecting reserves and avoiding inflation in these countries were larger than the costs resulting from the misallocation of resources. These experiences weakness the case for recommending the adoption of dual exchange rates, even in circumstances where, theoretically, such as a recommendation would be appealing.

In other cases, the parallel market was a quasi-permanent arrangement, the result of prolonged periods of overvalued exchange rates and expansionary macroeconomic policies. In Ghana and Tanzania, for example, the authorities had to rely on extensive foreign exchange controls to avoid to a full depletion of reveres. The large premiums in these economies (exceeding 700 percent at times) were clear evidence of a dramatic inconsistency between exchange rate policy and monetary and fiscal policies.

Although examples of macroeconomic mismanagement associated with the coexistence of official and parallel foreign exchange markets are numerous, in come cases parallel systems were used judiciously. Belgium operated a dual system for more than three decades without producing major distortions. Colombia has maintained a substantial unofficial parallel foreign exchange market for years, while preserving macroeconomic balance. In these cases, however, the premium was kept low on average; larger premiums were tolerated only as a short-term safety value during crises. Serious distortions were avoided in these countries because the governments followed sound macroeconomic policies. What is more difficult to determine is whether the parallel regime delivered greater macroeconomic benefits than a unified rate would have.

How important is unification? Large and persistent parallel premiums create numerous microeconomics distortions and induce rent-seeking and corruption.

Recent suggestions for reforming the ways infrastructure in developing countries is provided and financed include encouraging private provision as a way to avoid the inefficiencies of public administration and tapping local savings as a way to avoid excessive reliance on external borrowing. These suggestions have a back-to-the-future quality: private provision and local finance were characteristic of infrastructure investments in many countries-notably the North American case considered here-for much of the nineteenth century. Consequently, the historical record is a potentially rich source of information on the circumstances under which these approaches are workable and on their limitations.

What the record reveals is that government intervention continued to be important. The ability of domestic financial markets to underwrite the construction of ports, canals, and railways was constrained, in part because of informational asymmetries characteristic of markets in the early stages of development. To help with these problems and to attract private investment, lenders turned to financial institutions that specialized in assessing projects and monitoring management. These were typically foreign institutions with foreign clienteles whose experience with privately financed projects had given them a head start in raising capital and judging risk. This approach relieved-but did not eliminate-concerns about inadequate information. Nor did private investment and local capital reduce the government's involvement or the need for foreign borrowing.

All too often, however, government intervention simply replaced one set of problems with another. Investors, assured of a guaranteed return, had less incentive to hold management accountable. Management, freed of investor scrutiny and provided with access to capital markets, courtesy of the government, arranged deals with construction companies that left taxpayers holding the bag. Guaranteed loans encouraged investors to finance infrastructure projects, but without built-in mechanism to monitor spending and protect the public interest, it was impossible to ensure that resources were allocated efficiently.

These failings imply that exploiting nontraditional approaches to financing infrastructure requires two further policy initiatives. First, efforts should be made to enhance the effectiveness of public administration.

The estimated economic impact of AIDS using dual-economy model for Tanzania developed here suggests that the aggregate size of the economy will be 15 to 25 percent smaller by 2010 than it would have been without AIDS. The negative impact on per capita GDP by that time is expected to be 0 to 10 percent. Although these estimated macroeconomic consequences for Tanzania turn out to be roughly of the same order of magnitude as those obtained from a single sector, full-employment model in Cuddington (1993), they could, in principle, be larger or smaller for reasons outlined in section I.

The dual-economy simulations also suggest that more rapid labor market adjustment could yield considerable real income gains. Interestingly, the output loss from AIDS in the present dual-economy framework is roughly similar in size tot he output gain from policies designed to increase the speed of labor market adjustment. The exercise is crude, but nonetheless encouraging: labor market adjustment policies in economies devastated by AIDS may play a potentially important role in at least ameliorating some of the negative economic effect of the epidemic, although they would certainly not offset the devastating personal and social costs. Further research analyzing possible policy actions for coping with the disease-whether at the health-sector or macroeconomic level-is urgently needed.

The theoretical literature attributes the (relative) decline of the agricultural sector under economic growth to three broad groups of potential causes: declining relative prices of agricultural products, differential rates of technical change, and changes in relative factor endowments. The relative importance of these influences

was assessed by applying the dual approach with the translog functional form. The dual approach has been widely used to analyze resource allocation within agriculture, but to our knowledge, this and Martin and War (1992) are the first studies in which it has been used to analyze the behavior of the agricultural sector as a whole. Because of the potentially substantial lags involved in the adjustment process, and because of the apparently nonstationary nature of the data series, an ECM that was nonlinear in its parameters was used.

In Indonesia is at all typical of developing countries, the results obtained in this analysis appear to require a reorientation of the literature on the declining share of agriculture in open economies. The relative price effects that have been the focus of most of this literature turned out to have limited importance in this context and were dominated by pure valuation effects rather than real quantity adjustment effects. Whereas the literature on structural change frequently assumes that developing-country agriculture is technologically stagnant, the results of this study suggest that technological stagnation need to be the case. Indeed, technical change in the Indonesian economy during our sample period appears to have been biased toward the agricultural sector. Finally, the factor accumulation, effect, which have received scant attention in the literature on agricultural economics, appeared to be overwhelmingly important. These findings are consistent with the results of a companion study for Thailand. The findings suggest that the process of capital accumulation, through Rybczynski-type effects, may be extremely

important in determining the economic process whereby the share of agriculture declines with economic growth.

The type of structural change examined in this article has important implications for policy in Indonesia. The result suggest that further accumulation of capital in relation to labor will have significant effects on agriculture's share of GDP, creating new opportunities outside agriculture. The mechanism of adjustment is one of "pull" rather than "push" factors. It need not create a policy dilemma and should not be resisted. Continuation of the process is likely to be accompanied by continued reductions in poverty (World Bank 1990b), especially in rural areas.

The World Bank have reported estimates of the effects of several important public programs associated with human resource investments (in schools, clinics, and family planning clinics) on basic human capital indicators (school attendance, fertility, and child morality). The estimates were based on a "new" data set constructed from a pool of kecamatan-level observations on human capital outcomes, socioeconomic variables, and program coverage based on the successive sets of cross-sectional household an administrative data describing Indonesia in 1976-86. This data set also enabled the investigation of the biases in conventional cross-sectional estimates of program effects arising from two sources: the lack of comprehensive information on programs and the nonrandom placement of governmental programs across areas. The data were also used to examine how the spatial allocation of programs in Indonesia in 1980 and the growth in program

coverage by area were related to area-specific endowments in the 1980s and contributed to the efficiency of program effects and spatial and socioeconomic equity.

The empirical results, based on matched 1980 and 1985-86 information on more than 3.000 kecamatans, indicated that the presence of grade schools and to a lesser extent, middle schools in villages has a significant effect on the school attendance rates of teenagers. The results also indicated that the presence of health clinics in villages positively affects the schooling of females ages 10-18. Estimates based on the data stratified by the educational attainment of adult women also indicated that the effects of grade school proximity on the school attendance rates of teens ages 1014 was significantly greater in households in which mothers had little or no schooling compared with households in which mothers had more than a grade school education. However, no other program effects appeared to differ across education classes of women.

The estimates also suggested that the use of cross-sectional data, which does not take into account the possibly nonrandom spatial location of programs, results in substantial biases in the estimates of program effects because of the evident nonrandom spatial allocation of public programs. The cross-sectional estimates also indicated clearly counterintuitive results, for example, that family planning clinics significantly raise fertility and reduce schooling investments. These results are not apparent when the nonrandomness of program placement is taken into account.

The estimates pertaining to the spatial and intertemporal allocation of programs in Indonesia indicated that the 1980 spatial distribution of each of the five programs examined here was significantly related to the unmeasured fixed factors relating to the six policy outcomes; the placement across kecamatans in the coverage of programs is not random with respect to the unmeasured factors determining outcomes and behaviors. Most notably, kecamatans with a propensity to have higher fertility received less family planning support, suggesting that such support is provided where it is most desired. The coverage of programs also tended to be lower in areas in which the educational levels of mothers was high, an allocation consistent with an efficiency criterion, given the finding that the effect of grade school proximity on school attendance is greater in households with less-educated mothers. However, this relation is also true for all of the programs studied for which there was no evidence of nonlineraities with respect to the schooling attainment of adult women. Finally, the examination of the change in the spatial program distribution became more equal; there was clear evidence of area specific convergence in program coverage.

Although there was some evidence of significant program effect, particularly of school proximity on school attendance, it is apparent from exploiting the constructed longitudinal data that the quantitative estimates of these effects cannot account for a larger part of the actual growth in human capital outcomes in Indonesia in the 1980s. In part this may be the result of measurement error in the program variables, on which there is some evidence, which would bias

the program estimates toward zero. Some of the improvements in the human resource outcomes examined may reflect economic growth, which the data do not measure. Even with income information, however, the endogeneity of income must be considered as well as the possibility that human capital programs contribute to economic growth. Controlling for incomes could thus result in a misleading inference about the long-term consequences of public investments in human resource investments.

To obtain a geographically consistent set of intertemporal observations, we matched the data set-specific geographic codes in two stages: the 1986 codes were matched to the 1980 codes, and the matched using their receptive master files. The province and district codes between two consecutive master flies were matched, and then the subdistricts were matched by name. However, many names had changed or new subdistricts emerged because there were different abbreviations between periods or because some subdistricts split. The nonmatched subdistricts were then visually matched, but still the matching was not complete.

The subdisctricts that were not matched based on names were brought to the attention of the Mapping Department at the BPS. From internal documents we tried to find the origin of the nonmatched subdistricts. However, the Mapping Department updated their maps in 1980 and 1986 only, not in 1983, and their documents listing code changes were not complete. For the remainder of the subdistricts that we could not match, we used various issues of the Lembaran Negara Republik Indonesia, the annual, official documents recording villages

changing subdistricts, new villages, new subdistricts, and boundary changes. This publication does not contain location codes, just names. To obtain the origin of the villages in the nonmatched subdistricts, we matched the village names from the gazette with village names from the master files. We changed the subdistrict codes according to the origin of most of the villages of the subdistricts in the master file. There were 103 location code changes between 1983 and 1986 and 217 location code changes at the subdsitrict level from 1980 through 1983. Once we completed the master file changes, we converted the 1986 PODES into 1983 codes and then into 1980 codes.

The 1976-77 FASDES contains just one code for the province and district combined; ranging from 1 to 287, whereas subsequently provinces and districts were identified with separate two-digit codes. To convert the FASDES geographic codes into 1980 codes, documentation on the three-digit location codes for the provinces and districts combined was used to update to the 1980 scheme of two-digit province codes and two-digit district codes. However, conversion of the FASDES codes to 1980 codes at the subdistrict level was made difficult by the fact that the FASDES subdistrict codes and names are not available. Thus, we had to match the village names from the FADES master file along with their subdistrict codes with the village names and subdistrict codes on the 1980 master file. If five or more villages matched, we took the subdistrict codes from the 1980 master file. Village naming was sufficiently stable over time to permit the matching of all of the sunbdistrict codes between 1976 and 1980.

The convert the 1985 SUPAS into 1980 codes necessitated the use of the 1985 Sample List (Daftar Sampel), which contains the sample code number along with the province, district, subdistrict, and village codes. The raw data for SUPAS includes only the province and district codes, along with the sample code number. The three codes combined-for the province, the district, and the sample number-were used to obtain the subdistrict codes using the sample list. These codes were based on the 1983 master file, so we then converted them from 1983 codes into 1980 codes.

Once the geographic codes of all of the data sets were made comparable, we aggregated the data at the common subdistrict level. With the PODES and FADES, well calculated for each subdistrict the proportion of households whose village of residence contained each program, type of infrastructure, or environmental variable.

Because the 1986 PODES was converted to 1980 codes, there were some duplicate location codes as villages and kecamatans split between 1980 and 1986. In 1986 there were 66.922 villages. Knowing which kecamatans and villages split between 1980 and 1986 allowed us to reaggregate 1986 administrative units back to their 1980 form. If areas were combined, we were, of course, unable to disaggregate program coverage into 1980 codes. There were 65.924 villages in 1986 with the 1980 codes. The FASDES did not contain any duplicate location codes after the conversation to 1980 codes. The total number of kecamatans in the

1980 PODES is 3.318. Of these, we were able to match all but 16 in the 1986 PODES.

A World Bank study reported:

A substantial proportion of the foreign borrowing (57 percent in 1983-84) was undertaken by public enterprises. This recourse to external funds helped these agencies escape the surveillance and discipline that could have been imposed by the federal government had there been a greater reliance on the Treasury as a source of funds. Overall net foreign inflows more than compensated for the current account deficits being registered. Central Bank foreign exchange reserves built up steadily, and pressure to depreciate the exchange rate was temporarily diverted. (World Bank 1989: 15)

There were real counterparts to the external financial flows in the two periods. In late the 1970s the inflow as a result of the current account surplus led to an increase in aggregate savings. In the 1980s the inflow of capital as a result of foreign borrowing was used to increase public sector spending, much of it bolstering demand in the domestic nontradable sector, leading to an increase in the DRER on top of the nominal exchange rate appreciation.

The last point underlines another difference between the Korean and Malaysian experiences, a difference pertaining to the efficiency with which foreign borrowing was used. It has already been mentioned that although Korea increased its foreign debt ratio significantly following the oil shocks, the productivity of the investment it made possible was high, as evidenced by the high

TFP growth. However, a substantial part of the foreign borrowing in Malaysia in the 1980s was used to finance public sector projects of doubtful profitability. Evidence suggests that the TFP decline in this period.

This article has discussed how two open economies with different factor market institutions responded differently to external shocks and the need to maintain international competitiveness. The variable used in the analysis is the unit cost of labor in dollars. A country's international competitiveness depends on sustaining a satisfactory unit cost of labor in relation to that of its competitors in the world market. This is particularly true of the newly industrializing countries in the world market for manufactured goods. A simple decomposition of the determinants of the unit cost of labor showed that the three related elements constitute this critical ratite: the wage-productivity gap, the normal exchange rate, and the domestic real exchange rate (DRER). but policies regarding the behavior of the labor market would specifically affect the first element, policies regarding the exchange rate would affect the second, and both sets of policies would affect the third. In addition, fiscal and monetary policies used to influence the economy's internal and external balance would have an impact on all three factors.

The analysis of the development of the two economies following the international shocks has demonstrated the usefulness of concentrating on the unit cost of labor and its determinants as the focus of the analysis. For most developing economies, except the very closed ones, the unit cost of labor in manufacturing seems to be a crucial variable, whose behavior determines the degree of success

attained in adjustment to external shocks as well as in longer-run growth. Comparison of the determinants of the unit cost of labor for two or three economies in other regions might be a useful way to cut through a maze of diverging trends and experiences.

The two Asian countries considered here did not suffer from fiscal indiscipline or monetary mismanagement to the extent that countries in other regions have. Hence this article has concentrated on the behavior of the labor and foreign exchange markets and the policies and institutions affecting them. Fiscal and monetary factors have entered the discussion only insofar as they have had an impact on the markets for labor and foreign exchange. In studies of the adjustment of Latin American economies, for example, imbalances caused by fiscal and monetary factors would need much more attention. But this article is not meant to provide generalizations across countries of different regions or even the same region. Instead, the analysis of two countries in the same region, both of which managed successful adjustments to external shocks and also sustained long-run growth, should convince readers of the importance of looking carefully at differences in policies and institutions between countries. The focus on the unit cost of labor provides the necessary framework for studying these differences.

The role of Korea's managed system, both for wage setting and for exchange rate determination, has been shown to have been critically important to adjustment. The crucial role of successfully managing the direction of change in

the determinants of the unit cost of labor at critical periods of the cycles has been highlighted.

The contrasting case of Malaysia is interesting because, in spite of the low degree of institutional wage setting in much of the formal sector, rules of behavior seem to have emerged that produced inflexibilities in wages. Perhaps this illustrates the way a "free" labor system evolves in the formal sector. Institutional intervention may, in fact, be necessary to make the wage system respond to economic fluctuations in the desirable way. The value of institutional intervention can be seen in Malaysia's plantation industries, which have been strongly unionied for a long time: wage contracts negotiated in that sector have allowed wages to be tied to the (volatile) price of the output (rubber) in a conscious attempt to make wage cost vary with fluctuations in the international market for rubber. But, as we have seen, this adjustment mechanism was absent in the other segments of the formal sector in Malaysia, notably in the growing manufacturing sector. Thus, average earnings apparently increased in those sectors in periods of recession and increasing unemployment in the first half of the 1980s.

Source: Economist, 3/26/94, Vol. 330 Issue 7856, p107, 2p, 1bw.
Item Number: 9404147627

Magazine: Economist, December 10, 1994
Section: ASIA

Kirgizstan
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THE INVALID RESPONDS TO TREATMENT

Dateline: BISHKEK

A HEADLINE in Akipress, the leading Kirgiz commercial weekly, says "World Bank adopts Kirgizstan". Askar Akaev, the Kirgiz president, echoes the sentiment: "Our reforms have only been possible with the help of the World Bank and International Monetary Fund. They have supported us from the very beginning." Rarely do the Bank and IMF receive such praise from politicians, let alone the press. More often they are portrayed as villains, the cause of the economic mess that their presence in a country implies. Why is Kirgizstan different?

Largely because the Bank and the IMF have come up with some cash. When the Soviet Union broke up, the Kirgiz lost about 12% of GDP that they used to receive in subsidies from Russia; they also had to start paying near world-market prices for their fuel. Once convinced that the Kirgiz were serious about reform, the IMF and the World Bank stepped in quickly to cover the bills. Between them they have lent the country $150m to support the balance of payments, almost 10% of this year's GDP. Their support also brought help from other donors. The Japanese, for example, matched a recent $60m World Bank loan. The Americans have given aid worth almost $200m--mostly food and technical help, rather than the more useful cash in hand.

More importantly, the economic prescriptions from the Bank and the IMF seem to be working. The Kirgiz have followed the advice of their adopted mentors with a vengeance. They have liberalised their economy, privatised their shops and some enterprises and (at least this year) become zealous disciples of low inflation.

Kirgizstan has the lowest inflation rate in the former Soviet Union, excluding the Baltic states. The som is now the strongest currency in Central Asia: the Russian rouble's plunge in October was barely noticed in the currency markets of Bishkek, the capital. Interest rates are coming down; capital is flowing in. Even taxi-drivers--a barometer of popular opinion--point approvingly to the stable prices and strong som.

But low inflation will not last without underlying reform. The factories that used to rely on cheap credit need to be reorganised or shut down. Here the Kirgiz have taken an innovative, but potentially dangerous, approach. With the help of the World Bank, they have set up something

called the Enterprise Restructuring and Rehabilitation Agency. Twenty-nine of the most indebted enterprises have been removed from the banking system; their wage bills and running costs are being paid from the government budget, which in turn receives money from the Bank.

This approach, the first of its kind in the former Soviet Union, seems a clever short-term solution. Bankrupt enterprises no longer sully the banking system; but nor are they simply shut down overnight, with the increase in unemployment that implies.

Yet there could be problems, largely because the Kirgiz and their mentors see the agency's job very differently. World Bank officials talk about a "morgue" where unviable enterprises will gradually die. Mr Akaev, though, sees the agency as a hospital where ailing enterprises will be nursed back to health. This vision, shared by many of the factories themselves, is dangerous: it implies a grand government industrial policy in a country that can ill afford it, particularly when the Bank money dries up. Having set up this agency, the Bank now needs to ensure this does not happen.

Government finances are another problem. At the moment the budget deficit is held low by drastic spending cuts. The screws have been tightened on everything from medical services to bureaucrats' salaries; public investment is almost non-existent. The deficit that is left is mainly financed, rightly, by borrowing from abroad rather than from the central bank. But these spending cuts are not a long-term answer. Eventually, tax revenues, among the lowest in the world, need to be increased. New tax systems need to be built, so that the private sector can be taxed more effectively.

The best indicator of successful reform will ultimately be a return to economic growth. Here the statistics remain gloomy: a drop in GDP of at least 14% is expected this year. Paradoxically, some of this decline is a good sign; factories are no longer producing goods that no one wants.

But, as the private sector grows, the official statistics are increasingly unreliable. Imports of energy, for example, are supposed to have fallen by 70% this year, yet car sales in Bishkek are up, and petrol is freely available. Private industry, and individuals, are doubtless importing more, all of it unrecorded. Just look at advertisements for charter flights to India in the Kirgiz press or watch the lorries rumble on the road to China and you can see that this is an economy where much more is going on than the government would have you believe.

No one in Bishkek is under any illusions that Kirgizstan is now rich. Turning its economy round has been, and will continue to be, a hard slog. But the combination of committed reformers and effective outside help has produced fast progress. In a region where many still remain to be convinced of the "western recipe", and where many westerners still remain sceptical about the usefulness of open-handed financial support, the Kirgiz example has much to teach them.

GRAPH: Conquering inflation: Kirgizstan's consumer prices (Source: National statistics)

PHOTO: Akaev welcomes the money

Source: Economist, 12/10/94, Vol. 333 Issue 7893, p33, 2p, 1 graph, 1bw.
Item Number: 9412197734

Magazine: Progressive, December, 1994
Section: ON THE LINE

DOWN WITH THE WORLD BANK

As the World Bank celebrates its fiftieth anniversary, it is under fire from activists, members of Congress, and citizens of the countries suffering from environmental and social problems linked to the Bank's funding policies.

The most organized criticism of the World Bank comes from the 50 Years Is Enough campaign, comprised of more than 200 religious, environmental, labor, student, and human-rights organizations around the globe. The campaign is calling for the World Bank to open itself to public accountability, give decision-making power to women and the poor who are most affected by its policies, put an end to environmentally destructive practices, and reduce the debt that is crushing the ability of Third World countries to finance real development.

Among the points raised by members of the campaign:

The World Bank has lent tens of billions of dollars to dictatorial governments which trample the human rights of their own citizens. The Indonesian government, for example, received some $630 million for the Transmigration Project, which forcibly relocated millions of poor Indonesians to rain-forest land to make way for Bank-funded dam construction.

In the area of energy development, the Bank has overwhelmingly funded nonrenewable, polluting types of energy. Many construction projects have also caused significant environmental damage.

By imposing "structural adjustment" programs, which eliminate subsidies on such basic items as food and fuel, the Bank increases the suffering of millions of people all over the Third World.

The 50 Years Is Enough campaign is conducting seminars and publishing pamphlets on the World Bank's harmful activities. The group has also pushed for legislation that holds Bank projects to democratic and environmental standards.

For more information, write 50 Years Is Enough, Suite 300, 1025 Vermont Avenue, Washington, DC 20005; (202)879-3187.

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By KEVIN DANAHER

(Kevin Danaher is the editor of "50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund. ")

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Source: Progressive, Dec94, Vol. 58 Issue 12, p14, 1/3p.
Item Number: 9411297673

Magazine: The Economist, March 26, 1994
Section: ARTS, BOOKS AND SPORT

Economic growth without environmental ruin

THE GREENING OF THE WORLD BANK

MORTGAGING THE EARTH.
By Bruce Rich.
Beacon Press; 376 pages; $29.
Earthscan; paperback 12.95

SPEND a few days at the World Bank's head offices in Washington and it is hard not to come away impressed. They are packed with intelligent, well-meaning people, with thoughtful views on development and as much openness about their institution and its customers as anybody might reasonably expect from a large bureaucracy.

Open Bruce Rich's book and quite a different organisation appears: secretive, insensitive and inept. In his eyes the Bank must be vastly reformed--or get no more money. In fact, Mr Rich, a campaigner at the Environmental Defence Fund, claims to be the originator of a slogan popular with green lobbyists as the Bank celebrates its 50th anniversary: "Fifty years is enough".

People listen. Of all the criticisms directed at the Bank, those of the environmentalists have been the most effective. They have imposed a sort of green conditionality on American support for the Bank, and thus on the Bank's lending to everybody else.

Environmentalists would not have achieved such a feat had the Bank not been involved in some devastating environmental damage. Mr Rich's book is a detailed catalogue of such misdemeanours. Among his horror stories are the Indonesian transmigration and the Brazilian Polonoroeste plan. Both schemes, most Bank officials would now agree, were ill-conceived economically as well as environmentally. Such cases, Mr Rich argues, are the culmination of a form of development that emphasised capital-intensive projects and brushed aside objections from local people and, sometimes, also from consultants hired by the Bank itself.

Big projects have always been attractive to the Bank because of their relatively low overhead costs. The Bank also faces great internal and external pressures to get the money out: its culture has long rewarded departments which push through the most loans, rather than those which lend less but whose projects achieve more.

So far, so uncontroversial. Many of Mr Rich's criticisms appear in the Bank's own documents, and his arguments draw on reports by the Bank's own staff (such as a study by Willi Wapenhans, commissioned by Lewis Preston, the Bank's president, in 1992). The Bank has been trying to emphasise quality in lending and to improve the environmental controls on its investments.

But part of Mr Rich's complaint is not against the Bank. It is against the idea of development itself. The Bank is "the quintessential institution of high mid-20th-century modernity", and "the fundamental problem of modernity may be that development pursued as an absolute goal

is nihilistic." As many environmentalists do, Mr Rich sees the Bank as a symbol and agent of economic growth in developing countries; and such growth as the main cause of environmental destruction.

It is certainly possible to have economic development without current levels of environmental damage--and that was the theme of the Bank's "1992 World Development Report". But the poor world is unlikely to give up the quest for faster growth, whatever policies the Bank pursues.

"Population growth" is a phrase that appears only once in this book; yet the need to provide jobs and food for millions of extra people increasingly drives the struggle for development in the poorest countries. Sometimes, not surprisingly, the poor take a more cavalier approach to environmental protection than greens in rich countries. That may be an argument for, not against, encouraging poor countries to grow rich.

Mr Rich wants the transfer of resources from the rich world to the poor world to continue, but also wants far more to flow through non-governmental organisations (NGOs). That, he says, would give local people more say in the way that their lives were changed, and would steer development finance away from roads and dams towards more modest projects which would do more to defeat poverty. This is already starting to happen: grants to NGOs account for a gently-rising share of official assistance, and the number of NGOs in the aid business is multiplying rapidly.

As this happens, a new problem will emerge. NGOs are as open to corruption and mismanagement as any other bodies dishing out money. Much less has been done to monitor their effectiveness than the World Bank has done to examine its own. Because aid dispensed through NGOs will come in smaller sums it may do less environmental harm than the World Bank's loans do but it may also be less efficiently spent.

Because development is likely to continue, and continue to be an environmentally messy affair, people such as Mr Rich need the Bank just as much as the Bank needs them. The Bank needs Mr Rich and his kind to alert it to the unintended consequences of its activities, and to question its assumptions about development. Many of the environmental disasters he recounts began before most people thought the environment mattered much. But Mr Rich and his movement need the Bank to teach governments of developing countries to care for their environments, and to design environmental policies that work. It is much easier to lobby the Bank than, say, the Indonesian or Brazilian government.

Obligingly for the greens, the Bank expects "environmental" projects--which include sewage treatment, soil improvement, waste disposal and habitat protection--to be a big growth area of its lending. For the next 50 years.

PHOTO: No part of Bruce Rich's equation

Magazine: Economist, November 26, 1994
Section: INTERNATIONAL

Kenya
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HARSH MEDICINE, BUT IT WORKS

Dateline: NAIROBI

WHEN Kenya's assistant minister for lands and settlement, Japhet Ekidor, recently bit off the ear of an opponent during a public meeting, and his victim was charged with assault, Kenyans simply sighed. Risible behaviour is what they have come to expect of their politicians.

After years of cannibalistic corruption, they have also become accustomed to an economy run for the benefit of a handful of Kenya African National Union stalwarts, complete with huge inflation, food shortages and crumbling public services. But now Kenya is gripped by a structural-adjustment programme imposed by the World Bank and IMF, which requires that government finances be closely managed, state companies privatised, agriculture and other marketing boards abolished, the Kenyan shilling floated and the civil service sharply cut. This rush of economic and fiscal probity has so far brought few visible benefits to ordinary citizens, but extra opportunities for the KANU cliques to grow fat.

The government this week said it would sell Kenya Airways; but to date, only four minor companies have been privatised (and no one knows who bought them). When news trickled out of the imminent deregulation of the oil industry, those in the know were able to make a killing on the foreign-exchange market, as oil companies--which would thus be freed to import refined products--cashed in their shillings for dollars.

But World Bank and private-sector economists say these will be among the last opportunities for the elite to get their fingers in the national till. They insist that, provided Kenya stays on the tracks, the economy could move smartly forward.

The signs are there already. Most obvious is the strength of the currency. It stood at about 80 shillings to the dollar last year. Recently floated, it strengthened to 35 earlier this month, and now hovers around 47. Kenya's finance minister, Musalia Muda-vadi, has sponged up the lake of unbacked shillings pumped into the economy--the money supply doubled in six months--by President Daniel arap Moi during his 1992 election campaign. With interest rates on treasury bills of up to 70% and commercial banks forced to hold 20% of their cash reserves at the central bank, the number of shillings in circulation has plunged. Inflation, running at over 100% annually a year ago, is now down to about 13%; the World Bank thinks prices have actually fallen over the past three months.

High interest rates have also attracted flight capital back. World Bank statistics show that $18m held by Kenyans overseas returned to the country between July 1993 and March this year. The word in the market is that there is $400m of hot money sloshing around in Nairobi, some of it pinched from the government and recently returned from Switzerland, some quick profits from the bond market and other speculations.

The money may flee offshore again, but many economists expect half to stay. Already the price of good residential property has soared. Some of the money has gone into manufacturing. But the swift appreciation of the currency is making life tough for manufacturers and exporters. Even giants like Unilever are operating well below full capacity. A car-assembly company, AVA, undermined by the now relatively cheap imports of finished cars, has switched to making tents.

Farmers too have been hit. Coffee and tea, Kenya's second- and third-largest exports, have enjoyed good world prices this year--but prices that look far less attractive once expressed in the strong new shilling. This year 900,000 or more tourists are expected to come to Kenya. Their holidays were sold to them by tour operators with the shilling priced at between 55 and 80 to the dollar. Now the operators are squealing.

Even so, economic growth of 2% is foreseen this year, against last year's 0.4%. The cure, it seems, is working. Not that it seems so to everyone. Doctors and university lecturers, stuck on modest salaries, have been hurt by the soaring prices of the past and have taken revenge in month-long--and illegal--strikes. Electricity workers recently walked out in a dispute over wages.

President Moi is trying to persuade the World Bank and aid donors to help him protect those worst hit by economic austerity. The Bank recognises that causes such as education are deserving, and has put up $70m for schools, $70m for farmers and $100m to support small businessmen.

But President Moi faces hostility to privatisation among his own supporters, notably the "Rift Valley mafia", led by his close friend and former energy minister, Nicholas Biwott, his vice-president, George Saitoti, and the minister for local government, William Ntimama. "We are waiting for real commitments to privatisation, real bidding for state companies and strict improvements to their management systems," says one World Bank official. "Until then, Kenya will be struggling to get more out of aid donors."

GRAPH: At last: Kenya's GDP (Source: EIU)

Source: Economist, 11/26/94, Vol. 333 Issue 7891, p45, 2p, 1 graph.
Item Number: 9412077619

Magazine: Presidents & Prime Ministers, November, 1994
Section: Economy & Finance; News Briefs

WORLD BANK MILESTONE

In July 1994, in observation of the 50th anniversary of its founding, the World Bank released a special report to chart its course through the challenges of the post-Cold War world.

According to the report, The World Bank Group: Learning from the Past, Embracing the Future, the bank will boost its efforts to meet fundamental development objectives such as universal primary education, access to basic health care, and elimination of malnutrition within the next generation. The bank faces enormous challenges: More than a billion people in the developing world struggle to survive on less than a dollar a day; two out of every five people do not have basic sanitation or clean water; and 100 million children have no access to primary education.

The report summarizes five major challenges that will dominate the development agenda and shape the bank's future work, including pursuing economic reforms; investing in people through better education, health care, nutrition, and family planning; protecting the environment; stimulating the private sector; and reorienting government.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p36, 2p.
Item Number: 9411293586

Magazine: Presidents & Prime Ministers, November, 1994
Section: Environment; News Briefs

POLLUTION CONTROL PROJECT

On July 26, 1994, the World Bank approved a loan of $143 million and an International Development Association (IDA) credit of $25 million for a project to help India deal with problems associated with pollution from industrial sources. Despite past successes, pollution from industrial sources continues to threaten sustained growth. As the economy expands, the potential impact of industrial activities on the environment stresses the country's natural resource base and causes the welfare of the population to suffer.

The project focuses on pollution prevention through the use of cleaner means of manufacture. It follows a policy of "the polluter pays," which establishes fees for the release of toxic wastes and charges the source of the pollution. The loan and credit will promote a program to recycle municipal waste. Buyers will purchase raw sewage and recycle it for industrial use, creating a supply of water for industry in an area of acute water shortages.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p41, 1/6p.
Item Number: 9411293639

Magazine: Nation, October 10, 1994
Section: BEAT THE DEVIL

SAVING HAITI

Poor Haiti. All the hopes that accompanied Aristide into power after his electoral victory in 1990 have now been extinguished, and the status quo ante restored.

"Who are we going back to save?" asked Maj. Louis Kernisan rhetorically of Allan Nairn, as reported in Nairn's very fine Nation story last week. "... It's not going to be the slum guy from Cite Soleil.... It'll be the same elites, the bourgeoisie and the five families that run the country."

While Kernisan and his Pentagon comrades restructure and streamline Haiti's repressive apparat, Aristide or a stand-in will carry forward the World Bank plan, approved by a meeting of international bankers in Paris in August.

The idea of "structural adjustment" and its attendant austerity measures might seem laughable in the poorest country in the Western Hemisphere, but the World Bank sprints past satire like a cheetah past a greyhound.

"The objective," the plan primly states, "is to secure the voluntary departure of about half the 45,000 civil servants." A Bank official concedes this will hurt the poor "to some extent." Public services will be privatized, tariffs and import restrictions abolished, and special courts created to ease life for international investors.

In return for such measures, Haiti is to receive $770 million in financing, of which $80 million will go to retire debts to international financial institutions. The plan was shoved down Aristide's throat without the knowledge of some of his exiled Cabinet members. Chavannes Jean-Baptiste, a peasant leader and Cabinet member, says he'd never heard of it and, after reviewing its terms, told Nairn, in another good story in Multinational Monitor, that "it's the same plan they've always offered for years, what they used to call 'The American Plan.'"

The racism of the U.S. press has been more than usually intolerable. One of the worst was Elaine Sciolino in The New York Times for September 18. She seemed to regard it as evidence of mental instability that Aristide and his Cabinet were "deeply suspicious of foreign meddling." This reminds me of the anthropologist Alfred Kroeber, who brooded about the inexplicable "paranoia" of California Indians--this after a half-century of decimation by the whites.

Sometimes I wonder what Sciolino and the rest of them would balk at. "To help Father Aristide for his return," Sciolino wrote, "Administration officials have tried to force feed him large doses of economics and theories of public administration." Of course this translates as "Administration officials have twisted Aristide's arm till he's succumbed to the rapacious demands of bankers and businessmen," but one has the feeling that Sciolino is so brainwashed by the bullshit that's pumped into her on a daily basis that she doesn't even think about what she's writing. It's the Connie Chung syndrome. What wouldn't Chung read off the teleprompter in those flat, affectless tones? (Incidentally, Connie Chung masks will be this year's big Halloween sensation. Buy

smart, buy early!)

One of the few good stories in the press was by A.P. reporter John Solomon, who on September 19 described in detail how the Bush Administration quashed any investigation of Texaco's breaches of the embargo on oil shipments to Haiti. In 1992, Nicholas Brady, then Treasury Secretary, had ordered the Office of Foreign Assets Control, which enforces trade embargoes, "to go slow on Texaco." Solomon assembles a store of evidence showing that OFAC director Richard Newcomb deliberately held the case in abeyance for more than a year and that Texaco deserved a $1.6 million civil penalty. Texaco's solution was to transfer its assets to a foreign trustee, a move that OFAC deemed illegal but nevertheless did nothing to impede. The Clinton Administration was told of the case a year ago but made no urgent move against the company.

Let's leave this horrible farce with the man from Plains, who described Cedras and his fellow butchers as "men of honor." Defending his delegation's failure to demand exile for Cedras, Carter went so far as to say, "It's a serious violation of inherent human rights for a citizen to be forced into exile." But then, he always could defend his sellouts as the moral equivalents of victory.

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By Alexander Cockburn

Source: Nation, 10/10/94, Vol. 259 Issue 11, p371, 2/3p.
Item Number: 9410037514
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Magazine: Economist, October 8, 1994
Section: FINANCE

THE FIGHT FOR THE FUND

Dateline: MADRID

Cocktail parties rather than controversy usually mark the annual meetings of the World Bank and the International Monetary Fund. In Madrid this year things were different

A FURIOUS row between industrialised and developing countries over proposals to raise world liquidity and give more financial assistance to ex-communist countries soured the 50th anniversary gathering of the World Bank and the IMF. For the first time, a united block of developing countries rejected proposals put forward by the G7 group of industrialised countries (America, Britain, Canada, France, Germany, Italy and Japan). Some participants said the fight had opened a new north-south divide. Others mused whether there was any future for the IMF. Reality is more banal: the meeting was a diplomatic disaster that can probably be sorted out once tempers cool.

The fight centred on arcana. The basic disagreement was whether to boost global liquidity through a general allocation of Special Drawing Rights (SDRs). Introduced in the late 1960s when people believed the world suffered from a liquidity shortage, these are an artificial asset that the IMF can allocate to its member countries.

The best analogy is that of a global overdraft facility. Countries short of liquidity can ask the IMF to swap some of their SDRs for a normally traded currency such as the dollar. As with an overdraft, the debtor pays interest on these dollars, but can use them to pay for imports. Until the dollars are paid back, America holds a higher proportion of its reserves in the form of SDRs. The last SDRs were issued in 1981. Their role in the international economy is now minor: they make up little more than 2% of global reserves excluding gold. But the principle remains that new SDRs can be allocated when there is seen to be a need for liquidity.

The IMF's managing director, Michel Camdessus, believes that this is such a time. In recent months he has been pushing for a new allocation of 36 billion SDRs ($52.6 billion). He gives two arguments. One is that world demand for reserves will rise by about 400 billion SDRs over the next five years as emerging economies increase their imports. The other is that the 37 countries which have joined the IMF since 1981 have no SDRs, and deserve some out of fairness.

Many countries disagree with him. Germany, in particular, is adamant that no global need for additional liquidity exists. Its officials think that issuing SDRs would result only in higher inflation. Other industrialised countries feel the same, while accepting the fairness argument for a one-off allocation to new members. After much unseemly haggling in Madrid, the G7 agreed on a compromise that would allow an allocation to the tune of 16 billion SDRs in total, but spread among all members; technically, this would not be a global allocation.

In the IMF's policy-making meeting, the developing countries, led by Brazil and India and egged on by Mr Camdessus, held out for a global

allocation. As part of the spat they also refused to back a proposal to extend the so-called Systemic Transformation Facility (STF), a temporary route for financing ex-communist countries, which is due to be closed in December.

The most worrying short-run consequence is that former communist countries will get less of the cash they urgently need. They will receive no SDRs, although under the G7 plan the former Soviet Union would have received around 2.4 billion SDRs, and under Mr Camdessus's plan somewhat more. Worse, the non-renewal of the STF could mean a loss of $2 billion for Russia alone. These countries have huge financing needs, and reform programmes are unlikely to succeed without substantial outside help. Using the IMF was a cheap way for western countries to provide this.

SDR wars

The larger issues raised by the fight are ones of principle and precedent. Neither the case for nor the case against an SDR allocation has much real economic merit. Mr Camdessus's claim that there is a global need for new reserves is difficult to justify. Most of the world's bigger economies are building up reserves: in industrialised countries these rose by 4% last year, and in emerging-market economies by 16%. In an environment of reasonably free capital flows it is nonsense to say that the world lacks liquidity. The problem is one of dispersal rather than shortage.

Where Mr Camdessus is right is that some countries--particularly poor ones with little access to capital markets--have small reserves: more than a fifth of the countries in transition have reserves which cover less than a month's worth of imports. An SDR allocation would help them to buy more imports more cheaply. And it is hard to believe that 36 billion SDRs would fuel world inflation. The amount is simply too small. Moreover, since each country's share of SDRs depends on the size of its economy, most would have been allocated to the big industrialised countries which are least likely to use them.

There is a deeper issue, however. Mr Camdessus wants to reinvigorate the SDR as a global asset by gradually increasing its share of world reserves. This would, of course, also strengthen the role of the IMF--which is precisely what his opponents, particularly the Bundesbank, are worried about. Creating SDRs too often could indeed be inflationary, and would imply an increased role for a monetary asset not directly controlled by individual central banks. Even a hint of either of these outcomes is too much for Hans Tietmeyer, the Bundesbank's president. For him, the IMF's job should be to lend money to poor countries under strict conditions, not meddle with global monetary management.

Whether this fracas permanently weakens the IMF depends on how much weight both sides place on the issue of principle. If no one budges, the institution could be reduced to impotence. And it may be that developing countries are as concerned as Mr Camdessus about the principle of the SDR. More likely, though, the real reasons for their revolt lie elsewhere.

First, older developing countries resent the IMF's evident fondness for ex-communist states (largely at the G7's prompting). They see the special money going to these economies as help denied to them, even though they would gain as much as anyone from stability in these

countries. To the extent that the two camps compete for resources, this division may continue.

Second, developing countries are fed up with what they see as G7 bullying. At Madrid they wanted to show that a G7 consensus would not automatically translate into IMF policy. The G7 may well be the most powerful economic show in town, but it should not ignore the others.

So what are the lessons? Assertive behaviour by an increasingly rich and powerful developing world will make managing international institutions more difficult. It will also demand a more considered appraisal of Mr Camdessus's role. How far can the head of an international institution stray from the views of its major shareholders? The G7 felt that Mr Camdessus was siding too obviously with developing countries. He would argue that he was simply backing a proposal that was right for the institution. There is always a fine line between leading and seeking a consensus, and Mr Camdessus's attempt to lead has failed.

If he learns from this, the clouds will probably blow away. A deal will be struck that gives the old developing countries enough to persuade them to agree on more money for the former Soviet states, and eases German worries about SDRs. The Madrid meeting may then be remembered as the one at which the complexity of the post-cold-war financial order first became clear.

CARTOON

Source: Economist, 10/8/94, Vol. 333 Issue 7884, p85, 2p, 1 cartoon.
Item Number: 9411097552

Magazine: Technology Review, October, 1994
Section: Reviews

Books
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REINVENTING THE BANK

Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development, by Bruce Rich, Beacon Press, $29

This year, the institutions created at Bretton Woods to jump-start the global postwar economy turn 50. Stock-taking is inevitable. The International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (IMF) have together been a major force for economic growth and modernization in developing countries. "The Bank"--insiders' Kafkaesque moniker for both institutions--has taken credit for boosting life expectancy, income levels, and public health standards by supporting construction of the physical and institutional infrastructure that can enhance international trade. And amid the recent debt crisis, the Bank has helped curb hyperinflation in some borrowing nations. Arguably, its new loans to Eastern Europe, the former Soviet Union, and other disintegrating economies work the ground for democracy. Yet in Mortgaging the Earth, lawyer Bruce Rich of the Environmental Defense Fund says that Bank failures outweigh accomplishments, especially if viewed from ground level.

Rich shows how an institution created in the early aftermath of World War II to further world peace and freedom by nurturing trade-based prosperity took on the colors of its early presidents. Notably, John J. McCloy made the Bank a top-notch lending and borrowing institution by winning Wall Street's confidence, and Eugene Black and George Woods involved the Bank in large infrastructure projects and export-crop agriculture. But "more than any of his predecessors or successors," says Rich, "Robert McNamara made the Bank into what it is today," carrying centralized planning and control of information to new heights, upping pressure on staff to meet ever higher lending targets, and banking on the elite in developing nations to watch out for the poor, the powerless, and the environment.

Rich contends that the legacy of the McNamara years is a free-standing colossus, answerable only to its own laws, morally adrift, and indifferent to the havoc its policies and loans visit on poor people and the natural world. In its drive to invest, says Rich, the World Bank has pushed loans on poor countries that couldn't absorb large blocks of capital effectively, and then used the IMF, which makes short-term loans to cover balance-of-payments deficits, to bully those facing default into adopting austerity measures. The result has been cuts in social services and at least temporary unemployment. The pressure to repay loans has also forced debtor governments to sell off natural resources to raise foreign exchange.

If Rich is right, in developing countries the road to hell is paved with grand plans and expensive infrastructure. He describes scores of Bank-funded dams, roads, irrigation works, forestry and agriculture schemes, and energy facilities that didn't deliver as promised but did trigger deforestation, displace native peoples, drive land speculation, spark

rural violence, set the stage for epidemics, and unleash other ills. Three of the monumental projects Rich discusses in detail--the Polonoreoeste frontier-farming scheme in Brazil, Indonesia's island-to-island "transmigration" program, and the Sardar Sarovar Dam in India--are particularly instructive re-minders of how Bank investments can set Faustian mischief in motion.

Many of these megaprojects have been pilloried by the media, environmental activists, and church-based critics of development in recent years, and at least in the Brazilian case the World Bank itself long ago publicly owned up to its mistakes. But Rich's belated take deserves notice because he draws heavily on internal Bank documents.

End-of-the-Line Thinking

Rich maintains that in the short term the best strategy for reinventing the Bank is to lighten the debt burden and trade barriers that now enslave so many Bank loan recipients, and then to decrease Bank funding and spread some of the saved funds around to smaller, more flexible institutions. For models, he points to the U.S.-based Appropriate Technology International and the Inter-American Foundation, which give technical assistance and relatively modest grants to communities and nongovernmental groups in developing nations.

Yet even though Rich doubts that the Bank will take these reformist steps, he proposes far more radical ones for the long term. He seconds other environmentalists' call for a permanent "independent appeals commission" that would channel complaints about environmental and human abuses to Bank directors. He thinks the Bank's charter should be rewritten so that the institution is hardwired to promote social equity, human rights, and democracy along with economic welfare. And he wants the Bank to spend $10 billion of its $18.5 billion in liquid reserves on grants to the poorest debt-strapped countries. If it can't or won't, says Rich, its funders should withdraw support and force it out of business.

End-of-the-line thinking like this underscores the urgency of the reforms called for in Mortgaging the Earth. And indeed, those reforms are both practical and long overdue. Many besides Rich who monitor the Bank in Washington and in the field seem fed up. Also, as Rich points out, nongovernmental groups around the world are coalescing to challenge Bank policies and projects.

On the other hand, Rich's antiestablishment sentiments may in 50 years seem almost as naive as the simple idea of progress without a price does now. Given that some environmental issues affect several communities or even several nations--and given that the Bank has long set the tone and pace of development in much of the world--trying to make this institution a force for positive change seems wiser than trying to divest it of its easily abused power.

Another problem is that though Rich is a tireless researcher and astute observer, he is not a practiced historian. The book's long chapter on the rise of the ideas of progress and development bumps along from one great man to the next, and the narrative turns disappointingly anecdotal when it reaches the twentieth century. Nor does Rich seem interested in playing fair by journalistic standards. Stabs at stating the Bank's side of the story total no more than 10 scattered and mostly rhetorical paragraphs. Reciting more of the conventional wisdom about the Bank's self-proclaimed successes wouldn't have hurt the author's David vs. Goliath case.

More important, dissent and self-criticism within the Bank deserve more attention than Rich gives them. He touts the findings of the so-called Morse Commission, which in 1991 found the Bank's environmental performance on the controversial Sardar Sarovar project "grossly delinquent," but doesn't make enough of the fact that the grilling was an inside job, initiated by then outgoing president Barber Conable. Similarly, the Wapenhans Report--which showed that by 1991, 37.5 percent of Bank loans failed to meet the conditions placed on them--revealed both egregious abuses of the public trust and at least some willingness within the Bank to come clean.

Still, Rich's game is not academics or journalism but politics. In this arena, Mortgaging the Earth frames a vitally important debate and moves it out of the small community of World Bank employees, associates, funders, and critics and into the larger one where development projects too often uproot communities and siphon away natural resources while demoralizing poverty lives on. Already, the dust Rich has kicked up has sifted into the debate on how Congress should handle the $850 million in U.S. funds overdue to the Bank and, more generally, on what the U.S. role as a Bank director should be in setting this powerful institution's lending agenda and priorities.

PHOTO: Drawing of a bank teller wearing blinders

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by Kathleen Courrier

KATHLEEN COURRIER is the director of the publishing program at the World Resources Institute, based in Washington, D.C.

Source: Technology Review, Oct94, Vol. 97 Issue 7, p68, 3p, 1c.
Item Number: 9409281122
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Magazine: Fortune, September 5, 1994
Section: FORTUNE FORECAST

ECONOMIC INTELLIGENCE
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ANOTHER CAPITAL SPENDING BOOM

* While most analysts expect U.S. business outlays for industrial gear to ease back to a single-digit growth rate next year, there's another capital spending boom just getting under way -- good news for U.S. capital goods suppliers. The World Bank estimates that Asian, Latin American, and other developing nations will be spending $200 billion annually on infrastructure in the years just ahead. Money like that is a big Pavlovian buzzer for U.S. manufacturers of equipment used to build that infrastructure.

The biggest demand right now is for power generation, says Smith Barney analyst Tobias M. Levkovich. By a General Electric estimate, worldwide orders for generating capacity over the next decade will come to 1,000 gigawatts -- roughly equal to 1.5 times the capacity of the U.S. -- with the lion's share going to developing nations. Each one of those gigawatts costs about $1 billion to install. Says Levkovich: "Who's going to build all this? A rising tide lifts all boats, and we've got some pretty good boats." He figures the most buoyant are generating-gear makers like GE and Westinghouse and construction equipment maker Caterpillar.

GRAPH: STILL NOT WORKING: Long-term unemployment usually plummets as expansions take hold. But cost cutting and productivity drives now keep it aloft.

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By James Aley

Source: Fortune, 9/5/94, Vol. 130 Issue 5, p25, 1/3p, 1 graph.
Item Number: 9408187533
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Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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TRANSPORT RECONSTRUCTION

Representatives from Peru and the World Bank signed an agreement on June 3, 1994, to finance $150 million for a six-year transportation rehabilitation project. The main goals of the $242 million project, cofinanced by the governments of Peru and Germany, are to repair and maintain roads, bridges, and Lima's airport runways. The project also seeks to promote the privatization of the national railroad network.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p28, 1/9p.
Item Number: 9409231921

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs

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ASSISTANCE FOR PETROLEUM SECTOR

To support the efficiency and long-term financial health of Kazakhstan's petroleum sector, the government will use a $15.7 million World Bank technical assistance loan approved on June 2, 1994. In part, the project will help Kazakhstan form policies to encourage private sector participation, promote foreign investment, and improve management and training in its oil and natural gas industries.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/9p.
Item Number: 9409231932

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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RUSSIAN BANKING

Commercial banks in Russia numbered less than 100 in 1988, but almost 2,000 new ones have since opened up to serve the country's fledgling private sector. Although the new banks boast some of Russia's best financial and business talent and up to 100 banks are evolving into strong institutions, the sector still needs to improve its management and train large numbers of staff.

To that end, the Russian government, with help from a $200 million World Bank loan and other funding, is moving to improve private banking services, promote bank stability, and streamline resource mobilization and credit allocation.

The project will target 30 to 40 of Russia's best banks and help them build up their capacity as a competent core for the sector. In turn, these banks will set higher standards and create a dynamic for improving banking across the country. The core group will also provide the basis for a private clearing system at the federal level and will qualify to handle World Bank and other international lines of credit.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/6p.
Item Number: 9409231935

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs

AID FOR TIMBER INDUSTRY

To help make Belarus' forestry more efficient, environmentally sound, and able to play a leading economic role, the World Bank approved a $41.9 million loan on May 26, 1994, to reorganize the sector.

Outdated planting and harvesting practices have curbed productivity and weakened the health of forests. About 20 percent of timberlands are tainted by fallout from the 1986 Chernobyl nuclear accident. Also, the breakup of the former Soviet Union has disrupted old markets and sources of sawlogs and spare parts.

Forests have been central to the culture and economy of Belarus for centuries as a source of timber, game, food, and medicine. Economic reforms in the former Soviet republic and its neighbors are expected to spur the demand for wood products and raise the importance of the vast woodlands even further.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/6p.
Item Number: 9409231937

Magazine: Presidents & Prime Ministers, September, 1994
Section: Environment

News Briefs

RESTORING FORESTS

China is launching a $356 million plan to replace some of its forest cover, protect environmentally important woodlands and watersheds, and boost the productivity of commercial forests. To help fund the program, the International Development Association, an affiliate of the World Bank, approved a $200 million credit on June 7, 1994.

"This project, which is one of the Bank's largest afforestation efforts worldwide, will increase the country's forest area, make commercial forests more productive, and preserve biological resources," said Rick Scobey, a senior economist in the Bank's China region and task manager for the project. "It's an effective model of how the Bank can help countries improve forest technologies."

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p36, 1/6p.
Item Number: 9409232027

Magazine: Presidents & Prime Ministers, September, 1994
Section: Environment

News Briefs
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CLEANUP INITIATIVES

Rapid industrial development along Mexico's northern border with the United States has brought some unwelcome consequences for the region's fragile ecology: health threatening pollution and serious environmental degradation. On June 9, 1994, the World Bank approved a package of three loans totaling $918 million to help Mexico carry out its part of the northern border cleanup and solve some of its most pressing needs nationwide.

The three loans will help finance the Northern Border Environment Project, improve water and sanitation services nationwide, and modernize solid-waste services in medium-sized cities.

"Mexicans, like their neighbors to the north, are acutely aware of the serious environmental problems that urgently need attention," said David de Ferranti, chief of the Bank's Mexico division. "People want action, and the Mexican government is committed to rapid and effective progress in upgrading environmental enforcement and reversing damage. These three new projects will be a major building block in helping them do that."

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p36, 1/5p.
Item Number: 9409232030

Magazine: Presidents & Prime Ministers, September, 1994
Section: Health

News Briefs
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CAMPAIGN TO RESTORE SIGHT

India has launched a massive campaign to restore sight to some eight million blind people, one-fifth of the world's blind. The campaign to remove cataracts -- a clouding of the eye that obstructs sight -- is being backed by a $117 million credit from the International Development Association, an affiliate of the World Bank. "This is the boldest effort yet to reduce blindness in a developing country," said Maria Donoso Clark, the Bank's task manager for the project.

The country's prevalence of blindness is 1.3 per 1,000, one of the highest in the world. To help reduce blindness to a target of 0.3 per 1,000 within six years, more than eight million Indians will undergo cataract surgery in dozens of project-funded treatment centers in seven states.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p39, 1/9p.
Item Number: 9409232040

Magazine: Presidents & Prime Ministers, September, 1994
Section: Food & Agriculture

News Briefs
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FRAGILE WATER SUPPLY

Algeria is planning a comprehensive $170 million restructuring of its water and sewer works. The program, which will decentralize management of urban water utilities and rehabilitate existing water and sewage infrastructure, is backed by a $110 million World Bank loan approved on June 2, 1994. The repairs will cut pollution and let Algeria make the most of its limited water for years to come.

In the north, where 90 percent of the people live, about 769 cubic meters of water are available per person each year, compared to neighboring Morocco's 1,200 cubic meters. With continuing economic growth and plans for expanded, irrigation-based agriculture, Algeria's water systems will have to become more productive and more reliable. In addition, its sanitation networks, which let waste-water pass untreated into rivers and the Mediterranean Sea, must be better able to serve a growing population.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p44, 1/6p.
Item Number: 9409232093

Magazine: Presidents & Prime Ministers, September, 1994
Section: Food & Agriculture

News Briefs
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CUTS THREATEN FOOD SUPPLY

Food supply will fall short of world food needs within a few decades unless crop-boosting research is funded now, according to an independent panel convened to examine the recent spending cuts in international agricultural research.

In a report to World Bank President Lewis Preston, the Action Group on Food Security predicts that cutting research on high-yield farming while the world population increases will cause widespread hunger in the fairly near future. The group predicts that the demand for food in developing countries will more than double by 2025, and then rise at least another 50 percent by 2050.

"Without stronger support for international agricultural research, a growing number of developing countries -- and a growing number of poor within those countries -- may face increasingly serious food shortages as early as the first decades of the next century, and these problems will certainly occur in later decades," says the report, entitled Feeding 10 Billion People in 2050. "The volume of food produced must increase enormously to meet demands in the next century."

Copies of the report may be obtained from the Committee on Agricultural Sustainability for Developing Countries, 1709 New York Avenue NW, Suite 700, Washington, DC 20006, USA; telephone (202) 662-2546.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p44, 1/4p.
Item Number: 9409232095

Magazine: Newsweek, August 22, 1994
Section: Periscope

Vital Stats
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POORER AND POORER

The world's population is expected to double over the next century, with the poorest accounting for most of the rise.

World Population

Annual increase by income

High	$ 8,356 and up
Upper-middle	2,696 - 8,355
Lower-middle	676 - 2,695
Low	675 - and less

GRAPH: World population; annual increase by income

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By Gregory Cerio and Lucy Howard with bureau reports

Source: Newsweek, 8/22/94, Vol. 124 Issue 8, p6, 1/9p, 1 chart.
Item Number: 9408167579
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Magazine: Time, August 22, 1994

ECONOMICS
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THE SINS OF A SAINTED BANK

Critics say the once admired World Bank bullies the poor, hurts the environment and hoards its money

How can a bank designed to do good works, and not even make a profit, earn such a bad reputation? The World Bank, which is 50 years old this year, ought to be celebrating its career as the Mother Teresa of global finance. All told, the bank has extended $300 billion in loans to pay for 6,000 projects ranging from Japan's bullet train to a cataract-surgery clinic in India that will serve 11 million people. Instead of inspiring congratulations, however, the institution's golden anniversary has drawn damning accusations that the bank has damaged the environment, bolstered authoritarian regimes and favored rich people over poor ones. The criticism is getting noisy and forceful. A loose coalition of several hundred groups plans to send thousands of demonstrators to the bank's annual summit in Madrid in October. And last week the U.S. Senate voted to make a $1.2 billion contribution to the World Bank contingent on the bank's proving its loans make economic sense and do not deface the landscape.

The bank, which was launched in the peaceful afterglow of World War II as the basis for an orderly and wise international economic system, is financed by contributions from the wealthiest of its 177 shareholder nations. Yet the institution now faces a cacophony of grievances. Among them:

* In the past fiscal year the bank distributed nearly $16 billion but took in nearly $20 billion in repayments and interest from borrowers. As a result, say some critics, the bank is sitting on capital instead of funneling it to poor countries.

* Loans too often finance huge Third World construction projects, notably large dams, which drastically change the environment and force millions of people to relocate.

* The fiscal and monetary prescriptions the bank imposes on borrowers have thrown the economies of some developing countries into turmoil, sending the prices of necessities beyond the reach of the poor.

* The bank is badly managed, and its 6,000 employees are overpaid (average compensation: $123,000 annually).

* The elaborate renovation by the bank of its Washington headquarters, which has added 1.5 million sq. ft. of new space, will cost $100 million more than was budgeted.

These assaults on the World Bank, which have surfaced in several academic books and in speeches by congressional leaders, have pushed president Lewis Preston, a former chairman of the J.P. Morgan banking company, to initiate what may become historic changes at the bank. In 1992 he launched an overhaul of the $104 billion loan portfolio and a year later hired New York public relations whiz Herb Schmertz to revamp the institution's image. Schmertz turned in a confidential report several months ago that acknowledged some of the most serious accusations against the bank and said there exists ''a significant gap'' between what the bank says and what it does.

Some of the strongest criticism of the bank focuses on the nonprofit institution's idle surplus of capital. Countries have been paying back their debts plus interest at a faster rate than the bank has issued new loans. In the past fiscal year, it parceled out nearly $16 billion in support of 1,900 projects, but it also collected nearly $20 billion in repayments and other charges from borrowers, many of them poor. That has left an excess of $4 billion, most of which the bank keeps in short-term interest-bearing investments. Over the past four years, Brazil, for example, has paid the bank $5.3 billion more than it has received. Of course, this kind of gap is an inevitable consequence of offering interest-bearing loans that must eventually be repaid. But critics insist that the current $4 billion surplus is excessive for a bank in the business of giving weak nations a hand.

Critics are equally scornful of the imposition of so-called structural-adjustment policies, part of a strategy followed by the bank and the International Monetary Fund to get bankrupt or poorly run countries back on their feet. In exchange for approving a loan, the IMF often demands that countries take such steps as privatizing state-owned industries, devaluing currency, and living by austerity and export-oriented measures. But governments frequently pay for such programs by cutting back on subsidies for food and other basics crucial to the poor.

A currency devaluation promoted by the bank and the IMF in Francophone West Africa this year provides a striking example of the problem. About 80 million people in 14 African countries awoke one morning last January to find that basic goods had doubled in price; the decision provoked protest riots in Senegal. The IMF and the World Bank defended the policy, saying the overvalued currency was keeping the nations' agricultural and industrial exports from being competitive abroad. But ''very often the result is falling wages, rising income inequality and deepening poverty,'' says Douglas Hellinger, managing director of the Development Group for Alternative Policies, a nonprofit advocacy group.

Another hardship for which the bank is being blamed is large-scale involuntary resettlement to make way for bank-financed dams and other construction projects. An internal investigation by the World Bank made public this spring found bank enterprises responsible for creating 2.5 million ''development refugees'' between 1986 and 1993. An additional 600,000 people, mostly in India and China, could be affected between 1994 and 1997.

A case in point was a resettlement program involving the Sardar Sarovar Dam, part of an enormous project that envisions building 3,000 large and small dams on the Narmada River in western India. The scheme sparked outrage when it was disclosed that 200,000 people would be displaced by one $3.5 billion dam. After years of protest by human-rights and environmental groups, the bank commissioned an independent investigation of the Narmada proposals in 1992. The resulting report castigated the bank and India's government for lack of planning. In the end the bank gave New Delhi six months to take corrective measures. India refused and in March 1993 turned down further bank funding for the project.

Weak internal management has led to other embarrassments for the bank.

The proportion of its loans considered to be ''major problems'' because borrowers have, for instance, failed to cut budget deficits or subsidies rose from 11% in 1981 to 20% by 1991. A quarter of all agriculture and irrigation projects were in trouble, as were roughly a third of those meant to fight poverty. A report commissioned by the bank decried an ''approval culture'' in which employees responded to pressure from management to make loans without paying sufficient attention to the quality of the projects involved. ''Every guy in this bank thought he was going to get promoted based just on the number of loans he could get approved,'' says Preston. ''It was a crazy way to run a railroad.''

Preston, who ordered up most of the internal studies, has taken some modest first steps to correct the problems. On the loan front, he has increased the number of staff members dealing with overseeing projects 40%. He has also created an independent panel to air and evaluate complaints, and he has established an information center where documents describing bank-financed projects are made public in an effort to boost credibility.

For all its faults, even some critics concede, the bank remains a relatively efficient instrument for distributing an increasingly limited supply of development-aid money. A $2 billion contribution, for instance, gives the institution enough collateral to raise about $45 billion on world capital markets and then offer that money as loans. Often this means the bank is at the center of some of the world's most breathtaking changes. In May it unveiled the first part of an innovative $2.4 billion loan program to spur economic growth in the West Bank and Gaza Strip. Last year it offered $610 million to restore production in Russia's oil fields and $450 million to assist private-sector companies in Poland. But without additional reform, major donors may become even more reluctant than they are now to continue funding those missionary good works.

GRAPH: BANK ''PROFITEERING''?

PHOTO: DISLOCATION: India's Narmada River dam system, partly funded by the World Bank, could displace many (BALDY -- SYGMA)

PHOTO: RESETTLEMENT: Criticism of temporary centers like this one in Indonesia has forced the bank to scrutinize its methods (ROBIN MOYER FOR TIME)

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BY ADAM ZAGORIN/WASHINGTON With reporting by Meenakshi Ganguly/New Delhi and Ian McCluskey/Brasilia

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Source: Time, 8/22/94, Vol. 144 Issue 8, p54, 2p, 1 graph, 2c.
Item Number: 9408167688
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Magazine: Economist, August 20, 1994
Section: BUSINESS

Environmental business in Asia
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WHERE THERE'S MUCK. . .

Dateline: BANGKOK

A STROLL along the banks of one of Bangkok's famous canals is not always a pleasant experience. Sickening smells rise from the water; rotting rubbish floats on the surface; the detritus of squatter camps litters the surrounding area; and the air is full of noise and car fumes.

The state of the canals is only one sign of Bangkok's deteriorating environment, as rapid growth expands the number of cars and factories and sucks ever more people into the city. The evidence of the senses is confirmed by the figures. The amount of lead in the city's air is three times the maximum level judged safe in America. At the moment only 70% of Bangkok's rubbish goes into a tip; the rest is dumped in streets and waterways. More could follow: the 6,000 tonnes of solid waste that Bangkok generates every day could rise to 11,000 tonnes by 2000.

This sort of bad news is good news for businesses that peddle environmental services. The International Finance Corporation, the private-sector arm of the World Bank, has estimated that Thailand will be spending $1.5 billion a year on environmental services by 2000. Paul Clements-Hunt, head of environmental research at SGS Thailand, part of a Swiss group, says that the Thai market for environmental services--which barely existed a few years ago--is now growing by 20-30% a year.

The Bangkok Metropolitan Authority now wants to privatise its solid-waste management. A consortium bringing together Ban Chang, a local industrial-estate development company, and Brown-Ferris International, a giant American waste-manager, is favourite to win the contract. Another consortium dominated by Waste Management International, also an American firm, has already reached an agreement with Thailand's industry ministry to process 1,000 tonnes of industrial waste a day by the end of 1996, for an undisclosed sum. A third group, led by Britain's North West Water, recently signed a 6.4 billion baht ($256m) contract to build a central plant to treat Bangkok's waste water.

Thailand's problems--and the business opportunities they create--are found throughout booming East Asia. To judge by the pervasive dirt, Taiwan could soon become Asia's biggest single market outside Japan for environmental services. Some 40% of its municipal rubbish is dumped in rivers or unregulated landfills. The Taiwanese government has set aside $12 billion for pollution control between 1992 and 1997. Malaysia also plans to clean up, although more slowly. ERM, a British environmental consultancy, thinks that the Malaysian market for environmental services will be worth $432m this year. It will grow if the government pursues plans to privatise sewerage and crack down on polluters.

The market leaders in environmental services tend to be western companies. So far the environmental consultants are doing best, while suppliers of equipment and infrastructure often find it frustratingly hard to pin down contracts. Chandran Nair, a consultant for ERM, points out that soon after Taiwan announced its ambitious spending plans, Taipei was flooded by westerners touting for business. Two years later, many have given up--although big firms such as Waste Management International and Bechtel are still around. They need plenty of patience. Camp, Dresser and McKee, an American company, designed a sewer system for Taipei in 1970--but it is only now constructing it.

The slow pace at which contracts are awarded reflects the institutional weakness of environmental-protection agencies in Asia. Announcing grandiose plans to protect the environment is one thing. Offending industrial interests and imposing higher charges on polluters is another. If the Ban Chang-BFI consortium is to profit from managing solid waste in Bangkok, the charges for rubbish collection may have to quadruple. A weak Thai government will find that hard to push through.

On the other hand, doing nothing also carries a price. As Mr Clements-Hunt of SGS points out, the Bangkok authorities know that they will be faced with "serious public-health concerns" unless they do something soon about sewerage and municipal waste. Significantly, many of the big Sino-Thai conglomerates, which usually know best which way the wind is blowing, are busily sniffing out western joint-venture partners for environmental projects. The smelliest problems are likely to be dealt with first. Dirty water is top priority. Rubbish collection is likely to come next, with hazardous industrial-waste lower down the list--and air quality last of all. Bangkok's canals may smell sweeter soon, but it will be a while before the air is fit to breathe.

PHOTO: A fortune in those waters

Source: Economist, 8/20/94, Vol. 332 Issue 7877, p53, 2p, 1bw.
Item Number: 9408237618

Magazine: Nation, July 25, 1994
Section: EDITORIALS

ARAFAT'S RETURN

Dateline: Gaza Town

When Yasir Arafat set foot on Palestinian soil for the first time in twenty-seven years on July 1, he put his final seal of approval on what for many Palestinians is the desperate gamble of limited autonomy in Gaza and Jericho. If Palestinians turned out in thousands rather than hundreds of thousands, it was not just because many think the Oslobrokered peace deal stacks the odds heavily against them; it was also because of the poignancy of the moment. "I am happy Arafat is returning," said one old woman, "but when shall we return?" She comes from Maghdal, now the Israeli city of Ashkelon, and was driven off her land when Israel was established, in 1948. For her--and for every Palestinian refugee-Arafat's return, even if it leads to a Palestinian state in Gaza, the West Bank and East Jerusalem, is predicated on the abandonment of her right to return.

On a more mundane level, Arafat's whirlwind stay in Gaza and Jericho left Palestinians mulling over the political meaning of a return that posed as many questions as answers.

In Gaza Town, Arafat addressed a crowd of about 70,000 from the balcony of the former headquarters of the Israeli army. Mindful of Gazans' increasingly critical attitude toward his leadership and of the strength in the strip of the Islamist Hamas movement, he emphasized the fate of the 5,000 or so Palestinian prisoners still in Israeli jails. "We will not bargain over this issue," he promised, singling out the imprisoned Hamas leader, Sheik Ahmad Yassin, "the sheik of us all."

In Jericho, Arafat said that the city was but "the first step" toward eventual reclamation of all the occupied territories. Tellingly, however, he avoided even the suggestion that Jerusalem might be the putative capital of a Palestinian state. "I say to the Israeli public that we recognize their holy sites in Jerusalem and they must also recognize our Christian and Muslim sites."

All this got a decidedly mixed press among Palestinians. The speech in Gaza "wasn't up to the historical moment," said one onlooker. "He didn't say a word about the nature of our regime," said another, "nor what our rights will be in 'the autonomy.' The whole thing smacked of existing Arab governments, and Palestinians have suffered more than most from the absence of democracy in Arab society."

In the Jabalya refugee camp--the largest in the occupied territories, with more than 60,000 people crammed into a square mile--Arafat was more candid, and the popular reception was the better for it. He saluted the camp as the birthplace of the intifada and openly acknowledged Palestinian misgivings over Oslo. "Many of you here think it's a bad agreement," he told the crowd. "It is a bad agreement, but it's the best we can get in the worst situation." He urged unity, calling on all Palestinian factions to help "lift the burden with me" by participating in the nascent Palestinian Authority, or P.A., the executive council of the autonomy, with twenty-four appointed members. Finally, he lambasted the World Bank for its failure to deliver on financial pledges agreed to at the time of the peace accords. "We did not get rid of military occupation to fall under economic occupation," he said.

Indeed, the P.A.'s looming financial crisis was the main motive behind Arafat's return. At a closed meeting of P.A. members in Gaza, Arafat accused international donors of parsimony. So far, he said, all they have delivered is "one World Bank employee with $10 million. The World Bank is demanding to know our planned budget deficit, but to know that, we have to know our budget first."

It now appears that a deal has been struck in which donors will underwrite the P.A.'s deficit until the end of this year, but the problem is less the amount of aid than how it is spent. The World Bank wants the money to go to specific projects to insure accountability; Arafat wants it paid into "operational funds" to enable the P.L.O. to set its own economic priorities. This, say the donors, contravenes World Bank standards of "transparency." For now, their conflict with Arafat has been deferred rather than resolved.

Elsewhere during his stay, the P.L.O. leader opened factories, held impromptu press conferences and made lightning forays into Gaza's refugee camps, causing major headaches for his 125-strong "personal guard," which accompanied him everywhere. He also chaired myriad P.L.O. meetings, making decisions on everything from the future role of the Palestinian women's movement to composition of the P.A. All this was good public relations, but it also underlined Palestinian apprehensions about how such an excessive concentration of power in the hands of one man can possibly be reconciled with Arafat's commitment to build a "democratic state" grounded in "equality and nondiscrimination." Arafat's foremost critic in Gaza--former Palestinian delegation head Haidar Abdel Shafi-while stressing that he "certainly didn't want to get into conflict with Arafat," made his participation in the P.A. dependent on "decisions being taken by consent" and on Arafat "broadening the base of P.L.O. decision-making." On the evidence of Arafat's five days in Gaza and Jericho, it will be a while yet before Abdel Shafi's conditions are fulfilled.

Yet the specter of dictatorship remains farfetched to most Palestinians. What is more likely, says Gazan journalist Bassam Joudeh, is that the P.L.O.--and particularly Arafat's Fatah movement--will become "the party of government," holding on to the crucial economics and security portfolios while offering lesser posts to co-opt dissidents. Certainly Arafat spared no effort trying to lure both the P.L.O. and Islamist opposition on the P.A., leaving twelve of the seats-half the total--vacant for purposes of political brokering.

In essence what Arafat was doing with both the meetings and the proffered olive branches was to stake out the new civil and political terrain of the autonomy as a means of building the largest possible constituency for the hard road ahead. As far as Palestinian Islamists were concerned, it was to no avail. While they have so far hedged on their participation in elections for the autonomy's legislative council-now penciled in for October--they have made it clear that they will have no truck with Arafat's appointed executive. "We will not participate in the P.A. or in anything else related to the Oslo agreement," said Hamas's spokesperson in Gaza, Mahmoud Zahar.

As for the popular restraint over Arafat's long-awaited homecoming, it was less out of apathy than realism--recognition of the monumental tasks that still face Palestinians. In Jabalya, Arafat spelled it out: "Self-rule is our greatest challenge. There will be hardship, there will be hunger and, as always, we can depend on no one but ourselves." In a history punctuated by exile and expulsion, most Palestinians found comfort in the significance of a P.L.O. leader's return to the land of Palestine rather than in any cult of Arafat himself. For them, self-rule marks a start, if not a very auspicious one.

"Getting rid of the occupation was hard," said one Palestinian after Arafat's speech in Jabalya. "But it is a straw in the wind compared with building a state."

GRAHAM USHER

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By GRAHAM USHER

Graham Usher is regular correspondent from the occupied territories for Middle East International.

Source: Nation, 7/25/94 & 8/1/94, Vol. 259 Issue 4, p112, 2p.
Item Number: 9407127558
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Magazine: Economist, July 23, 1994
Section: LEADERS

THOROUGHLY MODERN SISTERS

The World Bank and the IMF should celebrate their 50th birthday by radically rethinking their jobs

IT IS 50 years since the Bretton Woods sisters--the World Bank and the International Monetary Fund--were designed. Both have changed greatly since, but not as much as the world economy. Currencies now float, capital moves (reasonably) freely across borders and economies are linked through trade and investment as never before. Each of these changes brings into question the role of the Fund and the Bank. A rethink is long overdue.

Start with the World Bank. Its aim has been to bridge the gap between world financial markets and creditworthy borrowers in poor countries. Plainly, that gap is shrinking. However, private capital is not yet available to all countries, nor can it readily meet needs (eg, in education and health) where returns to private lenders are uncertain or non-existent. A Bank that concentrates on bridging this (narrowing) gap remains a Bank worth having. To that end, it should continue to lend more through its private-sector arm, the International Finance Corporation. And it should confine its other efforts more strictly to cases of true market failure. This argues for a greater concentration on Africa, and on social and environmental programmes. Overall, lending should be reduced, and the institution itself slimmed down. The Bank's goal is to work itself out of a job--and faster progress towards that goal is needed.

At first sight the Fund's role is even harder to justify. Created to oversee a monetary system based on fixed exchange rates (a system that disappeared more than 20 years ago), it found a new job as a provider of finance for developing and, more recently, ex-communist countries. It offers, among other things, long-term financial support, technical assistance, even subsidised loans: not just a far cry from its original mandate, but also much too close to the functions of the World Bank. Many therefore urge the Fund to return to its original task. They say it should leave development to others and do more to co-ordinate economic policy among industrial countries--even oversee a new semi-fixed exchange-rate system.

All this is bad advice. Rich-country governments neither need nor want the Fund to play such a role. None of them--least of all America, which matters most--is willing to subordinate domestic economic policy to international obligations. Until that changes, the IMF should reduce, not increase, its role in the rich countries. Nothing would be lost: the idea of an annual consultation with every member government, rich or poor, has long been an empty ritual.

Good cop, bad cop

Some conclude that the Fund should be shut down altogether. This is wrong. It is still needed: to influence economic policy in countries that are financially weak, to provide support (with strings attached) to insolvent countries, and to manage the international response to systemic emergencies such as the debt crisis of the 1980s. Private capital markets cannot deal well with any of these challenges. For years to come, the mess left behind by the collapse of communism will make it more important than ever to have a well-run IMF. So instead of shifting the Fund's attention to countries that do not need its money and will not follow its advice, reform should be aimed at improving its ability to help those that do, and that will.

If both sisters are to concentrate on the poorest and most desperate countries, duplication is a danger. If the institutions were being designed now, the architects would surely have called for one, not two. Should they therefore be merged?

A merger would prompt the radical shake-up the institutions need. Costs could be cut substantially. And to eliminate a big bureaucracy (especially an international one) would be a triumph of sorts. But a less dramatic approach--namely, to make the division of labour between the two existing institutions much sharper--could do as much good. And in one way, at least, it makes more sense. The jobs of financial policeman and development lender are conceptually distinct. There is merit in making them even more so. With one institution (as now with two whose tasks are blurred), the development role could too easily cloud the policeman's judgment.

Merger or no merger, reform can and must be radical. Both institutions should be obliged to be less secretive and more accountable, to share their technical resources and to manage with far fewer staff. As a first step, to be taken without delay, their official sponsors--the world's governments--should set demanding targets under each of these headings. The Bank and the Fund can hardly complain. As they have been telling their borrowers for years, conditionality is good for you.

ILLUSTRATION

Source: Economist, 7/23/94, Vol. 332 Issue 7873, p18, 2p, 1bw.
Item Number: 9407257922

Magazine: Nation, July 18, 1994
Section: BOOKS & THE ARTS

POTEMKIN ENVIRONMENTALISM

MORTGAGING THE EARTH: The World Bank, Environmental Impoverishment, and the Crisis of Development. By Bruce Rich. Beacon Press. 376 pp. $29.

The World Bank celebrates its fiftieth anniversary this year, though from a certain point of view, more popular among environmentalists than among bankers, there's not much to celebrate. Bruce Rich's new, unofficial history of the bank, Mortgaging the Earth, released to coincide with the bank's birthday, gives a number of cases-in-point. By the late 1980s, for example, the bank's multimillion-dollar attempts to "develop" northwestern Brazil had punched a hole in the Amazon rain forest so large that even NASA took notice. Between 1978 and 1988, the forest in the Rondonia region around Polonoroeste was reduced by an area the size of Massachusetts each year, the most rapid man-made change in the earth's surface visible from space.

As Rich explains it, the World Bank-officially the International Bank for Reconstruction and Development--had financed a massive road-building and rural-settlement scheme in Polonoroeste, but it drastically underestimated the number of settlers it could accommodate, just as it drastically overestimated the fertility of the marginal forest lands it meant to give them. Before long, desperate, crowded farmers were clearing the local rain forest in search of arable soil, selling their clearings to cattle ranchers for a steal and dying of malaria in large numbers. The bank's belated response to the malaria epidemic, in 1989, was a $99 million "environmental" loan, which, among other things, went to buy 3,000 tons of DDT.

Environmental concerns are relatively new to the World Bank. In 1987, after a long summer of U.S. Congressional inquiry into its Brazilian disasters, the bank suddenly got greener. It expanded its environmental staff and began to fund "free-standing" conservation projects. By 1990, according to The World Bank and the Environment--the bank's newest series of reports on itself--50 percent of all bank projects had some "significant environmental component." Bruce Rich had a hand in these changes; as head of the Environmental Defense Fund's international division, he helped orchestrate many of the behind-the-scenes meetings and some of the fact-finding that successfully brought Congressional pressure to bear on the bank. Nevertheless, in Mortgaging the Earth, Rich concludes that the bank's reforms have amounted to little more than damage control; its basic philosophy, and the institutional constraints that determine it, remain intact.

Conventional wisdom at the bank has it that developing countries face a trade-off between economic growth and environmental degradation. If growth continues at present rates, especially in India and China, energy production will have to increase; the bank predicts that in forty years there will be a tenfold increase in pollution due to fossil fuel-generated electric power. Sustained growth will generate higher levels of income, however, which can be used to clean up the pollution--at least, according to bank officials. This chain of reasoning is often taken one step further. By raising incomes, growth will alleviate poverty; environmental "zealotry," with its reservations about pollution, impedes growth; therefore environmental zealots like Bruce Rich reveal themselves to be "eco-imperialists," condemning the less-developed world to poverty.

Rich is ready with a response: Growth not only does not eliminate poverty, but it often creates it. The gap between the world's richest and the world's poorest people has doubled in the past thirty years, just in the time that the bank has been fighting what it likes to think of as a global war on poverty. By the 1980s, despite all sorts of foreign aid, deeply indebted poor countries were faced with a net transfer of more than $100 billion a year to rich countries. Uganda now owes 62 percent of its foreign debt to the World Bank alone, and the $1 billion cost of Guatemala's Chixoy Dam--which is predicted to fill with sediment within twenty years--makes up 40 percent of that country's external debt.

Rich presents some disturbing evidence of the true cost of the bank's projects to the world's poor. The most chilling is the "Bank-Wide Resettlement Review," a report that was submitted to the bank's executive directors in late February, and published by the bank's environmental department in April. The review assesses the "involuntary resettlement component" of the bank's projects, and of those in its lending "pipeline," and concludes that more than 2 million people are being forcibly displaced by active projects. Pipeline projects will dispossess an equal number of people. Though the bank's fourteen-yearold "resettlement policy" is to compensate anyone displaced by bank projects (a large hydroelectric dam might erase whole villages), Rich argues that the bank's own investigations have failed to establish that any resettled community is as well off as it was before the bank's intervention. In Brazil, entire Indian communities have been destroyed.

Today, more than 30 percent of the bank's projects that involve resettlement have to do with energy production, an area in which Rich specializes. Energy has been the World Bank's largest or second-largest lending area in recent years and has accounted for up to 18.6 percent of its annual loans. Rich writes that "of all economic sectors, energy is arguably the most important environmentally" for three reasons. First, he claims, coal-fired power in India and China will become a major source, if not the major source, of greenhouse gas emissions in the next century. Second, "one-quarter to one-third of all public investment [in developing countries] is now going for electric power, diverting desperately scarce capital"--money that could be used for health care, natural resource management or poverty relief. Finally, alternative energy policies are environmentally critical because huge World Bank-funded power schemes have displaced hundreds of thousands of people from rural communities in South Asia and Latin America, and have been a major cause of deforestation and the destruction of biodiversity. Brazil's bank-approved Plan 2010, for example, calls for the construction of seventynine giant dams in the Amazon rain forest.

In Mortgaging the Earth, Rich writes that the World Bank continues to neglect all three of these concerns. Though bank president Barber Conable promised to "play a leadership role" in encouraging energy efficiency in the developing world, the bank's power plans haven't been energy efficient so much as they've been pollution intensive, socially

<Picture: About the International Monetary Fund>

Frequently Asked Questions

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IMF At A Glance
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The IMF and the Economies in Transition
IMF Standards for Data Dissemination
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Gold in the IMF
IMF Involvement in Post-Conflict Countries
The New Arrangements to Borrow
Social Dimensions of the IMF's Policy Dialogue
Special Drawing Rights: Allocation and Equity

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I. By-Laws of the International Monetary Fund

THE WORLD BANK AND ITS FUNCTIONS

For GCM 622 International Financial Markets / Institutions.

Near East University

Institute of Research and Graduate Studies

The World Bank And Its Functions

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Nicosia ,1997

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Objectives and Purposes of the World Bank: The objectives of the World Bank is related to Bretton Woods System. There was less attention and preliminary meetings in order to establish this fund. to create an international adjustment mechanism, dealing with such controversial matters as exchange rate policy and access, to liquid currency resources. The fundamental aim of this organization is to create an international investment agency seeking international co-operation in long term and medium term foreign lending. The Bank's scope was limited. There was no direct authority or influence over members as the Fund was supported to have. Its function was not to monopolise international investment but the encourage it and to make it possible in certain marginal cases.

The Bank's potential contribution to a stable world economy was very real one. The essential condition of international stability is an overseas investment by creditor countries. The bank had an complementary role to play with the fund. The international investment would prove to be of crucial importance. The Great Britain play an important role in this regard. The Great Britain as the great creditor used her export surplus to develop overseas areas, and was content to take payment for her loans in flow of primary products. The United States was the creditor and she possessed the trade structure to promote widespread foreign lending nor the inclination to undertake it. International Investment play the equilibrium role in a dollar world. The institution was created as the complement of the Fund. Its purpose was the facilitate the international investment of Capital for productive purposes.

They tend to make and quarantee loans as long and medium terms. Its projected scale of operations and conditions laid down for it in the Article of Agreement. Its immediate task was to aid in reconstruction by promoting loans for the rebuilding of productive machinery. Its aim is to develop the resources and productive capacity of the world's backward regions. They tend to promote and maintain equilibrium in the international balance of payments of all member countries. The purpose of this institution is changed and it focused on "human being" and his/her brain. Because brain is the essential thing in the world. It can create everything and it can establish everything we can imagine.

Functions, Duties, activities and performances of the World Bank:

According to the World Bank publications, activities and functions of the World Bank can be classified as follows:

1. Controlling of Moderate Inflation
2. To eliminate shocks, arranging purchasing power parity, and the equilibrium Real Exchange rate.
3. To determine obstacles to Developing Indigenous small and medium Enterprises.
4. Estimating Returns to scale with large, imperfect panels:

5. The oretical implications of Imperfect competitor on Quota License Prices and Auctions:
6. To apply sovereign dept
7. Modeling the macro economic effects to Tanzania
8. Trade Reforms in the partially liberalized economy of Turkey
9. A medium-term Framework for analyzing the Real Exchange rate, with applications to the Philippines and Tanzania
10. An Institutional Analysis of the Design and sequence of trade and investment Policy Reform.
11. correcting for Sampling Bias in the measurement of welfare and poverty in the Cote d'lvoire living standards survey.
12. Household welfare and the pricing of cocoa and coffee in Cote d'lvoire: Lessons from the living standards survey.
13. The determinants and consequences of the placement of Government Programs in Indonesia.
14. Labor Markets and Adjustment in open Asian Economies. The Republic of Korea and Malaysia.
15. Explaining the relative decline of Agriculture: A supply side Analysis for Indonesia.
16. To arrange tariff rates, Tariff revenue and tariff reform.
17. To determine the effect of Financial liberalization on the Capital Structure.

18. To determine investment decisions of Indonesian manufacturing Establishments
19. To determine the scope for Fuel substitution in manufacturing industries.
20. To determine the impact of Two-tier producer and consumer Food pricing in India.
21. Domestic content and compensatory Export requirements: Protection of the motor vehicle. Industry in the Philippines.
22. To measure the restrictiveness of Trade Policy.
23. To adjust the trade restrictiveness of the multi-Fibre Arrangements.
24. To arrange Labor supply and Targeting in poverty Alleviation Programs.
25. To apply duel exchange rates in Europe and Latin America.
26. To determine the impact of Mexico's retraining programs on Employment and Wages.
27. To adjust the distribution of subsidies through public health services in Indonesia.
28. To adjust capital mobility in Developing countries: Some measurement issues and Empirical Estimates
29. To determine the political of growth: a critical survey of the Recent literature:
30. To apply presumptive Pigo vian Tax: Complementing regulation to mimic an emission fee.
31. To change labor market conditions and economic development in Hong Kong, the Republic of Korea, Singapore and Taiwan, China.

32. To determine the welfare cost of price controls for cars and color Televisions in Poland: Contrasting estimates of Rent - Seeking from recent experience.
33. To develop parallel exchange rates in developing countries.
34. To apply gradual unification in highly distorted economies.
35. To build incentives and the Resolution of Bank Distress
36. To finance infrastructure in developing countries: policy implications.

Most of the countries whose experiences are studied here reached moderate or high inflation as a result of external shocks, particularly in commodity prices. Countries that remained in the moderate-inflation range after arriving there, notably Colombia, Chile, and, for a shorter time, Mexico, did so only by taking decisive action to prevent inflation from rising at certain specific points. Brazil, which was not willing to slow growth to stay in the moderate-inflation range, found itself as a result with high, sometimes extreme, inflation.

Three of the countries that successfully disinflated to low inflation-Ireland, Korea, and Spain - did so at a significant cost to output. Each of those countries used nonmarket measures-the equivalent of an incomes policy-to assist the disinflation. In Korea wage growth was reduced through restraints on public sector wages and by exercising moral suasion on the private sector. Even in Indonesia subsidization of rice constituted an unorthodox, incomes-type policy. There is little evidence in the data that the Indonesian disinflation imposed significant output costs.

Each of the disinflations was accompanied by a very strong fiscal contraction. Fiscal contractions were also undertaken in Chile and Mexico to reduce high inflation to the moderate range, and in Colombia to keep inflation moderate.

Countries in the moderate-inflation range typically had exchange rates that were managed, such as crawling pegs or rates with intermittent depreciation. The

European disinflators, Ireland and Spain, used an exchange rate commitment as part of their disinflationary strategy. Mexico likewise relied on an exchange rate anchor in bringing down high inflation. None of the evidence reviewed for this article, nor evidence in other studies, establishes firmly that the exchange rate commitment significantly reduced the costs of disinflation.

Indexation and disindexation appear to have played an important role in the Latin America inflations and disinflations. In Mexico, in the context of the Pacto, the departure from backward-looking pay increases was an essential part of the stabilization. Colombia in effect decided to live with inflation by permitting the introduction of indexation. Neither Korea nor Indonesia used explicit indexation widely, nor did Spain or Ireland. Whether disinflation is easier in the absence o indexation, or whether the absence of indexation, or whether the absence of indication indicates a government's commitment not to live with inflation, is difficult to say at this point.

Seigniorage revenue accounted for a significant share of government revenue in most of the moderate-inflation countries. Seigniorage was especially high at the start of most of the inflationary episodes. This affected the fiscal effort that had to be made to reduce inflation, but there is little evidence in the literature that Seigniorage considerations played an important role in the thinking of any government. This absence may reflect a general lack of understanding of the inflationary process, or may rather mean that Seigniorage is rarely an explicit

reason for a government to pursue inflationary policies. We believe the latter interpretation.

In summary, there is unfortunately little encouragement in these case studies for the view that an exchange rate commitment, or incomes policy, allows a country to move at low cost from moderate to low inflation. Governments have successfully reduced moderate inflations to low inflations through a combination of tight fiscal policy, incomes policy, and generally some exchange rate commitment-and by taking advantage of favorable supply shocks to ratchet the inflation rate down.

Modeling the Macro-economic Effects of Rich

The World Bank. A policy's impact on the size and composition of the labor force would first have to be simulated by using epidemiological and demographic models. The output from these models plus information on the effects of alternative programs on budgets and savings could then be used as inputs in macroeconomics models, such as the one presented here. When considering policies to control and cope with a devastating disease such as AIDS, it is imperative to account for the direct effects of the disease on individuals' well-being through increased morbidity and portality rates as well as the indirect effects of the disease on worker productivity and hence the potential to earn income. If linked to an epidemiological and demographic simulation model, a macroeconomics model such as the one described here should be able to analyze

the effect of various interventions in the health sector on the productive capacity of the economy. To the extent that such interventions reduce the rate at which the disease spreads, one would expect macroeconomics outcomes that lie between the extremes of the no-AIDS scenarios.

Finally, the sensitivity of the findings presented here to the assumptions regarding saving points to the urgency of careful reconsideration of government budget priorities. In economies in which the public sector bears a large proportion of medical costs, the government must make difficult decisions about how of finance medical expenditures as AIDS-related spending rises. To what extent should other current or capital expenditures, or both, be cut? The demographic shifts caused by AIDS will, of course, factor into these decisions. In light of the negative consequences of AIDS on the labor force, policy initiatives to restore productivity and maintain the stock of human capital will be critical for achieving economic growth with high levels of employment.

The World Bank discuss the theoretical and empirical shortcomings of different approaches to computing the equilibrium real exchange rate. We present a small model that distinuighes between imports, exports and domestic goods and incorporates imperfect substitutability between imports and domestic goods in demand and imperfect transformability between exports and domestic goods in supply. We argue that this 1-2-3 model is an extension of the Salter-Swan model, and that it reconciles the tradable-nontradable goods model with the purchasing-power-parity approach.

The 1-2-3 model can be used to compute the equilibrium real exchange rate when there are changes in the sustainable balance of trade and in international prices. Estimates using this model depart quite substantially from those using PPP approach, which neglects terms of trade shocks-arguably the main cause of changes in the equilibrium real exchange rate since the 1970s. The results from the 1-2-3 model agree closely with the results from larger computable general equilibrium (CGE) models. The 1-2-3 model estimates of changes in the equilibrium real exchange rate agree closely with those obtained from larger, more elaborate CGE models, such as have been used to analyze issues of structural adjustment in Cameroon and Indonesia. In practice, using the 1-2-3 model to compute changes in the equilibrium real exchange rate requires little more information than is required to make PPP calculations.

The 1-2-3 models does requiring information to calculate two elasticities whose values are difficult to estimate with limited. And the required real exchange rate depreciation can be quite sensitive to these elasticities. Nevertheless, experience with larger models as well as empirical estimation in some countries helps us narrow the range of values for these elasticities, thereby narrowing the range of estimates of the required depreciation.

As the empirical analysis has shown, SMES operate in a complex environment and confront a diverse array of constraints; it is chimerical to search for a single constraint, common across countries, that, once released, will lead to rapid development of SMES. Not only is there substantial variation among

countries as to which constraint is binding, but the release of one constraint is likely to bring to the forefront some other constraint whose inhibiting influence had not previously been evident. Yet for all of this complexity, the analysis has outlined an approach to learning how SMES perceive the impact of the various nonprice constraints and to evaluating the results in relation to other empirical indicators.

The applications of the approach uncovered quite different patterns of SMES constraints in Tanzania and Sri Lanka and, within Sri Lanka, between relatively finance represents the binding constraint on expansion for all classes of SMES in Tanzania, as well as for smaller, less established firms in Sri Lanka. Furthermore, this constraints appears more severe for the smallest Tanzania SMES than for their Sri Lankan counterparts: although formal banks do not lend to the smallest firms in either country, both informal finance and trade credits appear to be more readily available in Sri Lanka. In Tanzania, the financing constraint was followed-again for all SMES, but with a disproportionately severe impact on the smallest-by the burdens of pervasive and nontransparent tax and regulatory obligations. By contrast, the smallest and least established Sri Lankan enterprises remained informal and reported no difficulties with regulatory authorities. Neither the smallest Sri Lankan nor any of the Tanzanian firms reported technical, marketing, or input constraints to be significant obstacles to expansion, although this appears to reflect more their narrow market and limited information than any underlying capabilities.

The World Bank are aware of to provide systematic panel-based econometric estimates of the returns to scale in manufacturing industries in a developing country. As such, we believe it sheds new light on several issues of interest to policy makers. One issue is whether increases in size cause improvements in efficiency. If such causality is present over the production ranges in which plants operate, there are productivity gains associated with policies that promote bigness in manufacturing plants. We find that although several four-digit sectors show increasing returns, general expansion of the manufacturing sector cannot be expected to yield strong plant-level scale economies. Specifically, if we take our best estimates at face value, they imply that the returns to scale in manufacturing are scattered across the range of 0.8 to 1.2 at the three-digit level, and 0.7 to 1.6 at the four-digit level. None of the estimates of returns to scale using four-digit industries, are significantly different from unity. The findings complement those of a related study where we found that Mexico's dramatic trade liberalization was associated with modest increases in scale efficiency.

There are three different approaches to incorporating institutional considerations in the design of structural adjustment lending. The first approach is an ignore institutional considerations entirely and design programs on the assumption that public organizational capabilities and the political commitment reform will be forthcoming. If this approach is taken, the policy changes and

subsequent economic responses are likely to be quite different from what were reformers initially intended.

The second approach is to acknowledge the institutional constraints, but an earmark technical assistance for weak institutions only after the reform packages has been designed on the basis of other considerations. This approach is clear preferable to entirely ignoring institutional capabilities. Even so, its potential at limited because it does not address political obstacles to reform and presume (optimistically) that technical assistance will be sufficient to enhance organizational capability even in the short term.

The third approach is to bring institutional considerations to center stage designing and sequencing programs in ways that are consistent with the capabilities of the reforming country. Assessments of organizational capabilities within the public sector and of the political preferences and room to maneuver of the national leadership are crucial to any such effort. A body of knowledge emerging about how to proceed with political and organizational assessment.

The focus of this articles is rather on evaluating political and organizational obstacles to clarify concretely how programs to reform trade and investment policy might usefully be matched to a country's capabilities. Figure 1 highlight alternative approaches to policy reform, each of which can be viable if appropriately matched to country capabilities. Yet even after careful assessment there may be substantial uncertainty in many countries about the kinds of reform the political and administrative systems will be able to absorb.

For domestic competition (at least for those elements examined in this article these residual uncertainties complicate only marginally the question how is proceed with reform). The analysis also reveals that even organizationally well endowed countries, such as Mauritius, Mexico and Tunisia, have preferred to follow the organization-light route of dismantling disabling institutions and regulations. It follows that in virtually all countries the strong presumption should be for reform to dismantle-not reconfigure-restrictive entry rules and dysfunctional systems of discretionary investment incentives.

By contrast, the analysis implies that there is no single approach, common across countries, through which trade policy reform should proceed. In countries where administrative capabilities are weakest, the export development tools to secure trade neutrality will be unworkable and hence powerless to alter the relative incentives of production for domestic and export markets toward increased outward orientation. In these settings, reform efforts should push to the limit of what is politically feasible to liberalize imports. If many domestic producers appear too weak to withstand the discipline of increased import competition (and if widespread bankruptcies appear politically and economically intolerable), exchange rate undervaluation should be seriously considered as an alternative source of protection in a liberalized trade regime.

In some countries the administrative capabilities are moderate, but the political limits of import liberalization have unequivocally been reached. In such countries the case might be strong for technical assistance targeted to strengthen

the capability of enclave institutions to provide duty-free access to imported inputs that operate entirely separately from the wider bureaucratic apparatus of government. Consistent with this roundabout strategy is the recent establishment of bonded factories in Kenya (and, earlier, enclave efforts in the Philippines and Tunisia). Instruments of trade neutrality can help sustain the dynamic of reform only if they extend participation in exporters and firms that produce for protected domestic markets. It remains unclear whether administrative enclaves can be organized in ways that reach a broad range of firms.

As for countries that are administratively strong, there is by now abundant evidence from East Asia (as well as from Thailand, which is included in this analysis) that skillful use of the instruments to achieve trade neutrality can secure outward orientation without full-scale prior import liberalization. Once clear implication of this analysis is that the East Asian pattern will not be replaceable in countries that are administratively weak. But a second implication is that in administratively strong countries it may not be necessary to provoke confrontation with powerful protected interests. These countries can readily move forward with roundabout policies that make intensive use of the instruments of trade neutrality as well as other administration-intensive measures to induce firms to export. As the successful East Asian examples of development reveal, these latter policies-although illiberal in the short-term-can be highly effective in promoting dynamically efficient economic development (Amdsden 1989; Johnson 1982; Wade 1990).

The World Bank illustrates the need for analysts to investigate the properties of the data in use, including its sampling design, although this does not appear to be a frequent practice among users of household survey data. Out study of the Cote d'Ivoire Living Standards Survey, 1985-88, reveals flawed sampling procedures, which have not been corrected by previous users of data The flawed procedures have resulted in biases in estimates of household size, which in turn have yielded biased estimates of household expenditure and of poverty. Basic-needs indicators reported for the country as a whole have been less affected, but the bias has proved to be more pronounced at the lower end of the distribution.

The correction procedure described here applied suitably constructed household-size weights to the data. The quantitative adjustments to estimated variables proved to be nontrivial and underlined the seriousness of problems arising from sampling biases. For example, the head count estimate of poverty in Cote d'lvoire was found to have been overestimated by 14 percent in 1986. The bias proved to differ widely across regions and socioeconomic groups and was frequently in the order to magnitude of 20 to 30 percent. Such differences are not merely of academic interest; they can affect policy interventions that are guided by survey results.

The correction of sampling bias also affects time-series analysis of CILSS data. Original results displayed a gradually rising trend in poverty in Cote d'lovire from 1985 to 1987. In fact, poverty did not change (or even fell marginally) from 1985 to 1986, although it did increase rapidly in 1987. These results clearly affect

the assessment of macroeconomics policies conducted during the period, especially because in 1987 the government of Cote d'lvoire abandoned a previously sustained adjustment program. The overestimation of poverty in 1985 obviously also means that the total increase in poverty from 1985 to 1988 was underestimated. Taking the head count ratio as an example, poverty was recorded as increasing from 32.4 percent in 1985 to 45.9 percent in 1988 (an recorded as increase of 41.7 percent). However, the weighted head count for 1985 is only 30.0 percent, so poverty in fact increased by 53 percent during the period.

Although the operations of equity markets in developing countries have become significantly more efficient, there is still room for further improvement, particularly in terms of infuriation. In many countries there are significant barriers to the dissemination of information, and companies appear to divulge less information with a greater time lag than is customary in well-developed markets. Most of the developing equity markets lack substantial breadth, in the sense that trading values decrease markedly outside the small set of stocks-usually fewer than twenty-with high trading values, and many stocks rarely trade. For instance, even in markets as developed as those in Hong Kong and Mexico, ten stocks have accounted for nearly half the turnover on the entire market.

There has recently been considerable debate, both regional (Alfaro and others 1994) and international (FAO 1993; Oram and Scherr 1993), about the types of policy reforms necessary to promote agroforestry as well as forestry. In general, the issues raised, such as macro- and interesctoral policy linkages, trade

policies, institutional development, and conservation policy, are also relevant to agroforestry promotion in Central America and the Caribbean. The findings of this study suggest that particular attention should be paid to improving the institutional structure for tree product markets (information, monitoring, grading, and standards); modifying regulations that restrict markets for farm produced products; public support services for decentralized NGO extension and paraextension efforts; and incorporation of agroforestry into planning efforts.

Institutional responsibilities for agroforestry extension and support need to be defined. Because agroforestry falls between the ministries of forestry and agriculture, the institutional "home" for agroforestry activities has been uncertain. Nongovernmental organizations have taken a leading role in providing information and support, but have sometimes undertaken isolated and uncoordinated efforts. Semi-autonomous projects coordinated closely with host government agencies have been effective.

Even though lack of land title was not a variable that was systematically analyzed in our study, some observations indicate that it does not of itself appear to be a significant constraint to agroforestry adoption in most areas. The important point is how secure farmers feel in their property rights with or without an official title.

The attitude of the individual farmer to agroforestry is crucial to the success of agroforestry projects. Farmers' perception of the role the system will play in their farm's production system, as well as its costs, benefits, and profitability, will

determine the extent and durability of adoption and should guide project strategies on extension services and institutional and policy issues.

Agroforestry, in many ways, is comparable to other parts of the farming system. Its special characteristics are that it includes a large number of species, configurations, and management intensities; that it has a longer gestation than most agricultural crops; and that its components have multiple uses.

In addition to the estimated financial return, farmers attach considerable importance to the way an agroforestry system fits into the overall farm production system and the existing land, labor, and capital constraints. Even more important for a farmer's decision than the absolute profitability of agroforestry systems may be the returns relative to alternative options. The most profitable agroforestry systems sometimes entail the most market risks. Some marginally profitable systems are widely used to meet specific household subsistence needs. Once those are met, there is an interest in market opportunities. The existence or development of markets is crucial for expansion Mexico in Alvarez-Brylla, Lazos-Chavero, and Garcia-Barrios 1989; for Ecuador in Mussak and Laarman 1989; and for Asian in French and van der Beldt (1994).

Our study found that many agroforestry systems are profitable to farmers finder a considerable range of economic conditions, and various types of (low-intensity) traditional agroforestry are indeed practiced in many areas; the tentative economic analyses indicated that many agroforestry systems are profitable at real discount rates of 20 percent or higher.

Recycling and Composting (ERCPS), were operated by private entrepreneurs who were all former scavengers or small-scale middleman in the recycling industry. The government supported the pilot projects by

- Providing partial start-up grants, technical assistance, worker training, and a guaranteed purchase arrangement for the compost.
- Securing access to suitable land and arranging for the daily delivery of fresh MSW and the removal of noncompostable residuals and hazardous materials as they accumulated.
- Providing experimental analyses of the benefits of compost in Indonesian agriculture and aquaculture.

The pilot projects served as a testing ground for solutions to problems of odor, files, aesthetics, and community relations, all of which had to be addressed before the program could be expanded. Because the pilot projects appear to demonstrate that high-quality compost can be produced at a relatively low cost, a tenfold expansion is currently under way. Nevertheless, given government subsidization of chemical fertilizer and uncertainties about the magnitude and price sensitivity of the demand for compost, the long-term viability and expansion of the program remains an open question.

In addition to coordinating official waste-management activities with those of the informal sector, local governments in lower-middle-income countries can contract with private firms for collection. Moreover, large metropolitan areas with sufficiently strong municipal governments can take advantage of economies of

scale in the operation of transfer stations and landfills by setting up metropolitan authorities to manage these facilities. For example, Mexico City recently closed seven open-air, polluted dumps, and replaced them with ten waste transfer stations and two operating landfills that meet strict environmental standards, including clay linings to prevent seepage of leachate and 0.3 meters of daily soil cover to contain orders and prevent runoff after a rain (Meade 1992).

Higher-income countries are unlikely to have a significant informal sector recycling industry and therefore may benefits from pricing policies that encourage households to recycle. Initial participation levels were low because of inadequate public information programs, inconvenient drop-off locations and a low deposit of two cents a bottle. But in 1992 the government strengthened the program by providing 13.500 collection bins in stores, opening up a toll-free telephone information line, and raising the deposit to eight cents a bottle, an amount thought to correspond more closely to the social cost of inadequate disposal (Taiwan, China 1992) By making recycling more convenient and increasing the deposit, participation levels, and presumably social welfare, improved. By contrast, recycling programs for aluminum and tin cans, glass, batteries, and tires have relatively low participation rates because these programs are not as convenient as the plastic-bottle deposit-refund program.

Experience with parallel exchange rates in developing countries has, on the whole, been disappointing. Most of the countries in the World Bank study

tolerated high premiums for long periods, with damaging effects on the allocation of resources and growth and no clear gains from maintaining a dual system.

Legal dual systems were misused more often than not, both because they were overextended and because the premium was excessive. Venezuela maintained in dual system for eight years, Mexico for five and Argentina for eight (counting official and quasi-official parallel exchange rates). Average premiums during these periods were 30 percent in Mexico, 44 percent in Argentina, and 120 percent in Venezuela. In Argentina and Venezuela, governments made no clear efforts during this "temporary" period to restore external balance by altering monetary and fiscal policies. It is unlikely that the macroeconomic gains from protecting reserves and avoiding inflation in these countries were larger than the costs resulting from the misallocation of resources. These experiences weakness the case for recommending the adoption of dual exchange rates, even in circumstances where, theoretically, such as a recommendation would be appealing.

In other cases, the parallel market was a quasi-permanent arrangement, the result of prolonged periods of overvalued exchange rates and expansionary macroeconomic policies. In Ghana and Tanzania, for example, the authorities had to rely on extensive foreign exchange controls to avoid to a full depletion of reveres. The large premiums in these economies (exceeding 700 percent at times) were clear evidence of a dramatic inconsistency between exchange rate policy and monetary and fiscal policies.

Although examples of macroeconomic mismanagement associated with the coexistence of official and parallel foreign exchange markets are numerous, in come cases parallel systems were used judiciously. Belgium operated a dual system for more than three decades without producing major distortions. Colombia has maintained a substantial unofficial parallel foreign exchange market for years, while preserving macroeconomic balance. In these cases, however, the premium was kept low on average; larger premiums were tolerated only as a short-term safety value during crises. Serious distortions were avoided in these countries because the governments followed sound macroeconomic policies. What is more difficult to determine is whether the parallel regime delivered greater macroeconomic benefits than a unified rate would have.

How important is unification? Large and persistent parallel premiums create numerous microeconomics distortions and induce rent-seeking and corruption.

Recent suggestions for reforming the ways infrastructure in developing countries is provided and financed include encouraging private provision as a way to avoid the inefficiencies of public administration and tapping local savings as a way to avoid excessive reliance on external borrowing. These suggestions have a back-to-the-future quality: private provision and local finance were characteristic of infrastructure investments in many countries-notably the North American case considered here-for much of the nineteenth century. Consequently, the historical record is a potentially rich source of information on the circumstances under which these approaches are workable and on their limitations.

What the record reveals is that government intervention continued to be important. The ability of domestic financial markets to underwrite the construction of ports, canals, and railways was constrained, in part because of informational asymmetries characteristic of markets in the early stages of development. To help with these problems and to attract private investment, lenders turned to financial institutions that specialized in assessing projects and monitoring management. These were typically foreign institutions with foreign clienteles whose experience with privately financed projects had given them a head start in raising capital and judging risk. This approach relieved-but did not eliminate-concerns about inadequate information. Nor did private investment and local capital reduce the government's involvement or the need for foreign borrowing.

All too often, however, government intervention simply replaced one set of problems with another. Investors, assured of a guaranteed return, had less incentive to hold management accountable. Management, freed of investor scrutiny and provided with access to capital markets, courtesy of the government, arranged deals with construction companies that left taxpayers holding the bag. Guaranteed loans encouraged investors to finance infrastructure projects, but without built-in mechanism to monitor spending and protect the public interest, it was impossible to ensure that resources were allocated efficiently.

These failings imply that exploiting nontraditional approaches to financing infrastructure requires two further policy initiatives. First, efforts should be made to enhance the effectiveness of public administration.

The estimated economic impact of AIDS using dual-economy model for Tanzania developed here suggests that the aggregate size of the economy will be 15 to 25 percent smaller by 2010 than it would have been without AIDS. The negative impact on per capita GDP by that time is expected to be 0 to 10 percent. Although these estimated macroeconomic consequences for Tanzania turn out to be roughly of the same order of magnitude as those obtained from a single sector, full-employment model in Cuddington (1993), they could, in principle, be larger or smaller for reasons outlined in section I.

The dual-economy simulations also suggest that more rapid labor market adjustment could yield considerable real income gains. Interestingly, the output loss from AIDS in the present dual-economy framework is roughly similar in size tot he output gain from policies designed to increase the speed of labor market adjustment. The exercise is crude, but nonetheless encouraging: labor market adjustment policies in economies devastated by AIDS may play a potentially important role in at least ameliorating some of the negative economic effect of the epidemic, although they would certainly not offset the devastating personal and social costs. Further research analyzing possible policy actions for coping with the disease-whether at the health-sector or macroeconomic level-is urgently needed.

The theoretical literature attributes the (relative) decline of the agricultural sector under economic growth to three broad groups of potential causes: declining relative prices of agricultural products, differential rates of technical change, and changes in relative factor endowments. The relative importance of these influences

was assessed by applying the dual approach with the translog functional form. The dual approach has been widely used to analyze resource allocation within agriculture, but to our knowledge, this and Martin and War (1992) are the first studies in which it has been used to analyze the behavior of the agricultural sector as a whole. Because of the potentially substantial lags involved in the adjustment process, and because of the apparently nonstationary nature of the data series, an ECM that was nonlinear in its parameters was used.

In Indonesia is at all typical of developing countries, the results obtained in this analysis appear to require a reorientation of the literature on the declining share of agriculture in open economies. The relative price effects that have been the focus of most of this literature turned out to have limited importance in this context and were dominated by pure valuation effects rather than real quantity adjustment effects. Whereas the literature on structural change frequently assumes that developing-country agriculture is technologically stagnant, the results of this study suggest that technological stagnation need to be the case. Indeed, technical change in the Indonesian economy during our sample period appears to have been biased toward the agricultural sector. Finally, the factor accumulation, effect, which have received scant attention in the literature on agricultural economics, appeared to be overwhelmingly important. These findings are consistent with the results of a companion study for Thailand. The findings suggest that the process of capital accumulation, through Rybczynski-type effects, may be extremely

important in determining the economic process whereby the share of agriculture declines with economic growth.

The type of structural change examined in this article has important implications for policy in Indonesia. The result suggest that further accumulation of capital in relation to labor will have significant effects on agriculture's share of GDP, creating new opportunities outside agriculture. The mechanism of adjustment is one of "pull" rather than "push" factors. It need not create a policy dilemma and should not be resisted. Continuation of the process is likely to be accompanied by continued reductions in poverty (World Bank 1990b), especially in rural areas.

The World Bank have reported estimates of the effects of several important public programs associated with human resource investments (in schools, clinics, and family planning clinics) on basic human capital indicators (school attendance, fertility, and child morality). The estimates were based on a "new" data set constructed from a pool of kecamatan-level observations on human capital outcomes, socioeconomic variables, and program coverage based on the successive sets of cross-sectional household an administrative data describing Indonesia in 1976-86. This data set also enabled the investigation of the biases in conventional cross-sectional estimates of program effects arising from two sources: the lack of comprehensive information on programs and the nonrandom placement of governmental programs across areas. The data were also used to examine how the spatial allocation of programs in Indonesia in 1980 and the growth in program

coverage by area were related to area-specific endowments in the 1980s and contributed to the efficiency of program effects and spatial and socioeconomic equity.

The empirical results, based on matched 1980 and 1985-86 information on more than 3.000 kecamatans, indicated that the presence of grade schools and to a lesser extent, middle schools in villages has a significant effect on the school attendance rates of teenagers. The results also indicated that the presence of health clinics in villages positively affects the schooling of females ages 10-18. Estimates based on the data stratified by the educational attainment of adult women also indicated that the effects of grade school proximity on the school attendance rates of teens ages 1014 was significantly greater in households in which mothers had little or no schooling compared with households in which mothers had more than a grade school education. However, no other program effects appeared to differ across education classes of women.

The estimates also suggested that the use of cross-sectional data, which does not take into account the possibly nonrandom spatial location of programs, results in substantial biases in the estimates of program effects because of the evident nonrandom spatial allocation of public programs. The cross-sectional estimates also indicated clearly counterintuitive results, for example, that family planning clinics significantly raise fertility and reduce schooling investments. These results are not apparent when the nonrandomness of program placement is taken into account.

The estimates pertaining to the spatial and intertemporal allocation of programs in Indonesia indicated that the 1980 spatial distribution of each of the five programs examined here was significantly related to the unmeasured fixed factors relating to the six policy outcomes; the placement across kecamatans in the coverage of programs is not random with respect to the unmeasured factors determining outcomes and behaviors. Most notably, kecamatans with a propensity to have higher fertility received less family planning support, suggesting that such support is provided where it is most desired. The coverage of programs also tended to be lower in areas in which the educational levels of mothers was high, an allocation consistent with an efficiency criterion, given the finding that the effect of grade school proximity on school attendance is greater in households with less-educated mothers. However, this relation is also true for all of the programs studied for which there was no evidence of nonlineraities with respect to the schooling attainment of adult women. Finally, the examination of the change in the spatial program distribution became more equal; there was clear evidence of area specific convergence in program coverage.

Although there was some evidence of significant program effect, particularly of school proximity on school attendance, it is apparent from exploiting the constructed longitudinal data that the quantitative estimates of these effects cannot account for a larger part of the actual growth in human capital outcomes in Indonesia in the 1980s. In part this may be the result of measurement error in the program variables, on which there is some evidence, which would bias

the program estimates toward zero. Some of the improvements in the human resource outcomes examined may reflect economic growth, which the data do not measure. Even with income information, however, the endogeneity of income must be considered as well as the possibility that human capital programs contribute to economic growth. Controlling for incomes could thus result in a misleading inference about the long-term consequences of public investments in human resource investments.

To obtain a geographically consistent set of intertemporal observations, we matched the data set-specific geographic codes in two stages: the 1986 codes were matched to the 1980 codes, and the matched using their receptive master files. The province and district codes between two consecutive master flies were matched, and then the subdistricts were matched by name. However, many names had changed or new subdistricts emerged because there were different abbreviations between periods or because some subdistricts split. The nonmatched subdistricts were then visually matched, but still the matching was not complete.

The subdisctricts that were not matched based on names were brought to the attention of the Mapping Department at the BPS. From internal documents we tried to find the origin of the nonmatched subdistricts. However, the Mapping Department updated their maps in 1980 and 1986 only, not in 1983, and their documents listing code changes were not complete. For the remainder of the subdistricts that we could not match, we used various issues of the Lembaran Negara Republik Indonesia, the annual, official documents recording villages

changing subdistricts, new villages, new subdistricts, and boundary changes. This publication does not contain location codes, just names. To obtain the origin of the villages in the nonmatched subdistricts, we matched the village names from the gazette with village names from the master files. We changed the subdistrict codes according to the origin of most of the villages of the subdistricts in the master file. There were 103 location code changes between 1983 and 1986 and 217 location code changes at the subdsitrict level from 1980 through 1983. Once we completed the master file changes, we converted the 1986 PODES into 1983 codes and then into 1980 codes.

The 1976-77 FASDES contains just one code for the province and district combined; ranging from 1 to 287, whereas subsequently provinces and districts were identified with separate two-digit codes. To convert the FASDES geographic codes into 1980 codes, documentation on the three-digit location codes for the provinces and districts combined was used to update to the 1980 scheme of two-digit province codes and two-digit district codes. However, conversion of the FASDES codes to 1980 codes at the subdistrict level was made difficult by the fact that the FASDES subdistrict codes and names are not available. Thus, we had to match the village names from the FADES master file along with their subdistrict codes with the village names and subdistrict codes on the 1980 master file. If five or more villages matched, we took the subdistrict codes from the 1980 master file. Village naming was sufficiently stable over time to permit the matching of all of the sunbdistrict codes between 1976 and 1980.

The convert the 1985 SUPAS into 1980 codes necessitated the use of the 1985 Sample List (Daftar Sampel), which contains the sample code number along with the province, district, subdistrict, and village codes. The raw data for SUPAS includes only the province and district codes, along with the sample code number. The three codes combined-for the province, the district, and the sample number-were used to obtain the subdistrict codes using the sample list. These codes were based on the 1983 master file, so we then converted them from 1983 codes into 1980 codes.

Once the geographic codes of all of the data sets were made comparable, we aggregated the data at the common subdistrict level. With the PODES and FADES, well calculated for each subdistrict the proportion of households whose village of residence contained each program, type of infrastructure, or environmental variable.

Because the 1986 PODES was converted to 1980 codes, there were some duplicate location codes as villages and kecamatans split between 1980 and 1986. In 1986 there were 66.922 villages. Knowing which kecamatans and villages split between 1980 and 1986 allowed us to reaggregate 1986 administrative units back to their 1980 form. If areas were combined, we were, of course, unable to disaggregate program coverage into 1980 codes. There were 65.924 villages in 1986 with the 1980 codes. The FASDES did not contain any duplicate location codes after the conversation to 1980 codes. The total number of kecamatans in the

1980 PODES is 3.318. Of these, we were able to match all but 16 in the 1986 PODES.

A World Bank study reported:

A substantial proportion of the foreign borrowing (57 percent in 1983-84) was undertaken by public enterprises. This recourse to external funds helped these agencies escape the surveillance and discipline that could have been imposed by the federal government had there been a greater reliance on the Treasury as a source of funds. Overall net foreign inflows more than compensated for the current account deficits being registered. Central Bank foreign exchange reserves built up steadily, and pressure to depreciate the exchange rate was temporarily diverted. (World Bank 1989: 15)

There were real counterparts to the external financial flows in the two periods. In late the 1970s the inflow as a result of the current account surplus led to an increase in aggregate savings. In the 1980s the inflow of capital as a result of foreign borrowing was used to increase public sector spending, much of it bolstering demand in the domestic nontradable sector, leading to an increase in the DRER on top of the nominal exchange rate appreciation.

The last point underlines another difference between the Korean and Malaysian experiences, a difference pertaining to the efficiency with which foreign borrowing was used. It has already been mentioned that although Korea increased its foreign debt ratio significantly following the oil shocks, the productivity of the investment it made possible was high, as evidenced by the high

TFP growth. However, a substantial part of the foreign borrowing in Malaysia in the 1980s was used to finance public sector projects of doubtful profitability. Evidence suggests that the TFP decline in this period.

This article has discussed how two open economies with different factor market institutions responded differently to external shocks and the need to maintain international competitiveness. The variable used in the analysis is the unit cost of labor in dollars. A country's international competitiveness depends on sustaining a satisfactory unit cost of labor in relation to that of its competitors in the world market. This is particularly true of the newly industrializing countries in the world market for manufactured goods. A simple decomposition of the determinants of the unit cost of labor showed that the three related elements constitute this critical ratite: the wage-productivity gap, the normal exchange rate, and the domestic real exchange rate (DRER). but policies regarding the behavior of the labor market would specifically affect the first element, policies regarding the exchange rate would affect the second, and both sets of policies would affect the third. In addition, fiscal and monetary policies used to influence the economy's internal and external balance would have an impact on all three factors.

The analysis of the development of the two economies following the international shocks has demonstrated the usefulness of concentrating on the unit cost of labor and its determinants as the focus of the analysis. For most developing economies, except the very closed ones, the unit cost of labor in manufacturing seems to be a crucial variable, whose behavior determines the degree of success

attained in adjustment to external shocks as well as in longer-run growth. Comparison of the determinants of the unit cost of labor for two or three economies in other regions might be a useful way to cut through a maze of diverging trends and experiences.

The two Asian countries considered here did not suffer from fiscal indiscipline or monetary mismanagement to the extent that countries in other regions have. Hence this article has concentrated on the behavior of the labor and foreign exchange markets and the policies and institutions affecting them. Fiscal and monetary factors have entered the discussion only insofar as they have had an impact on the markets for labor and foreign exchange. In studies of the adjustment of Latin American economies, for example, imbalances caused by fiscal and monetary factors would need much more attention. But this article is not meant to provide generalizations across countries of different regions or even the same region. Instead, the analysis of two countries in the same region, both of which managed successful adjustments to external shocks and also sustained long-run growth, should convince readers of the importance of looking carefully at differences in policies and institutions between countries. The focus on the unit cost of labor provides the necessary framework for studying these differences.

The role of Korea's managed system, both for wage setting and for exchange rate determination, has been shown to have been critically important to adjustment. The crucial role of successfully managing the direction of change in

the determinants of the unit cost of labor at critical periods of the cycles has been highlighted.

The contrasting case of Malaysia is interesting because, in spite of the low degree of institutional wage setting in much of the formal sector, rules of behavior seem to have emerged that produced inflexibilities in wages. Perhaps this illustrates the way a "free" labor system evolves in the formal sector. Institutional intervention may, in fact, be necessary to make the wage system respond to economic fluctuations in the desirable way. The value of institutional intervention can be seen in Malaysia's plantation industries, which have been strongly unionied for a long time: wage contracts negotiated in that sector have allowed wages to be tied to the (volatile) price of the output (rubber) in a conscious attempt to make wage cost vary with fluctuations in the international market for rubber. But, as we have seen, this adjustment mechanism was absent in the other segments of the formal sector in Malaysia, notably in the growing manufacturing sector. Thus, average earnings apparently increased in those sectors in periods of recession and increasing unemployment in the first half of the 1980s.

Source: Economist, 3/26/94, Vol. 330 Issue 7856, p107, 2p, 1bw.
Item Number: 9404147627

Magazine: Economist, December 10, 1994
Section: ASIA

Kirgizstan
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THE INVALID RESPONDS TO TREATMENT

Dateline: BISHKEK

A HEADLINE in Akipress, the leading Kirgiz commercial weekly, says "World Bank adopts Kirgizstan". Askar Akaev, the Kirgiz president, echoes the sentiment: "Our reforms have only been possible with the help of the World Bank and International Monetary Fund. They have supported us from the very beginning." Rarely do the Bank and IMF receive such praise from politicians, let alone the press. More often they are portrayed as villains, the cause of the economic mess that their presence in a country implies. Why is Kirgizstan different?

Largely because the Bank and the IMF have come up with some cash. When the Soviet Union broke up, the Kirgiz lost about 12% of GDP that they used to receive in subsidies from Russia; they also had to start paying near world-market prices for their fuel. Once convinced that the Kirgiz were serious about reform, the IMF and the World Bank stepped in quickly to cover the bills. Between them they have lent the country $150m to support the balance of payments, almost 10% of this year's GDP. Their support also brought help from other donors. The Japanese, for example, matched a recent $60m World Bank loan. The Americans have given aid worth almost $200m--mostly food and technical help, rather than the more useful cash in hand.

More importantly, the economic prescriptions from the Bank and the IMF seem to be working. The Kirgiz have followed the advice of their adopted mentors with a vengeance. They have liberalised their economy, privatised their shops and some enterprises and (at least this year) become zealous disciples of low inflation.

Kirgizstan has the lowest inflation rate in the former Soviet Union, excluding the Baltic states. The som is now the strongest currency in Central Asia: the Russian rouble's plunge in October was barely noticed in the currency markets of Bishkek, the capital. Interest rates are coming down; capital is flowing in. Even taxi-drivers--a barometer of popular opinion--point approvingly to the stable prices and strong som.

But low inflation will not last without underlying reform. The factories that used to rely on cheap credit need to be reorganised or shut down. Here the Kirgiz have taken an innovative, but potentially dangerous, approach. With the help of the World Bank, they have set up something

called the Enterprise Restructuring and Rehabilitation Agency. Twenty-nine of the most indebted enterprises have been removed from the banking system; their wage bills and running costs are being paid from the government budget, which in turn receives money from the Bank.

This approach, the first of its kind in the former Soviet Union, seems a clever short-term solution. Bankrupt enterprises no longer sully the banking system; but nor are they simply shut down overnight, with the increase in unemployment that implies.

Yet there could be problems, largely because the Kirgiz and their mentors see the agency's job very differently. World Bank officials talk about a "morgue" where unviable enterprises will gradually die. Mr Akaev, though, sees the agency as a hospital where ailing enterprises will be nursed back to health. This vision, shared by many of the factories themselves, is dangerous: it implies a grand government industrial policy in a country that can ill afford it, particularly when the Bank money dries up. Having set up this agency, the Bank now needs to ensure this does not happen.

Government finances are another problem. At the moment the budget deficit is held low by drastic spending cuts. The screws have been tightened on everything from medical services to bureaucrats' salaries; public investment is almost non-existent. The deficit that is left is mainly financed, rightly, by borrowing from abroad rather than from the central bank. But these spending cuts are not a long-term answer. Eventually, tax revenues, among the lowest in the world, need to be increased. New tax systems need to be built, so that the private sector can be taxed more effectively.

The best indicator of successful reform will ultimately be a return to economic growth. Here the statistics remain gloomy: a drop in GDP of at least 14% is expected this year. Paradoxically, some of this decline is a good sign; factories are no longer producing goods that no one wants.

But, as the private sector grows, the official statistics are increasingly unreliable. Imports of energy, for example, are supposed to have fallen by 70% this year, yet car sales in Bishkek are up, and petrol is freely available. Private industry, and individuals, are doubtless importing more, all of it unrecorded. Just look at advertisements for charter flights to India in the Kirgiz press or watch the lorries rumble on the road to China and you can see that this is an economy where much more is going on than the government would have you believe.

No one in Bishkek is under any illusions that Kirgizstan is now rich. Turning its economy round has been, and will continue to be, a hard slog. But the combination of committed reformers and effective outside help has produced fast progress. In a region where many still remain to be convinced of the "western recipe", and where many westerners still remain sceptical about the usefulness of open-handed financial support, the Kirgiz example has much to teach them.

GRAPH: Conquering inflation: Kirgizstan's consumer prices (Source: National statistics)

PHOTO: Akaev welcomes the money

Source: Economist, 12/10/94, Vol. 333 Issue 7893, p33, 2p, 1 graph, 1bw.
Item Number: 9412197734

Magazine: Progressive, December, 1994
Section: ON THE LINE

DOWN WITH THE WORLD BANK

As the World Bank celebrates its fiftieth anniversary, it is under fire from activists, members of Congress, and citizens of the countries suffering from environmental and social problems linked to the Bank's funding policies.

The most organized criticism of the World Bank comes from the 50 Years Is Enough campaign, comprised of more than 200 religious, environmental, labor, student, and human-rights organizations around the globe. The campaign is calling for the World Bank to open itself to public accountability, give decision-making power to women and the poor who are most affected by its policies, put an end to environmentally destructive practices, and reduce the debt that is crushing the ability of Third World countries to finance real development.

Among the points raised by members of the campaign:

The World Bank has lent tens of billions of dollars to dictatorial governments which trample the human rights of their own citizens. The Indonesian government, for example, received some $630 million for the Transmigration Project, which forcibly relocated millions of poor Indonesians to rain-forest land to make way for Bank-funded dam construction.

In the area of energy development, the Bank has overwhelmingly funded nonrenewable, polluting types of energy. Many construction projects have also caused significant environmental damage.

By imposing "structural adjustment" programs, which eliminate subsidies on such basic items as food and fuel, the Bank increases the suffering of millions of people all over the Third World.

The 50 Years Is Enough campaign is conducting seminars and publishing pamphlets on the World Bank's harmful activities. The group has also pushed for legislation that holds Bank projects to democratic and environmental standards.

For more information, write 50 Years Is Enough, Suite 300, 1025 Vermont Avenue, Washington, DC 20005; (202)879-3187.

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By KEVIN DANAHER

(Kevin Danaher is the editor of "50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund. ")

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Source: Progressive, Dec94, Vol. 58 Issue 12, p14, 1/3p.
Item Number: 9411297673

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Magazine: The Economist, March 26, 1994
Section: ARTS, BOOKS AND SPORT

Economic growth without environmental ruin
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THE GREENING OF THE WORLD BANK

MORTGAGING THE EARTH.
By Bruce Rich.
Beacon Press; 376 pages; $29.
Earthscan; paperback 12.95

SPEND a few days at the World Bank's head offices in Washington and it is hard not to come away impressed. They are packed with intelligent, well-meaning people, with thoughtful views on development and as much openness about their institution and its customers as anybody might reasonably expect from a large bureaucracy.

Open Bruce Rich's book and quite a different organisation appears: secretive, insensitive and inept. In his eyes the Bank must be vastly reformed--or get no more money. In fact, Mr Rich, a campaigner at the Environmental Defence Fund, claims to be the originator of a slogan popular with green lobbyists as the Bank celebrates its 50th anniversary: "Fifty years is enough".

People listen. Of all the criticisms directed at the Bank, those of the environmentalists have been the most effective. They have imposed a sort of green conditionality on American support for the Bank, and thus on the Bank's lending to everybody else.

Environmentalists would not have achieved such a feat had the Bank not been involved in some devastating environmental damage. Mr Rich's book is a detailed catalogue of such misdemeanours. Among his horror stories are the Indonesian transmigration and the Brazilian Polonoroeste plan. Both schemes, most Bank officials would now agree, were ill-conceived economically as well as environmentally. Such cases, Mr Rich argues, are the culmination of a form of development that emphasised capital-intensive projects and brushed aside objections from local people and, sometimes, also from consultants hired by the Bank itself.

Big projects have always been attractive to the Bank because of their relatively low overhead costs. The Bank also faces great internal and external pressures to get the money out: its culture has long rewarded departments which push through the most loans, rather than those which lend less but whose projects achieve more.

So far, so uncontroversial. Many of Mr Rich's criticisms appear in the Bank's own documents, and his arguments draw on reports by the Bank's own staff (such as a study by Willi Wapenhans, commissioned by Lewis Preston, the Bank's president, in 1992). The Bank has been trying to emphasise quality in lending and to improve the environmental controls on its investments.

But part of Mr Rich's complaint is not against the Bank. It is against the idea of development itself. The Bank is "the quintessential institution of high mid-20th-century modernity", and "the fundamental problem of modernity may be that development pursued as an absolute goal

is nihilistic." As many environmentalists do, Mr Rich sees the Bank as a symbol and agent of economic growth in developing countries; and such growth as the main cause of environmental destruction.

It is certainly possible to have economic development without current levels of environmental damage--and that was the theme of the Bank's "1992 World Development Report". But the poor world is unlikely to give up the quest for faster growth, whatever policies the Bank pursues.

"Population growth" is a phrase that appears only once in this book; yet the need to provide jobs and food for millions of extra people increasingly drives the struggle for development in the poorest countries. Sometimes, not surprisingly, the poor take a more cavalier approach to environmental protection than greens in rich countries. That may be an argument for, not against, encouraging poor countries to grow rich.

Mr Rich wants the transfer of resources from the rich world to the poor world to continue, but also wants far more to flow through non-governmental organisations (NGOs). That, he says, would give local people more say in the way that their lives were changed, and would steer development finance away from roads and dams towards more modest projects which would do more to defeat poverty. This is already starting to happen: grants to NGOs account for a gently-rising share of official assistance, and the number of NGOs in the aid business is multiplying rapidly.

As this happens, a new problem will emerge. NGOs are as open to corruption and mismanagement as any other bodies dishing out money. Much less has been done to monitor their effectiveness than the World Bank has done to examine its own. Because aid dispensed through NGOs will come in smaller sums it may do less environmental harm than the World Bank's loans do but it may also be less efficiently spent.

Because development is likely to continue, and continue to be an environmentally messy affair, people such as Mr Rich need the Bank just as much as the Bank needs them. The Bank needs Mr Rich and his kind to alert it to the unintended consequences of its activities, and to question its assumptions about development. Many of the environmental disasters he recounts began before most people thought the environment mattered much. But Mr Rich and his movement need the Bank to teach governments of developing countries to care for their environments, and to design environmental policies that work. It is much easier to lobby the Bank than, say, the Indonesian or Brazilian government.

Obligingly for the greens, the Bank expects "environmental" projects--which include sewage treatment, soil improvement, waste disposal and habitat protection--to be a big growth area of its lending. For the next 50 years.

PHOTO: No part of Bruce Rich's equation

Magazine: Economist, November 26, 1994
Section: INTERNATIONAL

Kenya
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HARSH MEDICINE, BUT IT WORKS

Dateline: NAIROBI

WHEN Kenya's assistant minister for lands and settlement, Japhet Ekidor, recently bit off the ear of an opponent during a public meeting, and his victim was charged with assault, Kenyans simply sighed. Risible behaviour is what they have come to expect of their politicians.

After years of cannibalistic corruption, they have also become accustomed to an economy run for the benefit of a handful of Kenya African National Union stalwarts, complete with huge inflation, food shortages and crumbling public services. But now Kenya is gripped by a structural-adjustment programme imposed by the World Bank and IMF, which requires that government finances be closely managed, state companies privatised, agriculture and other marketing boards abolished, the Kenyan shilling floated and the civil service sharply cut. This rush of economic and fiscal probity has so far brought few visible benefits to ordinary citizens, but extra opportunities for the KANU cliques to grow fat.

The government this week said it would sell Kenya Airways; but to date, only four minor companies have been privatised (and no one knows who bought them). When news trickled out of the imminent deregulation of the oil industry, those in the know were able to make a killing on the foreign-exchange market, as oil companies--which would thus be freed to import refined products--cashed in their shillings for dollars.

But World Bank and private-sector economists say these will be among the last opportunities for the elite to get their fingers in the national till. They insist that, provided Kenya stays on the tracks, the economy could move smartly forward.

The signs are there already. Most obvious is the strength of the currency. It stood at about 80 shillings to the dollar last year. Recently floated, it strengthened to 35 earlier this month, and now hovers around 47. Kenya's finance minister, Musalia Muda-vadi, has sponged up the lake of unbacked shillings pumped into the economy--the money supply doubled in six months--by President Daniel arap Moi during his 1992 election campaign. With interest rates on treasury bills of up to 70% and commercial banks forced to hold 20% of their cash reserves at the central bank, the number of shillings in circulation has plunged. Inflation, running at over 100% annually a year ago, is now down to about 13%; the World Bank thinks prices have actually fallen over the past three months.

High interest rates have also attracted flight capital back. World Bank statistics show that $18m held by Kenyans overseas returned to the country between July 1993 and March this year. The word in the market is that there is $400m of hot money sloshing around in Nairobi, some of it pinched from the government and recently returned from Switzerland, some quick profits from the bond market and other speculations.

The money may flee offshore again, but many economists expect half to stay. Already the price of good residential property has soared. Some of the money has gone into manufacturing. But the swift appreciation of the currency is making life tough for manufacturers and exporters. Even giants like Unilever are operating well below full capacity. A car-assembly company, AVA, undermined by the now relatively cheap imports of finished cars, has switched to making tents.

Farmers too have been hit. Coffee and tea, Kenya's second- and third-largest exports, have enjoyed good world prices this year--but prices that look far less attractive once expressed in the strong new shilling. This year 900,000 or more tourists are expected to come to Kenya. Their holidays were sold to them by tour operators with the shilling priced at between 55 and 80 to the dollar. Now the operators are squealing.

Even so, economic growth of 2% is foreseen this year, against last year's 0.4%. The cure, it seems, is working. Not that it seems so to everyone. Doctors and university lecturers, stuck on modest salaries, have been hurt by the soaring prices of the past and have taken revenge in month-long--and illegal--strikes. Electricity workers recently walked out in a dispute over wages.

President Moi is trying to persuade the World Bank and aid donors to help him protect those worst hit by economic austerity. The Bank recognises that causes such as education are deserving, and has put up $70m for schools, $70m for farmers and $100m to support small businessmen.

But President Moi faces hostility to privatisation among his own supporters, notably the "Rift Valley mafia", led by his close friend and former energy minister, Nicholas Biwott, his vice-president, George Saitoti, and the minister for local government, William Ntimama. "We are waiting for real commitments to privatisation, real bidding for state companies and strict improvements to their management systems," says one World Bank official. "Until then, Kenya will be struggling to get more out of aid donors."

GRAPH: At last: Kenya's GDP (Source: EIU)

Source: Economist, 11/26/94, Vol. 333 Issue 7891, p45, 2p, 1 graph.
Item Number: 9412077619

Magazine: Presidents & Prime Ministers, November, 1994
Section: Economy & Finance; News Briefs

WORLD BANK MILESTONE

In July 1994, in observation of the 50th anniversary of its founding, the World Bank released a special report to chart its course through the challenges of the post-Cold War world.

According to the report, The World Bank Group: Learning from the Past, Embracing the Future, the bank will boost its efforts to meet fundamental development objectives such as universal primary education, access to basic health care, and elimination of malnutrition within the next generation. The bank faces enormous challenges: More than a billion people in the developing world struggle to survive on less than a dollar a day; two out of every five people do not have basic sanitation or clean water; and 100 million children have no access to primary education.

The report summarizes five major challenges that will dominate the development agenda and shape the bank's future work, including pursuing economic reforms; investing in people through better education, health care, nutrition, and family planning; protecting the environment; stimulating the private sector; and reorienting government.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p36, 2p.
Item Number: 9411293586

Magazine: Presidents & Prime Ministers, November, 1994
Section: Environment; News Briefs

POLLUTION CONTROL PROJECT

On July 26, 1994, the World Bank approved a loan of $143 million and an International Development Association (IDA) credit of $25 million for a project to help India deal with problems associated with pollution from industrial sources. Despite past successes, pollution from industrial sources continues to threaten sustained growth. As the economy expands, the potential impact of industrial activities on the environment stresses the country's natural resource base and causes the welfare of the population to suffer.

The project focuses on pollution prevention through the use of cleaner means of manufacture. It follows a policy of "the polluter pays," which establishes fees for the release of toxic wastes and charges the source of the pollution. The loan and credit will promote a program to recycle municipal waste. Buyers will purchase raw sewage and recycle it for industrial use, creating a supply of water for industry in an area of acute water shortages.

Source: Presidents & Prime Ministers, Nov/Dec94, Vol. 3 Issue 6, p41, 1/6p.
Item Number: 9411293639

Magazine: Nation, October 10, 1994
Section: BEAT THE DEVIL

SAVING HAITI

Poor Haiti. All the hopes that accompanied Aristide into power after his electoral victory in 1990 have now been extinguished, and the status quo ante restored.

"Who are we going back to save?" asked Maj. Louis Kernisan rhetorically of Allan Nairn, as reported in Nairn's very fine Nation story last week. "... It's not going to be the slum guy from Cite Soleil.... It'll be the same elites, the bourgeoisie and the five families that run the country."

While Kernisan and his Pentagon comrades restructure and streamline Haiti's repressive apparat, Aristide or a stand-in will carry forward the World Bank plan, approved by a meeting of international bankers in Paris in August.

The idea of "structural adjustment" and its attendant austerity measures might seem laughable in the poorest country in the Western Hemisphere, but the World Bank sprints past satire like a cheetah past a greyhound.

"The objective," the plan primly states, "is to secure the voluntary departure of about half the 45,000 civil servants." A Bank official concedes this will hurt the poor "to some extent." Public services will be privatized, tariffs and import restrictions abolished, and special courts created to ease life for international investors.

In return for such measures, Haiti is to receive $770 million in financing, of which $80 million will go to retire debts to international financial institutions. The plan was shoved down Aristide's throat without the knowledge of some of his exiled Cabinet members. Chavannes Jean-Baptiste, a peasant leader and Cabinet member, says he'd never heard of it and, after reviewing its terms, told Nairn, in another good story in Multinational Monitor, that "it's the same plan they've always offered for years, what they used to call 'The American Plan.'"

The racism of the U.S. press has been more than usually intolerable. One of the worst was Elaine Sciolino in The New York Times for September 18. She seemed to regard it as evidence of mental instability that Aristide and his Cabinet were "deeply suspicious of foreign meddling." This reminds me of the anthropologist Alfred Kroeber, who brooded about the inexplicable "paranoia" of California Indians--this after a half-century of decimation by the whites.

Sometimes I wonder what Sciolino and the rest of them would balk at. "To help Father Aristide for his return," Sciolino wrote, "Administration officials have tried to force feed him large doses of economics and theories of public administration." Of course this translates as "Administration officials have twisted Aristide's arm till he's succumbed to the rapacious demands of bankers and businessmen," but one has the feeling that Sciolino is so brainwashed by the bullshit that's pumped into her on a daily basis that she doesn't even think about what she's writing. It's the Connie Chung syndrome. What wouldn't Chung read off the teleprompter in those flat, affectless tones? (Incidentally, Connie Chung masks will be this year's big Halloween sensation. Buy

smart, buy early!)

One of the few good stories in the press was by A.P. reporter John Solomon, who on September 19 described in detail how the Bush Administration quashed any investigation of Texaco's breaches of the embargo on oil shipments to Haiti. In 1992, Nicholas Brady, then Treasury Secretary, had ordered the Office of Foreign Assets Control, which enforces trade embargoes, "to go slow on Texaco." Solomon assembles a store of evidence showing that OFAC director Richard Newcomb deliberately held the case in abeyance for more than a year and that Texaco deserved a $1.6 million civil penalty. Texaco's solution was to transfer its assets to a foreign trustee, a move that OFAC deemed illegal but nevertheless did nothing to impede. The Clinton Administration was told of the case a year ago but made no urgent move against the company.

Let's leave this horrible farce with the man from Plains, who described Cedras and his fellow butchers as "men of honor." Defending his delegation's failure to demand exile for Cedras, Carter went so far as to say, "It's a serious violation of inherent human rights for a citizen to be forced into exile." But then, he always could defend his sellouts as the moral equivalents of victory.

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By Alexander Cockburn

Source: Nation, 10/10/94, Vol. 259 Issue 11, p371, 2/3p.
Item Number: 9410037514
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Magazine: Economist, October 8, 1994
Section: FINANCE

THE FIGHT FOR THE FUND

Dateline: MADRID

Cocktail parties rather than controversy usually mark the annual meetings of the World Bank and the International Monetary Fund. In Madrid this year things were different

A FURIOUS row between industrialised and developing countries over proposals to raise world liquidity and give more financial assistance to ex-communist countries soured the 50th anniversary gathering of the World Bank and the IMF. For the first time, a united block of developing countries rejected proposals put forward by the G7 group of industrialised countries (America, Britain, Canada, France, Germany, Italy and Japan). Some participants said the fight had opened a new north-south divide. Others mused whether there was any future for the IMF. Reality is more banal: the meeting was a diplomatic disaster that can probably be sorted out once tempers cool.

The fight centred on arcana. The basic disagreement was whether to boost global liquidity through a general allocation of Special Drawing Rights (SDRs). Introduced in the late 1960s when people believed the world suffered from a liquidity shortage, these are an artificial asset that the IMF can allocate to its member countries.

The best analogy is that of a global overdraft facility. Countries short of liquidity can ask the IMF to swap some of their SDRs for a normally traded currency such as the dollar. As with an overdraft, the debtor pays interest on these dollars, but can use them to pay for imports. Until the dollars are paid back, America holds a higher proportion of its reserves in the form of SDRs. The last SDRs were issued in 1981. Their role in the international economy is now minor: they make up little more than 2% of global reserves excluding gold. But the principle remains that new SDRs can be allocated when there is seen to be a need for liquidity.

The IMF's managing director, Michel Camdessus, believes that this is such a time. In recent months he has been pushing for a new allocation of 36 billion SDRs ($52.6 billion). He gives two arguments. One is that world demand for reserves will rise by about 400 billion SDRs over the next five years as emerging economies increase their imports. The other is that the 37 countries which have joined the IMF since 1981 have no SDRs, and deserve some out of fairness.

Many countries disagree with him. Germany, in particular, is adamant that no global need for additional liquidity exists. Its officials think that issuing SDRs would result only in higher inflation. Other industrialised countries feel the same, while accepting the fairness argument for a one-off allocation to new members. After much unseemly haggling in Madrid, the G7 agreed on a compromise that would allow an allocation to the tune of 16 billion SDRs in total, but spread among all members; technically, this would not be a global allocation.

In the IMF's policy-making meeting, the developing countries, led by Brazil and India and egged on by Mr Camdessus, held out for a global

allocation. As part of the spat they also refused to back a proposal to extend the so-called Systemic Transformation Facility (STF), a temporary route for financing ex-communist countries, which is due to be closed in December.

The most worrying short-run consequence is that former communist countries will get less of the cash they urgently need. They will receive no SDRs, although under the G7 plan the former Soviet Union would have received around 2.4 billion SDRs, and under Mr Camdessus's plan somewhat more. Worse, the non-renewal of the STF could mean a loss of $2 billion for Russia alone. These countries have huge financing needs, and reform programmes are unlikely to succeed without substantial outside help. Using the IMF was a cheap way for western countries to provide this.

SDR wars

The larger issues raised by the fight are ones of principle and precedent. Neither the case for nor the case against an SDR allocation has much real economic merit. Mr Camdessus's claim that there is a global need for new reserves is difficult to justify. Most of the world's bigger economies are building up reserves: in industrialised countries these rose by 4% last year, and in emerging-market economies by 16%. In an environment of reasonably free capital flows it is nonsense to say that the world lacks liquidity. The problem is one of dispersal rather than shortage.

Where Mr Camdessus is right is that some countries--particularly poor ones with little access to capital markets--have small reserves: more than a fifth of the countries in transition have reserves which cover less than a month's worth of imports. An SDR allocation would help them to buy more imports more cheaply. And it is hard to believe that 36 billion SDRs would fuel world inflation. The amount is simply too small. Moreover, since each country's share of SDRs depends on the size of its economy, most would have been allocated to the big industrialised countries which are least likely to use them.

There is a deeper issue, however. Mr Camdessus wants to reinvigorate the SDR as a global asset by gradually increasing its share of world reserves. This would, of course, also strengthen the role of the IMF--which is precisely what his opponents, particularly the Bundesbank, are worried about. Creating SDRs too often could indeed be inflationary, and would imply an increased role for a monetary asset not directly controlled by individual central banks. Even a hint of either of these outcomes is too much for Hans Tietmeyer, the Bundesbank's president. For him, the IMF's job should be to lend money to poor countries under strict conditions, not meddle with global monetary management.

Whether this fracas permanently weakens the IMF depends on how much weight both sides place on the issue of principle. If no one budges, the institution could be reduced to impotence. And it may be that developing countries are as concerned as Mr Camdessus about the principle of the SDR. More likely, though, the real reasons for their revolt lie elsewhere.

First, older developing countries resent the IMF's evident fondness for ex-communist states (largely at the G7's prompting). They see the special money going to these economies as help denied to them, even though they would gain as much as anyone from stability in these

countries. To the extent that the two camps compete for resources, this division may continue.

Second, developing countries are fed up with what they see as G7 bullying. At Madrid they wanted to show that a G7 consensus would not automatically translate into IMF policy. The G7 may well be the most powerful economic show in town, but it should not ignore the others.

So what are the lessons? Assertive behaviour by an increasingly rich and powerful developing world will make managing international institutions more difficult. It will also demand a more considered appraisal of Mr Camdessus's role. How far can the head of an international institution stray from the views of its major shareholders? The G7 felt that Mr Camdessus was siding too obviously with developing countries. He would argue that he was simply backing a proposal that was right for the institution. There is always a fine line between leading and seeking a consensus, and Mr Camdessus's attempt to lead has failed.

If he learns from this, the clouds will probably blow away. A deal will be struck that gives the old developing countries enough to persuade them to agree on more money for the former Soviet states, and eases German worries about SDRs. The Madrid meeting may then be remembered as the one at which the complexity of the post-cold-war financial order first became clear.

CARTOON

Source: Economist, 10/8/94, Vol. 333 Issue 7884, p85, 2p, 1 cartoon.
Item Number: 9411097552

Magazine: Technology Review, October, 1994
Section: Reviews

Books
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REINVENTING THE BANK

Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development, by Bruce Rich, Beacon Press, $29

This year, the institutions created at Bretton Woods to jump-start the global postwar economy turn 50. Stock-taking is inevitable. The International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (IMF) have together been a major force for economic growth and modernization in developing countries. "The Bank"--insiders' Kafkaesque moniker for both institutions--has taken credit for boosting life expectancy, income levels, and public health standards by supporting construction of the physical and institutional infrastructure that can enhance international trade. And amid the recent debt crisis, the Bank has helped curb hyperinflation in some borrowing nations. Arguably, its new loans to Eastern Europe, the former Soviet Union, and other disintegrating economies work the ground for democracy. Yet in Mortgaging the Earth, lawyer Bruce Rich of the Environmental Defense Fund says that Bank failures outweigh accomplishments, especially if viewed from ground level.

Rich shows how an institution created in the early aftermath of World War II to further world peace and freedom by nurturing trade-based prosperity took on the colors of its early presidents. Notably, John J. McCloy made the Bank a top-notch lending and borrowing institution by winning Wall Street's confidence, and Eugene Black and George Woods involved the Bank in large infrastructure projects and export-crop agriculture. But "more than any of his predecessors or successors," says Rich, "Robert McNamara made the Bank into what it is today," carrying centralized planning and control of information to new heights, upping pressure on staff to meet ever higher lending targets, and banking on the elite in developing nations to watch out for the poor, the powerless, and the environment.

Rich contends that the legacy of the McNamara years is a free-standing colossus, answerable only to its own laws, morally adrift, and indifferent to the havoc its policies and loans visit on poor people and the natural world. In its drive to invest, says Rich, the World Bank has pushed loans on poor countries that couldn't absorb large blocks of capital effectively, and then used the IMF, which makes short-term loans to cover balance-of-payments deficits, to bully those facing default into adopting austerity measures. The result has been cuts in social services and at least temporary unemployment. The pressure to repay loans has also forced debtor governments to sell off natural resources to raise foreign exchange.

If Rich is right, in developing countries the road to hell is paved with grand plans and expensive infrastructure. He describes scores of Bank-funded dams, roads, irrigation works, forestry and agriculture schemes, and energy facilities that didn't deliver as promised but did trigger deforestation, displace native peoples, drive land speculation, spark

rural violence, set the stage for epidemics, and unleash other ills. Three of the monumental projects Rich discusses in detail--the Polonoreoeste frontier-farming scheme in Brazil, Indonesia's island-to-island "transmigration" program, and the Sardar Sarovar Dam in India--are particularly instructive re-minders of how Bank investments can set Faustian mischief in motion.

Many of these megaprojects have been pilloried by the media, environmental activists, and church-based critics of development in recent years, and at least in the Brazilian case the World Bank itself long ago publicly owned up to its mistakes. But Rich's belated take deserves notice because he draws heavily on internal Bank documents.

End-of-the-Line Thinking

Rich maintains that in the short term the best strategy for reinventing the Bank is to lighten the debt burden and trade barriers that now enslave so many Bank loan recipients, and then to decrease Bank funding and spread some of the saved funds around to smaller, more flexible institutions. For models, he points to the U.S.-based Appropriate Technology International and the Inter-American Foundation, which give technical assistance and relatively modest grants to communities and nongovernmental groups in developing nations.

Yet even though Rich doubts that the Bank will take these reformist steps, he proposes far more radical ones for the long term. He seconds other environmentalists' call for a permanent "independent appeals commission" that would channel complaints about environmental and human abuses to Bank directors. He thinks the Bank's charter should be rewritten so that the institution is hardwired to promote social equity, human rights, and democracy along with economic welfare. And he wants the Bank to spend $10 billion of its $18.5 billion in liquid reserves on grants to the poorest debt-strapped countries. If it can't or won't, says Rich, its funders should withdraw support and force it out of business.

End-of-the-line thinking like this underscores the urgency of the reforms called for in Mortgaging the Earth. And indeed, those reforms are both practical and long overdue. Many besides Rich who monitor the Bank in Washington and in the field seem fed up. Also, as Rich points out, nongovernmental groups around the world are coalescing to challenge Bank policies and projects.

On the other hand, Rich's antiestablishment sentiments may in 50 years seem almost as naive as the simple idea of progress without a price does now. Given that some environmental issues affect several communities or even several nations--and given that the Bank has long set the tone and pace of development in much of the world--trying to make this institution a force for positive change seems wiser than trying to divest it of its easily abused power.

Another problem is that though Rich is a tireless researcher and astute observer, he is not a practiced historian. The book's long chapter on the rise of the ideas of progress and development bumps along from one great man to the next, and the narrative turns disappointingly anecdotal when it reaches the twentieth century. Nor does Rich seem interested in playing fair by journalistic standards. Stabs at stating the Bank's side of the story total no more than 10 scattered and mostly rhetorical paragraphs. Reciting more of the conventional wisdom about the Bank's self-proclaimed successes wouldn't have hurt the author's David vs. Goliath case.

More important, dissent and self-criticism within the Bank deserve more attention than Rich gives them. He touts the findings of the so-called Morse Commission, which in 1991 found the Bank's environmental performance on the controversial Sardar Sarovar project "grossly delinquent," but doesn't make enough of the fact that the grilling was an inside job, initiated by then outgoing president Barber Conable. Similarly, the Wapenhans Report--which showed that by 1991, 37.5 percent of Bank loans failed to meet the conditions placed on them--revealed both egregious abuses of the public trust and at least some willingness within the Bank to come clean.

Still, Rich's game is not academics or journalism but politics. In this arena, Mortgaging the Earth frames a vitally important debate and moves it out of the small community of World Bank employees, associates, funders, and critics and into the larger one where development projects too often uproot communities and siphon away natural resources while demoralizing poverty lives on. Already, the dust Rich has kicked up has sifted into the debate on how Congress should handle the $850 million in U.S. funds overdue to the Bank and, more generally, on what the U.S. role as a Bank director should be in setting this powerful institution's lending agenda and priorities.

PHOTO: Drawing of a bank teller wearing blinders

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by Kathleen Courrier

KATHLEEN COURRIER is the director of the publishing program at the World Resources Institute, based in Washington, D.C.

Source: Technology Review, Oct94, Vol. 97 Issue 7, p68, 3p, 1c.
Item Number: 9409281122
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Magazine: Fortune, September 5, 1994
Section: FORTUNE FORECAST

ECONOMIC INTELLIGENCE

ANOTHER CAPITAL SPENDING BOOM

* While most analysts expect U.S. business outlays for industrial gear to ease back to a single-digit growth rate next year, there's another capital spending boom just getting under way -- good news for U.S. capital goods suppliers. The World Bank estimates that Asian, Latin American, and other developing nations will be spending $200 billion annually on infrastructure in the years just ahead. Money like that is a big Pavlovian buzzer for U.S. manufacturers of equipment used to build that infrastructure.

The biggest demand right now is for power generation, says Smith Barney analyst Tobias M. Levkovich. By a General Electric estimate, worldwide orders for generating capacity over the next decade will come to 1,000 gigawatts -- roughly equal to 1.5 times the capacity of the U.S. -- with the lion's share going to developing nations. Each one of those gigawatts costs about $1 billion to install. Says Levkovich: "Who's going to build all this? A rising tide lifts all boats, and we've got some pretty good boats." He figures the most buoyant are generating-gear makers like GE and Westinghouse and construction equipment maker Caterpillar.

GRAPH: STILL NOT WORKING: Long-term unemployment usually plummets as expansions take hold. But cost cutting and productivity drives now keep it aloft.

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By James Aley

Source: Fortune, 9/5/94, Vol. 130 Issue 5, p25, 1/3p, 1 graph.
Item Number: 9408187533
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Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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TRANSPORT RECONSTRUCTION

Representatives from Peru and the World Bank signed an agreement on June 3, 1994, to finance $150 million for a six-year transportation rehabilitation project. The main goals of the $242 million project, cofinanced by the governments of Peru and Germany, are to repair and maintain roads, bridges, and Lima's airport runways. The project also seeks to promote the privatization of the national railroad network.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p28, 1/9p.
Item Number: 9409231921

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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ASSISTANCE FOR PETROLEUM SECTOR

To support the efficiency and long-term financial health of Kazakhstan's petroleum sector, the government will use a $15.7 million World Bank technical assistance loan approved on June 2, 1994. In part, the project will help Kazakhstan form policies to encourage private sector participation, promote foreign investment, and improve management and training in its oil and natural gas industries.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/9p.
Item Number: 9409231932

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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RUSSIAN BANKING

Commercial banks in Russia numbered less than 100 in 1988, but almost 2,000 new ones have since opened up to serve the country's fledgling private sector. Although the new banks boast some of Russia's best financial and business talent and up to 100 banks are evolving into strong institutions, the sector still needs to improve its management and train large numbers of staff.

To that end, the Russian government, with help from a $200 million World Bank loan and other funding, is moving to improve private banking services, promote bank stability, and streamline resource mobilization and credit allocation.

The project will target 30 to 40 of Russia's best banks and help them build up their capacity as a competent core for the sector. In turn, these banks will set higher standards and create a dynamic for improving banking across the country. The core group will also provide the basis for a private clearing system at the federal level and will qualify to handle World Bank and other international lines of credit.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/6p.
Item Number: 9409231935

Magazine: Presidents & Prime Ministers, September, 1994
Section: Economy & Finance

News Briefs
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AID FOR TIMBER INDUSTRY

To help make Belarus' forestry more efficient, environmentally sound, and able to play a leading economic role, the World Bank approved a $41.9 million loan on May 26, 1994, to reorganize the sector.

Outdated planting and harvesting practices have curbed productivity and weakened the health of forests. About 20 percent of timberlands are tainted by fallout from the 1986 Chernobyl nuclear accident. Also, the breakup of the former Soviet Union has disrupted old markets and sources of sawlogs and spare parts.

Forests have been central to the culture and economy of Belarus for centuries as a source of timber, game, food, and medicine. Economic reforms in the former Soviet republic and its neighbors are expected to spur the demand for wood products and raise the importance of the vast woodlands even further.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p29, 1/6p.
Item Number: 9409231937

Magazine: Presidents & Prime Ministers, September, 1994
Section: Environment

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RESTORING FORESTS

China is launching a $356 million plan to replace some of its forest cover, protect environmentally important woodlands and watersheds, and boost the productivity of commercial forests. To help fund the program, the International Development Association, an affiliate of the World Bank, approved a $200 million credit on June 7, 1994.

"This project, which is one of the Bank's largest afforestation efforts worldwide, will increase the country's forest area, make commercial forests more productive, and preserve biological resources," said Rick Scobey, a senior economist in the Bank's China region and task manager for the project. "It's an effective model of how the Bank can help countries improve forest technologies."

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p36, 1/6p.
Item Number: 9409232027

Magazine: Presidents & Prime Ministers, September, 1994
Section: Environment

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CLEANUP INITIATIVES

Rapid industrial development along Mexico's northern border with the United States has brought some unwelcome consequences for the region's fragile ecology: health threatening pollution and serious environmental degradation. On June 9, 1994, the World Bank approved a package of three loans totaling $918 million to help Mexico carry out its part of the northern border cleanup and solve some of its most pressing needs nationwide.

The three loans will help finance the Northern Border Environment Project, improve water and sanitation services nationwide, and modernize solid-waste services in medium-sized cities.

"Mexicans, like their neighbors to the north, are acutely aware of the serious environmental problems that urgently need attention," said David de Ferranti, chief of the Bank's Mexico division. "People want action, and the Mexican government is committed to rapid and effective progress in upgrading environmental enforcement and reversing damage. These three new projects will be a major building block in helping them do that."

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p36, 1/5p.
Item Number: 9409232030

Magazine: Presidents & Prime Ministers, September, 1994
Section: Health

News Briefs
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CAMPAIGN TO RESTORE SIGHT

India has launched a massive campaign to restore sight to some eight million blind people, one-fifth of the world's blind. The campaign to remove cataracts -- a clouding of the eye that obstructs sight -- is being backed by a $117 million credit from the International Development Association, an affiliate of the World Bank. "This is the boldest effort yet to reduce blindness in a developing country," said Maria Donoso Clark, the Bank's task manager for the project.

The country's prevalence of blindness is 1.3 per 1,000, one of the highest in the world. To help reduce blindness to a target of 0.3 per 1,000 within six years, more than eight million Indians will undergo cataract surgery in dozens of project-funded treatment centers in seven states.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p39, 1/9p.
Item Number: 9409232040

Magazine: Presidents & Prime Ministers, September, 1994
Section: Food & Agriculture

News Briefs
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FRAGILE WATER SUPPLY

Algeria is planning a comprehensive $170 million restructuring of its water and sewer works. The program, which will decentralize management of urban water utilities and rehabilitate existing water and sewage infrastructure, is backed by a $110 million World Bank loan approved on June 2, 1994. The repairs will cut pollution and let Algeria make the most of its limited water for years to come.

In the north, where 90 percent of the people live, about 769 cubic meters of water are available per person each year, compared to neighboring Morocco's 1,200 cubic meters. With continuing economic growth and plans for expanded, irrigation-based agriculture, Algeria's water systems will have to become more productive and more reliable. In addition, its sanitation networks, which let waste-water pass untreated into rivers and the Mediterranean Sea, must be better able to serve a growing population.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p44, 1/6p.
Item Number: 9409232093

Magazine: Presidents & Prime Ministers, September, 1994
Section: Food & Agriculture

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CUTS THREATEN FOOD SUPPLY

Food supply will fall short of world food needs within a few decades unless crop-boosting research is funded now, according to an independent panel convened to examine the recent spending cuts in international agricultural research.

In a report to World Bank President Lewis Preston, the Action Group on Food Security predicts that cutting research on high-yield farming while the world population increases will cause widespread hunger in the fairly near future. The group predicts that the demand for food in developing countries will more than double by 2025, and then rise at least another 50 percent by 2050.

"Without stronger support for international agricultural research, a growing number of developing countries -- and a growing number of poor within those countries -- may face increasingly serious food shortages as early as the first decades of the next century, and these problems will certainly occur in later decades," says the report, entitled Feeding 10 Billion People in 2050. "The volume of food produced must increase enormously to meet demands in the next century."

Copies of the report may be obtained from the Committee on Agricultural Sustainability for Developing Countries, 1709 New York Avenue NW, Suite 700, Washington, DC 20006, USA; telephone (202) 662-2546.

Source: Presidents & Prime Ministers, Sep/Oct94, Vol. 3 Issue 5, p44, 1/4p.
Item Number: 9409232095

Magazine: Newsweek, August 22, 1994
Section: Periscope

Vital Stats
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POORER AND POORER

The world's population is expected to double over the next century, with the poorest accounting for most of the rise.

World Population

Annual increase by income

High	$ 8,356 and up
Upper-middle	2,696 - 8,355
Lower-middle	676 - 2,695
Low	675 - and less

GRAPH: World population; annual increase by income

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By Gregory Cerio and Lucy Howard with bureau reports

Source: Newsweek, 8/22/94, Vol. 124 Issue 8, p6, 1/9p, 1 chart.
Item Number: 9408167579
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Magazine: Time, August 22, 1994

ECONOMICS
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THE SINS OF A SAINTED BANK

Critics say the once admired World Bank bullies the poor, hurts the environment and hoards its money

How can a bank designed to do good works, and not even make a profit, earn such a bad reputation? The World Bank, which is 50 years old this year, ought to be celebrating its career as the Mother Teresa of global finance. All told, the bank has extended $300 billion in loans to pay for 6,000 projects ranging from Japan's bullet train to a cataract-surgery clinic in India that will serve 11 million people. Instead of inspiring congratulations, however, the institution's golden anniversary has drawn damning accusations that the bank has damaged the environment, bolstered authoritarian regimes and favored rich people over poor ones. The criticism is getting noisy and forceful. A loose coalition of several hundred groups plans to send thousands of demonstrators to the bank's annual summit in Madrid in October. And last week the U.S. Senate voted to make a $1.2 billion contribution to the World Bank contingent on the bank's proving its loans make economic sense and do not deface the landscape.

The bank, which was launched in the peaceful afterglow of World War II as the basis for an orderly and wise international economic system, is financed by contributions from the wealthiest of its 177 shareholder nations. Yet the institution now faces a cacophony of grievances. Among them:

* In the past fiscal year the bank distributed nearly $16 billion but took in nearly $20 billion in repayments and interest from borrowers. As a result, say some critics, the bank is sitting on capital instead of funneling it to poor countries.

* Loans too often finance huge Third World construction projects, notably large dams, which drastically change the environment and force millions of people to relocate.

* The fiscal and monetary prescriptions the bank imposes on borrowers have thrown the economies of some developing countries into turmoil, sending the prices of necessities beyond the reach of the poor.

* The bank is badly managed, and its 6,000 employees are overpaid (average compensation: $123,000 annually).

* The elaborate renovation by the bank of its Washington headquarters, which has added 1.5 million sq. ft. of new space, will cost $100 million more than was budgeted.

These assaults on the World Bank, which have surfaced in several academic books and in speeches by congressional leaders, have pushed President Lewis Preston, a former chairman of the J.P. Morgan banking company, to initiate what may become historic changes at the bank. In 1992 he launched an overhaul of the $104 billion loan portfolio and a year later hired New York public relations whiz Herb Schmertz to revamp the institution's image. Schmertz turned in a confidential report several months ago that acknowledged some of the most serious accusations against the bank and said there exists ''a significant gap'' between what the bank says and what it does.

Some of the strongest criticism of the bank focuses on the nonprofit institution's idle surplus of capital. Countries have been paying back their debts plus interest at a faster rate than the bank has issued new loans. In the past fiscal year, it parceled out nearly $16 billion in support of 1,900 projects, but it also collected nearly $20 billion in repayments and other charges from borrowers, many of them poor. That has left an excess of $4 billion, most of which the bank keeps in short-term interest-bearing investments. Over the past four years, Brazil, for example, has paid the bank $5.3 billion more than it has received. Of course, this kind of gap is an inevitable consequence of offering interest-bearing loans that must eventually be repaid. But critics insist that the current $4 billion surplus is excessive for a bank in the business of giving weak nations a hand.

Critics are equally scornful of the imposition of so-called structural-adjustment policies, part of a strategy followed by the bank and the International Monetary Fund to get bankrupt or poorly run countries back on their feet. In exchange for approving a loan, the IMF often demands that countries take such steps as privatizing state-owned industries, devaluing currency, and living by austerity and export-oriented measures. But governments frequently pay for such programs by cutting back on subsidies for food and other basics crucial to the poor.

A currency devaluation promoted by the bank and the IMF in Francophone West Africa this year provides a striking example of the problem. About 80 million people in 14 African countries awoke one morning last January to find that basic goods had doubled in price; the decision provoked protest riots in Senegal. The IMF and the World Bank defended the policy, saying the overvalued currency was keeping the nations' agricultural and industrial exports from being competitive abroad. But ''very often the result is falling wages, rising income inequality and deepening poverty,'' says Douglas Hellinger, managing director of the Development Group for Alternative Policies, a nonprofit advocacy group.

Another hardship for which the bank is being blamed is large-scale involuntary resettlement to make way for bank-financed dams and other construction projects. An internal investigation by the World Bank made public this spring found bank enterprises responsible for creating 2.5 million ''development refugees'' between 1986 and 1993. An additional 600,000 people, mostly in India and China, could be affected between 1994 and 1997.

A case in point was a resettlement program involving the Sardar Sarovar Dam, part of an enormous project that envisions building 3,000 large and small dams on the Narmada River in western India. The scheme sparked outrage when it was disclosed that 200,000 people would be displaced by one $3.5 billion dam. After years of protest by human-rights and environmental groups, the bank commissioned an independent investigation of the Narmada proposals in 1992. The resulting report castigated the bank and India's government for lack of planning. In the end the bank gave New Delhi six months to take corrective measures. India refused and in March 1993 turned down further bank funding for the project.

Weak internal management has led to other embarrassments for the bank.

The proportion of its loans considered to be ''major problems'' because borrowers have, for instance, failed to cut budget deficits or subsidies rose from 11% in 1981 to 20% by 1991. A quarter of all agriculture and irrigation projects were in trouble, as were roughly a third of those meant to fight poverty. A report commissioned by the bank decried an ''approval culture'' in which employees responded to pressure from management to make loans without paying sufficient attention to the quality of the projects involved. ''Every guy in this bank thought he was going to get promoted based just on the number of loans he could get approved,'' says Preston. ''It was a crazy way to run a railroad.''

Preston, who ordered up most of the internal studies, has taken some modest first steps to correct the problems. On the loan front, he has increased the number of staff members dealing with overseeing projects 40%. He has also created an independent panel to air and evaluate complaints, and he has established an information center where documents describing bank-financed projects are made public in an effort to boost credibility.

For all its faults, even some critics concede, the bank remains a relatively efficient instrument for distributing an increasingly limited supply of development-aid money. A $2 billion contribution, for instance, gives the institution enough collateral to raise about $45 billion on world capital markets and then offer that money as loans. Often this means the bank is at the center of some of the world's most breathtaking changes. In May it unveiled the first part of an innovative $2.4 billion loan program to spur economic growth in the West Bank and Gaza Strip. Last year it offered $610 million to restore production in Russia's oil fields and $450 million to assist private-sector companies in Poland. But without additional reform, major donors may become even more reluctant than they are now to continue funding those missionary good works.

GRAPH: BANK ''PROFITEERING''?

PHOTO: DISLOCATION: India's Narmada River dam system, partly funded by the World Bank, could displace many (BALDY -- SYGMA)

PHOTO: RESETTLEMENT: Criticism of temporary centers like this one in Indonesia has forced the bank to scrutinize its methods (ROBIN MOYER FOR TIME)

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BY ADAM ZAGORIN/WASHINGTON With reporting by Meenakshi Ganguly/New Delhi and Ian McCluskey/Brasilia

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Source: Time, 8/22/94, Vol. 144 Issue 8, p54, 2p, 1 graph, 2c.
Item Number: 9408167688
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Magazine: Economist, August 20, 1994
Section: BUSINESS

Environmental business in Asia
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WHERE THERE'S MUCK. . .

Dateline: BANGKOK

A STROLL along the banks of one of Bangkok's famous canals is not always a pleasant experience. Sickening smells rise from the water; rotting rubbish floats on the surface; the detritus of squatter camps litters the surrounding area; and the air is full of noise and car fumes.

The state of the canals is only one sign of Bangkok's deteriorating environment, as rapid growth expands the number of cars and factories and sucks ever more people into the city. The evidence of the senses is confirmed by the figures. The amount of lead in the city's air is three times the maximum level judged safe in America. At the moment only 70% of Bangkok's rubbish goes into a tip; the rest is dumped in streets and waterways. More could follow: the 6,000 tonnes of solid waste that Bangkok generates every day could rise to 11,000 tonnes by 2000.

This sort of bad news is good news for businesses that peddle environmental services. The International Finance Corporation, the private-sector arm of the World Bank, has estimated that Thailand will be spending $1.5 billion a year on environmental services by 2000. Paul Clements-Hunt, head of environmental research at SGS Thailand, part of a Swiss group, says that the Thai market for environmental services--which barely existed a few years ago--is now growing by 20-30% a year.

The Bangkok Metropolitan Authority now wants to privatise its solid-waste management. A consortium bringing together Ban Chang, a local industrial-estate development company, and Brown-Ferris International, a giant American waste-manager, is favourite to win the contract. Another consortium dominated by Waste Management International, also an American firm, has already reached an agreement with Thailand's industry ministry to process 1,000 tonnes of industrial waste a day by the end of 1996, for an undisclosed sum. A third group, led by Britain's North West Water, recently signed a 6.4 billion baht ($256m) contract to build a central plant to treat Bangkok's waste water.

Thailand's problems--and the business opportunities they create--are found throughout booming East Asia. To judge by the pervasive dirt, Taiwan could soon become Asia's biggest single market outside Japan for environmental services. Some 40% of its municipal rubbish is dumped in rivers or unregulated landfills. The Taiwanese government has set aside $12 billion for pollution control between 1992 and 1997. Malaysia also plans to clean up, although more slowly. ERM, a British environmental consultancy, thinks that the Malaysian market for environmental services will be worth $432m this year. It will grow if the government pursues plans to privatise sewerage and crack down on polluters.

The market leaders in environmental services tend to be western companies. So far the environmental consultants are doing best, while suppliers of equipment and infrastructure often find it frustratingly hard to pin down contracts. Chandran Nair, a consultant for ERM, points out that soon after Taiwan announced its ambitious spending plans, Taipei was flooded by westerners touting for business. Two years later, many have given up--although big firms such as Waste Management International and Bechtel are still around. They need plenty of patience. Camp, Dresser and McKee, an American company, designed a sewer system for Taipei in 1970--but it is only now constructing it.

The slow pace at which contracts are awarded reflects the institutional weakness of environmental-protection agencies in Asia. Announcing grandiose plans to protect the environment is one thing. Offending industrial interests and imposing higher charges on polluters is another. If the Ban Chang-BFI consortium is to profit from managing solid waste in Bangkok, the charges for rubbish collection may have to quadruple. A weak Thai government will find that hard to push through.

On the other hand, doing nothing also carries a price. As Mr Clements-Hunt of SGS points out, the Bangkok authorities know that they will be faced with "serious public-health concerns" unless they do something soon about sewerage and municipal waste. Significantly, many of the big Sino-Thai conglomerates, which usually know best which way the wind is blowing, are busily sniffing out western joint-venture partners for environmental projects. The smelliest problems are likely to be dealt with first. Dirty water is top priority. Rubbish collection is likely to come next, with hazardous industrial-waste lower down the list--and air quality last of all. Bangkok's canals may smell sweeter soon, but it will be a while before the air is fit to breathe.

PHOTO: A fortune in those waters

Source: Economist, 8/20/94, Vol. 332 Issue 7877, p53, 2p, 1bw.
Item Number: 9408237618

Magazine: Nation, July 25, 1994
Section: EDITORIALS

ARAFAT'S RETURN

Dateline: Gaza Town

When Yasir Arafat set foot on Palestinian soil for the first time in twenty-seven years on July 1, he put his final seal of approval on what for many Palestinians is the desperate gamble of limited autonomy in Gaza and Jericho. If Palestinians turned out in thousands rather than hundreds of thousands, it was not just because many think the Oslobrokered peace deal stacks the odds heavily against them; it was also because of the poignancy of the moment. "I am happy Arafat is returning," said one old woman, "but when shall we return?" She comes from Maghdal, now the Israeli city of Ashkelon, and was driven off her land when Israel was established, in 1948. For her--and for every Palestinian refugee-Arafat's return, even if it leads to a Palestinian state in Gaza, the West Bank and East Jerusalem, is predicated on the abandonment of her right to return.

On a more mundane level, Arafat's whirlwind stay in Gaza and Jericho left Palestinians mulling over the political meaning of a return that posed as many questions as answers.

In Gaza Town, Arafat addressed a crowd of about 70,000 from the balcony of the former headquarters of the Israeli army. Mindful of Gazans' increasingly critical attitude toward his leadership and of the strength in the strip of the Islamist Hamas movement, he emphasized the fate of the 5,000 or so Palestinian prisoners still in Israeli jails. "We will not bargain over this issue," he promised, singling out the imprisoned Hamas leader, Sheik Ahmad Yassin, "the sheik of us all."

In Jericho, Arafat said that the city was but "the first step" toward eventual reclamation of all the occupied territories. Tellingly, however, he avoided even the suggestion that Jerusalem might be the putative capital of a Palestinian state. "I say to the Israeli public that we recognize their holy sites in Jerusalem and they must also recognize our Christian and Muslim sites."

All this got a decidedly mixed press among Palestinians. The speech in Gaza "wasn't up to the historical moment," said one onlooker. "He didn't say a word about the nature of our regime," said another, "nor what our rights will be in 'the autonomy.' The whole thing smacked of existing Arab governments, and Palestinians have suffered more than most from the absence of democracy in Arab society."

In the Jabalya refugee camp--the largest in the occupied territories, with more than 60,000 people crammed into a square mile--Arafat was more candid, and the popular reception was the better for it. He saluted the camp as the birthplace of the intifada and openly acknowledged Palestinian misgivings over Oslo. "Many of you here think it's a bad agreement," he told the crowd. "It is a bad agreement, but it's the best we can get in the worst situation." He urged unity, calling on all Palestinian factions to help "lift the burden with me" by participating in the nascent Palestinian Authority, or P.A., the executive council of the autonomy, with twenty-four appointed members. Finally, he lambasted the World Bank for its failure to deliver on financial pledges agreed to at the time of the peace accords. "We did not get rid of military occupation to fall under economic occupation," he said.

Indeed, the P.A.'s looming financial crisis was the main motive behind Arafat's return. At a closed meeting of P.A. members in Gaza, Arafat accused international donors of parsimony. So far, he said, all they have delivered is "one World Bank employee with $10 million. The World Bank is demanding to know our planned budget deficit, but to know that, we have to know our budget first."

It now appears that a deal has been struck in which donors will underwrite the P.A.'s deficit until the end of this year, but the problem is less the amount of aid than how it is spent. The World Bank wants the money to go to specific projects to insure accountability; Arafat wants it paid into "operational funds" to enable the P.L.O. to set its own economic priorities. This, say the donors, contravenes World Bank standards of "transparency." For now, their conflict with Arafat has been deferred rather than resolved.

Elsewhere during his stay, the P.L.O. leader opened factories, held impromptu press conferences and made lightning forays into Gaza's refugee camps, causing major headaches for his 125-strong "personal guard," which accompanied him everywhere. He also chaired myriad P.L.O. meetings, making decisions on everything from the future role of the Palestinian women's movement to composition of the P.A. All this was good public relations, but it also underlined Palestinian apprehensions about how such an excessive concentration of power in the hands of one man can possibly be reconciled with Arafat's commitment to build a "democratic state" grounded in "equality and nondiscrimination." Arafat's foremost critic in Gaza--former Palestinian delegation head Haidar Abdel Shafi-while stressing that he "certainly didn't want to get into conflict with Arafat," made his participation in the P.A. dependent on "decisions being taken by consent" and on Arafat "broadening the base of P.L.O. decision-making." On the evidence of Arafat's five days in Gaza and Jericho, it will be a while yet before Abdel Shafi's conditions are fulfilled.

Yet the specter of dictatorship remains farfetched to most Palestinians. What is more likely, says Gazan journalist Bassam Joudeh, is that the P.L.O.--and particularly Arafat's Fatah movement--will become "the party of government," holding on to the crucial economics and security portfolios while offering lesser posts to co-opt dissidents. Certainly Arafat spared no effort trying to lure both the P.L.O. and Islamist opposition on the P.A., leaving twelve of the seats-half the total--vacant for purposes of political brokering.

In essence what Arafat was doing with both the meetings and the proffered olive branches was to stake out the new civil and political terrain of the autonomy as a means of building the largest possible constituency for the hard road ahead. As far as Palestinian Islamists were concerned, it was to no avail. While they have so far hedged on their participation in elections for the autonomy's legislative council-now penciled in for October--they have made it clear that they will have no truck with Arafat's appointed executive. "We will not participate in the P.A. or in anything else related to the Oslo agreement," said Hamas's spokesperson in Gaza, Mahmoud Zahar.

As for the popular restraint over Arafat's long-awaited homecoming, it was less out of apathy than realism--recognition of the monumental tasks that still face Palestinians. In Jabalya, Arafat spelled it out: "Self-rule is our greatest challenge. There will be hardship, there will be hunger and, as always, we can depend on no one but ourselves." In a history punctuated by exile and expulsion, most Palestinians found comfort in the significance of a P.L.O. leader's return to the land of Palestine rather than in any cult of Arafat himself. For them, self-rule marks a start, if not a very auspicious one.

"Getting rid of the occupation was hard," said one Palestinian after Arafat's speech in Jabalya. "But it is a straw in the wind compared with building a state."

GRAHAM USHER

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By GRAHAM USHER

Graham Usher is regular correspondent from the occupied territories for Middle East International.

Source: Nation, 7/25/94 & 8/1/94, Vol. 259 Issue 4, p112, 2p.
Item Number: 9407127558
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Magazine: Economist, July 23, 1994
Section: LEADERS

THOROUGHLY MODERN SISTERS

The World Bank and the IMF should celebrate their 50th birthday by radically rethinking their jobs

IT IS 50 years since the Bretton Woods sisters--the World Bank and the International Monetary Fund--were designed. Both have changed greatly since, but not as much as the world economy. Currencies now float, capital moves (reasonably) freely across borders and economies are linked through trade and investment as never before. Each of these changes brings into question the role of the Fund and the Bank. A rethink is long overdue.

Start with the World Bank. Its aim has been to bridge the gap between world financial markets and creditworthy borrowers in poor countries. Plainly, that gap is shrinking. However, private capital is not yet available to all countries, nor can it readily meet needs (eg, in education and health) where returns to private lenders are uncertain or non-existent. A Bank that concentrates on bridging this (narrowing) gap remains a Bank worth having. To that end, it should continue to lend more through its private-sector arm, the International Finance Corporation. And it should confine its other efforts more strictly to cases of true market failure. This argues for a greater concentration on Africa, and on social and environmental programmes. Overall, lending should be reduced, and the institution itself slimmed down. The Bank's goal is to work itself out of a job--and faster progress towards that goal is needed.

At first sight the Fund's role is even harder to justify. Created to oversee a monetary system based on fixed exchange rates (a system that disappeared more than 20 years ago), it found a new job as a provider of finance for developing and, more recently, ex-communist countries. It offers, among other things, long-term financial support, technical assistance, even subsidised loans: not just a far cry from its original mandate, but also much too close to the functions of the World Bank. Many therefore urge the Fund to return to its original task. They say it should leave development to others and do more to co-ordinate economic policy among industrial countries--even oversee a new semi-fixed exchange-rate system.

All this is bad advice. Rich-country governments neither need nor want the Fund to play such a role. None of them--least of all America, which matters most--is willing to subordinate domestic economic policy to international obligations. Until that changes, the IMF should reduce, not increase, its role in the rich countries. Nothing would be lost: the idea of an annual consultation with every member government, rich or poor, has long been an empty ritual.

Good cop, bad cop

Some conclude that the Fund should be shut down altogether. This is wrong. It is still needed: to influence economic policy in countries that are financially weak, to provide support (with strings attached) to insolvent countries, and to manage the international response to systemic emergencies such as the debt crisis of the 1980s. Private capital markets cannot deal well with any of these challenges. For years to come, the mess left behind by the collapse of communism will make it more important than ever to have a well-run IMF. So instead of shifting the Fund's attention to countries that do not need its money and will not follow its advice, reform should be aimed at improving its ability to help those that do, and that will.

If both sisters are to concentrate on the poorest and most desperate countries, duplication is a danger. If the institutions were being designed now, the architects would surely have called for one, not two. Should they therefore be merged?

A merger would prompt the radical shake-up the institutions need. Costs could be cut substantially. And to eliminate a big bureaucracy (especially an international one) would be a triumph of sorts. But a less dramatic approach--namely, to make the division of labour between the two existing institutions much sharper--could do as much good. And in one way, at least, it makes more sense. The jobs of financial policeman and development lender are conceptually distinct. There is merit in making them even more so. With one institution (as now with two whose tasks are blurred), the development role could too easily cloud the policeman's judgment.

Merger or no merger, reform can and must be radical. Both institutions should be obliged to be less secretive and more accountable, to share their technical resources and to manage with far fewer staff. As a first step, to be taken without delay, their official sponsors--the world's governments--should set demanding targets under each of these headings. The Bank and the Fund can hardly complain. As they have been telling their borrowers for years, conditionality is good for you.

ILLUSTRATION

Source: Economist, 7/23/94, Vol. 332 Issue 7873, p18, 2p, 1bw.
Item Number: 9407257922

Magazine: Nation, July 18, 1994
Section: BOOKS & THE ARTS

POTEMKIN ENVIRONMENTALISM

MORTGAGING THE EARTH: The World Bank, Environmental Impoverishment, and the Crisis of Development. By Bruce Rich. Beacon Press. 376 pp. $29.

The World Bank celebrates its fiftieth anniversary this year, though from a certain point of view, more popular among environmentalists than among bankers, there's not much to celebrate. Bruce Rich's new, unofficial history of the bank, Mortgaging the Earth, released to coincide with the bank's birthday, gives a number of cases-in-point. By the late 1980s, for example, the bank's multimillion-dollar attempts to "develop" northwestern Brazil had punched a hole in the Amazon rain forest so large that even NASA took notice. Between 1978 and 1988, the forest in the Rondonia region around Polonoroeste was reduced by an area the size of Massachusetts each year, the most rapid man-made change in the earth's surface visible from space.

As Rich explains it, the World Bank-officially the International Bank for Reconstruction and Development--had financed a massive road-building and rural-settlement scheme in Polonoroeste, but it drastically underestimated the number of settlers it could accommodate, just as it drastically overestimated the fertility of the marginal forest lands it meant to give them. Before long, desperate, crowded farmers were clearing the local rain forest in search of arable soil, selling their clearings to cattle ranchers for a steal and dying of malaria in large numbers. The bank's belated response to the malaria epidemic, in 1989, was a $99 million "environmental" loan, which, among other things, went to buy 3,000 tons of DDT.

Environmental concerns are relatively new to the World Bank. In 1987, after a long summer of U.S. Congressional inquiry into its Brazilian disasters, the bank suddenly got greener. It expanded its environmental staff and began to fund "free-standing" conservation projects. By 1990, according to The World Bank and the Environment--the bank's newest series of reports on itself--50 percent of all bank projects had some "significant environmental component." Bruce Rich had a hand in these changes; as head of the Environmental Defense Fund's international division, he helped orchestrate many of the behind-the-scenes meetings and some of the fact-finding that successfully brought Congressional pressure to bear on the bank. Nevertheless, in Mortgaging the Earth, Rich concludes that the bank's reforms have amounted to little more than damage control; its basic philosophy, and the institutional constraints that determine it, remain intact.

Conventional wisdom at the bank has it that developing countries face a trade-off between economic growth and environmental degradation. If growth continues at present rates, especially in India and China, energy production will have to increase; the bank predicts that in forty years there will be a tenfold increase in pollution due to fossil fuel-generated electric power. Sustained growth will generate higher levels of income, however, which can be used to clean up the pollution--at least, according to bank officials. This chain of reasoning is often taken one step further. By raising incomes, growth will alleviate poverty; environmental "zealotry," with its reservations about pollution, impedes growth; therefore environmental zealots like Bruce Rich reveal themselves to be "eco-imperialists," condemning the less-developed world to poverty.

Rich is ready with a response: Growth not only does not eliminate poverty, but it often creates it. The gap between the world's richest and the world's poorest people has doubled in the past thirty years, just in the time that the bank has been fighting what it likes to think of as a global war on poverty. By the 1980s, despite all sorts of foreign aid, deeply indebted poor countries were faced with a net transfer of more than $100 billion a year to rich countries. Uganda now owes 62 percent of its foreign debt to the World Bank alone, and the $1 billion cost of Guatemala's Chixoy Dam--which is predicted to fill with sediment within twenty years--makes up 40 percent of that country's external debt.

Rich presents some disturbing evidence of the true cost of the bank's projects to the world's poor. The most chilling is the "Bank-Wide Resettlement Review," a report that was submitted to the bank's executive directors in late February, and published by the bank's environmental department in April. The review assesses the "involuntary resettlement component" of the bank's projects, and of those in its lending "pipeline," and concludes that more than 2 million people are being forcibly displaced by active projects. Pipeline projects will dispossess an equal number of people. Though the bank's fourteen-yearold "resettlement policy" is to compensate anyone displaced by bank projects (a large hydroelectric dam might erase whole villages), Rich argues that the bank's own investigations have failed to establish that any resettled community is as well off as it was before the bank's intervention. In Brazil, entire Indian communities have been destroyed.

Today, more than 30 percent of the bank's projects that involve resettlement have to do with energy production, an area in which Rich specializes. Energy has been the World Bank's largest or second-largest lending area in recent years and has accounted for up to 18.6 percent of its annual loans. Rich writes that "of all economic sectors, energy is arguably the most important environmentally" for three reasons. First, he claims, coal-fired power in India and China will become a major source, if not the major source, of greenhouse gas emissions in the next century. Second, "one-quarter to one-third of all public investment [in developing countries] is now going for electric power, diverting desperately scarce capital"--money that could be used for health care, natural resource management or poverty relief. Finally, alternative energy policies are environmentally critical because huge World Bank-funded power schemes have displaced hundreds of thousands of people from rural communities in South Asia and Latin America, and have been a major cause of deforestation and the destruction of biodiversity. Brazil's bank-approved Plan 2010, for example, calls for the construction of seventynine giant dams in the Amazon rain forest.

In Mortgaging the Earth, Rich writes that the World Bank continues to neglect all three of these concerns. Though bank president Barber Conable promised to "play a leadership role" in encouraging energy efficiency in the developing world, the bank's power plans haven't been energy efficient so much as they've been pollution intensive, socially

<Picture: About the International Monetary Fund>

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BY-LAWS OF THE
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Section 1. Places of Business

The principal office of the Fund shall be located within the metropolitan area of Washington, D.C., United States of America.
The Executive Board may establish and maintain agencies or branch offices at any place in the territories of other members, whenever it is necessary to do so in order to facilitate the efficient conduct of the business of the Fund.

Adopted March 16, 1946, amended June 13, 1978

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Section 2. General Department and Special Drawing Rights Department

In matters pertaining exclusively to the Special Drawing Rights Department references in these By-Laws, other than in Sections 4, 5, 6, and 13(b), to members of the Fund or to Governors and Executive Directors shall be understood to refer only to members that are participants or to Governors appointed by members that are participants and Executive Directors appointed by a participant or elected or designated by at least one member that is a participant.

Adopted October 2, 1969, amended June 13, 1978

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Section 3. Meetings of the Board of Governors

(a) The Board of Governors shall hold regular meetings, which shall be at annual intervals unless the Board of Governors decides otherwise. The Board of Governors shall determine the time and place of a regular meeting, but the Executive Board may change the time and place of such a meeting if it deems it necessary to do so because of special circumstances. "Regular meetings" of the Board of Governors shall mean meetings subject to this Section 3(a).

(b) Special meetings of the Board of Governors may be called at any time by the Board of Governors or the Executive Board and shall be called upon the request of fifteen members of the Fund or of members of the Fund having in the aggregate one-quarter of the total voting power. Whenever any member of the Fund requests the Executive Board to call a special meeting of the Board of Governors, the member shall state the reasons therefor. The Managing Director shall notify all members of the Fund of the request and of the reasons given therefor.

(c) Arrangements shall be made for meetings of the Board of Governors in the territory of a member only if the Fund has received written assurances with respect to immunities and privileges and other facilities for holding meetings that are satisfactory to it.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

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Section 4. Notice of Meetings of the Board of Governors

The Managing Director shall cause notice of the time and place of each meeting of the Board of Governors to be given to each member of the Fund by rapid means of communication not less than 42 days prior to the date set for such meeting, except that in urgent cases notice shall be sufficient if dispatched by rapid means of communication not less than ten days prior to the date set for the meeting.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

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Section 5. Attendance at Meetings

(a) An Executive Director and his Alternate may attend all meetings of the Board of Governors and may participate in such meetings, but an Executive Director or his Alternate shall not be entitled to vote at any such meeting unless he shall be entitled to vote as a Governor or an Alternate or temporary Alternate of a Governor.

(b) The Chairman of the Board of Governors, in consultation with the Executive Board, may invite observers to attend any meeting of the Board of Governors.

(c) The Executive Board is authorized to invite the International Bank for Reconstruction and Development to send a representative of the Bank to meetings of the Board of Governors and the Executive Board who may participate in such meetings, but shall have no vote.

(d) The Executive Board is authorized to accept invitations from the Bank to send a representative of the Fund to participate in meetings of the Board of Governors or Executive Directors of the Bank.

(e) The World Trade Organization shall be entitled to send a member of the Secretariat as an observer to meetings of the Board of Governors.

Adopted March 16, 1946, amended June 13, 1978; paragraphs (a) and (b) amended October 2, 1946; paragraphs (c) and (d) were adopted as Section 2 on March 16, 1946; paragraph (e) adopted on January 8, 1997

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Section 6. Agenda of Meetings of the Board of Governors

(a) Under the direction of the Executive Board, the Managing Director shall prepare an agenda for each meeting of the Board of Governors and shall cause the agenda to be transmitted to each member of the Fund with the notice of the meeting.

(b) Additional subjects may be placed on the agenda for any meeting of the Board of Governors by any Governor provided that he shall give notice thereof to the Managing Director not less than seven days prior to the date set for the meeting. In special circumstances the Managing Director, by direction of the Executive Board, may at any time place additional subjects on the agenda for any meeting of the Board of Governors. The Managing Director shall cause notice of the addition of any subjects to the agenda for any meeting of the Board of Governors to be given as promptly as possible to each member of the Fund.

(c) Any Governor or Governors may request the Board of Governors at any time to place a subject on the agenda for any meeting of the Board of Governors even though the notice required by this Section has not been given. The Board of Governors may at any time place any subject on the agenda for any meeting of the Board of Governors even though the notice required by this Section has not been given.

(d) Except as otherwise specifically directed by the Board of Governors, the Chairman of the Board of Governors jointly with the Managing Director shall have charge of all arrangements for the holding of meetings of the Board of Governors.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

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Section 7. Selection of Chairman and Vice-Chairmen

At each regular meeting the Board of Governors shall select a Governor to act as Chairman and at least two other Governors to act as Vice-Chairmen until the end of the next regular meeting.

In the absence of the Chairman, the Vice-Chairman designated by the Chairman shall act in his place.

Adopted March 16, 1946, amended June 13, 1978

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Section 10. Report of Executive Board

The Executive Board shall have prepared for presentation to the Board of Governors an annual report in which shall be discussed the policies and activities of the Fund and which shall make recommendations to the Board of Governors on the problems confronting the Fund. The Executive Board shall review, as part of the annual report, the functioning of the international monetary system, including the adequacy of global reserves, the conduct of the business of the General Department and of the Special Drawing Rights Department, as well as the performance of financial services by the Fund, including the administration of resources contributed by members.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

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Section 11. Voting

Except as otherwise specifically provided in the Articles of Agreement, all decisions of the Board of Governors shall be made by a majority of the votes cast. At any meeting the Chairman may ascertain the sense of the meeting in lieu of a formal vote but he shall require a formal vote upon the request of any Governor. Whenever a formal vote is required the written text of the motion shall be distributed to the voting members.

Adopted March 16, 1946, amended June 13, 1978

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Section 12. Proxies

No Governor or Alternate may vote at any meeting by proxy or by any other method than in person, but a member may make provision for the designation of a temporary Alternate to vote for the Governor at any session of the Board of Governors at which the regularly designated Alternate is unable to be present.

Adopted March 16, 1946, amended June 13, 1978

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Section 13. Voting Without Meeting

(a) Whenever, in the judgment of the Executive Board, any action by the Fund must be taken by the Board of Governors which should not be postponed until the next meeting of the Board of Governors and does not warrant the calling of a special meeting of the Board of Governors, the Executive Board shall request Governors to vote without meeting.

(b) The Executive Board shall present to each member by rapid means of communication a motion embodying the proposed action.

(c) Votes shall be cast during such period as the Executive Board may prescribe.

(d) The Executive Board may provide that no Governor shall vote on a motion during such period after dispatch of the motion as the Executive Board prescribes.

(e) At the expiration of the period prescribed for voting, the Executive Board shall record the results, and the Managing Director shall notify all members. If the replies received do not include a majority of the Governors exercising two-thirds of the total voting power, which is required for a quorum of the Board of Governors, the motion shall be considered lost.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

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Section 14. Terms of Service

(a) Governors and Alternates shall receive reimbursement for reasonable expenses incurred in attending meetings of the Board of Governors.

(b) Pending the necessary action by members to exempt from national taxation salaries and allowances paid out of the budget of the Fund, the Governors and the Executive Directors, and their Alternates, the Managing Director, and staff members and other employees of the Fund, except those whose employment contracts state otherwise, shall receive from the Fund a tax allowance that the Executive Board determines to be reasonably related to the taxes paid by them on such salaries and allowances.

In computing the amount of tax adjustment to be made with respect to any individual, it shall be presumed for the purposes of the computation that the income received from the Fund is his total income. All salary scales and expense allowances prescribed pursuant to this section are stated as net on the above basis.

(c) The salary of the Managing Director shall be determined by the Board of Governors and shall be included in his contract. The Fund shall also pay any reasonable expenses incurred by the Managing Director in the interest of the Fund (including travel and transportation expenses for himself, and expenses for his family, and his personal effects in moving once to the seat of the Fund during or immediately before his term of office and in moving once from the seat during or within a reasonable period after his term of office). The contract of the Managing Director shall be for a term of five years and may be renewed for the same term or for a shorter term at the discretion of the Executive Board, provided that no person shall be initially appointed to the post of Managing Director after he has reached his sixty-fifth birthday and that no Managing Director shall hold such post beyond his seventieth birthday.

(d) It shall be the duty of an Executive Director and his Alternate to devote all the time and attention to the business of the Fund that its interests require, and, between them, to be continuously available at the principal office of the Fund; however, in the event that both an Executive Director and his Alternate are unable to be available at the principal office of the Fund for reasons of health, absence while on business of the Fund, or similar reasons, the Executive Director may designate a temporary Alternate to act for him for periods of time which shall not in the aggregate exceed fifteen business days in the course of any year of his service. In special circumstances the Executive Director may designate a temporary Alternate to serve for an additional aggregate period not exceeding fifteen business days. When the positions of both the Executive Director and his Alternate become vacant, a temporary Alternate may continue to act until the effective date of the appointment or election of the successor Executive Director or the end of a six-month period, whichever is earlier. A temporary Alternate shall receive no salary or expense allowance for his services in this capacity.

(e)

(i) Executive Directors and their Alternates shall be entitled to remuneration in the form of salary and supplemental allowances at such annual rates as shall be determined from time to time by the Board of Governors. Remuneration as determined shall continue until changed by the Board of Governors.

(ii) A standing Joint Committee on the Remuneration of Executive Directors and their Alternates, appointed by the Chairmen of the Boards of Governors of the Fund and Bank and consisting of one of the Chairmen and two former Governors or Alternate Governors of the Fund or Bank, chosen by the Chairmen in consultation with the Managing Director of the Fund and the President of the Bank, shall be constituted following each regular meeting of the Board of Governors. The Joint Committee shall consider all matters affecting the remuneration and other benefits of the Executive Directors of the Bank and Fund, and of their Alternates, and from time to time, but at least by July 1 of each year in which a regular election of Executive Directors is scheduled to be held, shall make such recommendations for any action by the Board of Governors on the said matters as the Joint Committee shall deem advisable. Reports of the Joint Committee shall be submitted to the Board of Governors for a vote on any recommendation contained therein without meeting in accordance with Section 13 of the By-Laws. In making proposals with respect to the remuneration of the Executive Directors and their Alternates, the Committee shall bear in mind their functions under the Articles of Agreement of the Fund in relation to those of the Managing Director.

(f) The Executive Directors and their Alternates are to be reimbursed, in addition, for all reasonable expenses for travel incurred on official Fund business, and for reasonable expenses incurred by them in connection with official Fund business to entertain senior officials of the governments or central banks or persons prominent in the academic communities of the members that appointed, elected or designated them. They shall also be reimbursed for travel and transportation expenses for themselves, their families, and their personal effects in moving once to the seat of the Fund during or immediately before their periods of service, and in moving once from the seat during or within a reasonable period after their periods of service.

In addition, Executive Directors and Alternates shall, in the third year of continuous full-time service in either capacity and in every second year of such service thereafter, be entitled to reimbursement for the cost of transportation expenses for their families in travelling once to and from the country of which they or their spouses are nationals, provided that in cases where the spouse is a national of a country other than that of the Executive Director or the Alternate the reimbursement for transportation expenses to and from the country of the spouse does not exceed transportation expenses to and from the country of which the Executive Director or Alternate is a national. For home leave travel every second year, reimbursement shall be made on the basis of cabin- or economy-class accommodations.

(g) Where not specified, it is assumed that the Executive Director or Alternate will be a full-time Executive Director or Alternate. Where it is intended that he shall not devote his full time, it shall be so indicated. Where an Executive Director or Alternate indicates that he intends to devote only part of his time to the Fund, his remuneration shall be prorated on the basis of a representation by him of the proportion of his time he has devoted to the interests of the Fund. The representation shall be made at appropriate intervals.

(h) Where an individual is serving both Fund and Bank, the aggregate of salary received from both shall not exceed the full annual single salary as determined in accordance with (e) above.

In all cases of salaries or expenses involving dual offices in the Fund or Bank, or both, the individual affected is entitled to take his choice as to which salary or expense he elects, but he shall not be entitled to both.

(i) An individual putting forward a claim for reimbursement for any expenses incurred by him shall include therewith a representation that he has not received and will not claim reimbursement in respect to those expenses from any other source.

(j) Secretarial and staff services, office space, and other services incidental to the performance of the duties of the Executive Directors and Alternates shall be provided by the Fund.

Adopted March 16, 1946; paragraph (a) amended March 18, 1946, June 6, 1966, May 17, 1977, and June 13, 1978; paragraph (b) amended June 13, 1978 and December 31, 1979; paragraph (c) amended July 27, 1951, December 14, 1960, effective December 1, 1960, February 13, 1969, effective November 1, 1968, August 31, 1973, effective September 1, 1973, and June 13, 1978; paragraph (d) amended September 17, 1947, December 20, 1971, June 26, 1972, June 13, 1978, and September 20, 1993; paragraph (e) amended January 5, 1951, effective January 1, 1951, December 2, 1957, effective November 1, 1957, December 28, 1959, effective November 1, 1959, November 7, 1962, effective September 1, 1962, August 8, 1966, effective November 1, 1965, February 13, 1969, effective November 1, 1968, July 30, 1969, effective August 1, 1969, July 13, 1972, effective November 1, 1972, July 8, 1974, and June 13, 1978; paragraph (f) amended September 17, 1947, September 30, 1948, August 18, 1961, September 10, 1964, February 13, 1969, June 13, 1978, and September 5, 1980; paragraph (g) amended June 13, 1978; paragraph (h) amended June 13, 1978; paragraph (j) amended June 13, 1978

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Section 15. Delegation of Authority

The Executive Board is authorized by the Board of Governors to exercise all the powers of the Board of Governors except those conferred directly by the Articles of Agreement on the Board of Governors.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

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Section 16. Rules and Regulations

The Executive Board is authorized by the Board of Governors to adopt such Rules and Regulations, including financial regulations, as may be necessary or appropriate to conduct the business of the Fund. Any Rules and Regulations so adopted, and any amendments thereof, shall be subject to review by the Board of Governors at their next regular meeting.

Adopted March 16, 1946, amended June 13, 1978

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Section 17. Vacant Directorships

Whenever a new Executive Director must be elected because of a vacancy requiring an election, the Managing Director shall notify the members who elected the former Executive Director of the existence of the vacancy. He may convene a meeting of the Governors of these members exclusively for the purpose of electing a new Executive Director; or he may request nominations, and conduct ballots, by rapid means of communication. Successive ballots shall be cast until one candidate has a majority; and after each ballot, the candidate with the smallest number of votes shall be dropped from the next ballot.

If a member's voting rights have been suspended, that member shall not participate in the election of the new Executive Director.

When a new elective Executive Director is named, the office of Alternate shall be deemed to be vacant and an Alternate shall be named by the newly elected Executive Director.

Adopted March 16, 1946, amended June 13, 1978, and April 12, 1993

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Section 18. Additional Directors

(a) At least six weeks before each regular election of Executive Directors, the Managing Director shall notify all members by rapid means of communication of the two members whose currencies held in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right. He shall state whether either or both may appoint an Executive Director in accordance with Article XII, Section 3(c).

(b) The Executive Board shall prescribe a period within which a member that may appoint an Executive Director in accordance with Article XII, Section 3(c) shall notify the Managing Director whether it will appoint an Executive Director. The Managing Director shall inform each member that may appoint an Executive Director under Article XII, Section 3(c) of the period and shall inform all members promptly of the receipt of a notification under this (b).

(c) A member that is entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i) and a member that may appoint an Executive Director in accordance with Article XII, Section 3(c) and notifies the Managing Director under (b) above that it will appoint an Executive Director shall not participate in the election of an Excutive Director.

Adopted March 16, 1946, amended June 13, 1978

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Section 19. Representation of Members at Meetings of Fund Organs

1. Representation of Members Not Entitled to Appoint an Executive Director

(a) Each member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i) may, in accordance with the regulations provided in this Section, send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration. A member may waive its rights under this provision. The Executive Board shall determine whether a matter under consideration particularly affects a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), which determination shall be final.

(b) Whenever a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i) desires to present its views at the meeting of the Executive Board at which a request the member has made is to be considered, it shall so notify the Fund when it makes the request and shall designate a representative for this purpose who shall be available at the seat of the Fund. Failure to give notice or to designate an available representative shall constitute a waiver of the member's right to present its views at the meeting.

(c) Whenever the Executive Board is to consider a matter which has been determined particularly to affect a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Board with respect to such matter, nor any question particularly affecting such member submitted to the Board of Governors, until the member has either waived its rights under paragraph (a) of this Section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Board, of which the member has had reasonable notice.

2. Representation of Members whose Voting Rights have been Suspended

The provisions of subsection 1 above shall apply, mutatis mutandis, to the representation of members whose voting rights have been suspended pursuant to Article XXVI, Section 2(b), at meetings of the Board of Governors and the Executive Board.

Adopted March 16, 1946, amended September 17, 1947, June 13, 1978, and April 12, 1993

[PREVIOUS SECTION] [BY-LAWS RULES AND REGULATIONS CONTENTS PAGE]
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Section 20. Budget and Audits

(a) The Managing Director shall prepare an annual administrative budget to be presented to the Executive Board for approval. The budget so approved shall be incorporated in the annual report presented to the Board of Governors.

(b) An external audit of the financial statements of the Fund and of Accounts administered under Article V, Section 2(b), including the financial statements of the Staff Retirement Fund, shall be made annually and such audit shall relate to the period representing the financial year.

(c) The annual audit shall be made by an external audit committee consisting of either three or five persons each of whom shall be nominated by a different member of the Fund and confirmed by the Executive Board. At least one person serving on each audit committee shall be nominated by one of the six members of the Fund having the largest quotas, and at least one person shall be nominated by a member that is also a participant in the Special Drawing Rights Department. The Executive Board shall determine, in the case of each audit, whether the audit committee shall consist of three or five persons and which members of the Fund shall be requested to nominate persons to serve on the committee. The service of the members of each audit committee shall terminate upon completion of the annual audit and submission of the audit report. The Managing Director shall arrange for auditing services by persons outside the Fund to assist the audit committee in the performance of its functions. The members of the audit committee and any outside assistants shall respect the confidential nature of their service and the information made available for purposes of the audit.

Each audit committee shall elect one of its members as cha

Conclusion

The objectives of the world Bank was related to Bretton Woods System. But, the purpose of this institution is changed and it focused on " Human being and his/her brain". After the collapse of Bretton Woods System, the objectives and purposes of the world bank has been changed. There is a lot of functions and duties of the world bank which is related to its performances and activities. The banks take action against moderate inflation in most of the countries whose experiences are studied here reached moderate or high inflation as a result of external shocks, particularly in commodity prices. The banks try to eliminate shocks, arranging purchasing power parity, and the equilibrium Real Exchange rate. It determines obstacles to Developing indigenous small and medium Enterprises. The Bank estimates returns to scale with large, imperfect panels:

The world bank applied the oretical implications of imperfect competitor on Quota license prices and Auctions. It applies sovereign dept. Modeling the macro-economic effect to tanzania is developed by the world bank. They implemented the trade reforms in the partially liberalized economy of Turkey. They used a medium-term framework for analyzing the real exchange rate, with applications to the Philippines and Tanzania. The world bank also applied the functions and activities that are illustrated below:

1- An institutional Analysis of the Design and sequence of trade and investment policy reform.

2- Correction for sampling bias in the measurement of welfare and poverty in the cote d'lvoire living standards survey.

3- Household welfare and the pricing of cocoa and coffee in cote d'lvoire lessons from the living standards survey.

4- The determinants and consequences of the placement of Government program in Indonesia.

- Labor markets and adjustment in open Asian Economies. The republic of Korea and Malesia.

6- Explaining the relative decline of Agriculture: A supply side Analysis for Indonesia.

7- To arranges tariff rates, tariff revenue and tariff reforms.

8- To determines the effect of Financial liberalization on the Capital Structure.

9- To determines investment's decision of Indonesian manufacturing establishments.

10- To determines the scope of Fuel substitution in manufacturing industries.

11- To determines the impact of Two-tier producer and customer Food pricing in India.

12- Domestic content and compensatory export requirements: protection of the motor vehicle, industry in the Philippines.

13- To measures the restrictiveness of trade policy.

14- To adjusts the trade restrictiveness of the multi-fibre arrangements.

15- To arranges labor supply and targeting inpoverty Alleviations Programs.

16- To applies dual exchange rates in Europe and Latin America.

17- To determines the impact of Mexico's retaining programs on Employment and wages.

18- To adjusts capital mobility Developing countries: Some measurements' issues and Empirical estimates.

19- To determines the political of growth: a critical survey of the recent literature.

20- To apply presumptive piyo vian Tax: Complementing regulation to mimic an emission fee.

21- T change labor market conditions and economic development in Hong Kong the Republic of Korea, Singapore and Taiwan, china.

22- To determine the welfare cost of price controls for cars and color televisions in Poland: Contrasting estimates of rent-seeking from recent experience.

23- To develop parallel exchange rates in developing countries.

24- To apply gradual unification in highly distorted economies.

25- To build incentives and Resolution of Bank distress.

26- To finance infrastructure in developing countries: policy implications.

The world bank has provided financial and technical assistance for these reasons that is mentioned below:

The invalid responses to treatment. The world bank adopts Kirgizstan for these purposes. The world bank has lent of billions of dollars to dictatorial governments that trample the human rites of their citizens. The greening of the world bank (the bank has been trying to emphasize quality in lending and to improve the environmental controls on its investments). Harsh medicine assistance to Kenya. The world bank milestone (The bank will boost its efforts to meet fundamental development objectives such as universal primary education, excess to basic heath care, and elimination of malnutrition within the next generation. Pollution control project to India. Saving Haiti (There is "Structural adjustment" program in Haiti, and its attendontausterity measures might seem laughable in

The poorest countries. This is a disagreement was whether to boost global liquidity through a general allocation of Special Drawing Rite (SDRs). Reinvesting the Bank (the world bank and IMF have together been a major force for economical growth and modernization in developing countries. Capital spending boom for Asian, Latin American and other developing nations will be spending $ 200 million annually on infrastructure in the years. Transport reconstruction to Peru. They applied a six-year transportation rehabilitation project. Providing assistance for petroleum sector to support the efficiency and long-term financial health of KAZAKISTAN'S petroleum sector. Loans for Russian Banking. In Banking sector, it is necessary to improve its management and train large numbers of staff. Aid for timber industry in USSR. Restoring Forests in China. Clean up initiatives for Mexico. Campaign to restore site to India. Fragile water supply for Algeria. Cuts threaten Food Supply. Poorer and Poorer. The world's population is expected to double over the next century, with the poorest accounting for most of the rise. The sins of a Sainted Bank. The word bank has extended its loans to pay for 6000 projects ranging from Japan's bullet train to a cataract surgery clinic in India. Policies to Arafat's return. Thoroughly modern sisters. (The world bank and IMF reorganizing radically there job.)

Potemkin Environmentalism policies. Organization structure of the institution is related directly to IMF's organizational structure. The structure of organization can be classified as follows:

1- Places of Business

2- General Department and Special Drawing Rights department

3- Meetings of the Board of Governors

4- Notice of meetings of the Board of Governors

5- Attendance at meetings

6- Agenda of meetings of the Broad of Governors

7- Selection of chairmen and vice-chairmen

8- Secretary

9- Minutes

10- Report of Executive Board

11- Voting

12- Proxies

13- Voting without meetings

14- Terms of service

15- Delegation of Authority

16- Rules and Regulations

17- Vacant Directorships

18- Additional Directors

19- Representation of Members at meetings of Fund organs

20- Budget and Audits

21- Applications for membership

Sources of Information

1) Book: The World Bank Economic Review, 1995

2) Book: The World Bank Research Observer,1995

3) Book: The World Bank Economic Bulletin, 1995