CHAPTER TWO

Issues that Arise in Relation to World Bank Activities

Governance and World Bank Processes

Major changes are under way in the Bank following the work of the Portfolio Management Review Task Force in 1992 and the adoption by the Executive Board of the *Next Steps* action program (World Bank 1992a, 1992c). The task force examined the declining performance of the World Bank's portfolio of project loans and made recommendations for improvement. The recommendations included the need to build commitment and local ownership of projects and to emphasize *project quality at entry*—the phrase used to capture the relevance and quality of project design—and how the latter could be addressed. The task force also stressed attention to portfolio performance, taking into account, more systematically, various implementation issues in the country dialogue and the lending program.

These recommendations are now being put into effect through the *Next Steps* program. From a governance point of view, the most significant measures are, first, two new instruments: the *Country Portfolio Performance Reviews* (CPPRs) and the *Country Assistance Strategy* (CAS) discussions; and second, the new system of *Operational Policies and Bank Procedures.* A related factor is the Bank's new disclosure policy.

These developments are likely to have a significant impact on the Bank's governance work. The CPPRs, which will be carried out on an annual basis for most countries, address, much more systematically than before, key implementation issues, such as borrower ownership and commitment to projects under implementation, the identification of generic implementation issues, and the development, with the borrower, of time-bound remedial action programs. Because many of the implementation problems Bank's projects face are public sector–management related, and ownership and commitment are linked to underlying governance conditions, the new emphasis on country portfolios is likely to bring governance issues to the fore in the dialogue between the World Bank and individual countries.

This is likely to be reinforced further by the CAS process, which is already ensuring that portfolio implementation issues are discussed alongside the future lending program and are taken into account in decisions on the volume and composition of lending. However, as box 2.1 indicates, there is room for more systematic treatment of governance issues in the CAS.

The World Bank's new Operational Policies and Procedures system is likely to reinforce the positive effects of portfolio reviews and country assistance strategies through the progressive revision and reissue of all previous

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BOX 2.1 GOVERNANCE AND COUNTRY STRATEGIES

The *Country Assistance Strategy* (CAS) statement is one of the primary vehicles for reviewing the World Bank's lending strategy in a given country. In determining the components of a country's lending program, the CAS should provide a frank evaluation of factors that constrain the effectiveness of development assistance. A discussion of governance issues is therefore necessary in this context.

An analysis of a recent representative sample of forty CAS statements from all the geographic regions examined whether governance factors were being sufficiently considered in the formulation of country strategies. The purpose of the analysis was to assess, first, whether all governance issues were being taken into consideration and, second, whether certain aspects of governance were receiving more attention than others.

The overall finding was that the majority of CAS statements covered governance but that the treatment was almost exclusively directed toward public sector management. Other governance concerns, such as accountability, transparency, and rule of law were almost never raised. Twenty-nine of the CAS statements reviewed contained only a discussion of public sector management concerns (civil service reform, economic management, an enabling environment for private sector development, and public enterprise reform, for example).

Public sector management was the only governance concern consistently raised. Only eight of the CAS statements discussed additional goveroperational directives in a new format during the next two to three years. This reinforcement will happen in two ways: first, by providing more explicit best-practice guidance to staff and, second, by emphasizing governance in the reissued *Operational Policies and Procedures* handbook.[8] Another contribution is the technical assistance handbook (box 2.2), which provides best-practice guidance to staff on the preparation of technical assistance projects and project components, with a particular emphasis on technical assistance for institution building.

With regard to staff and organizational matters, the World Bank has seen in recent years an increase in the number of specialists in public sector management (fifty-two specialists as of this year) and the formation of public sector management units in the Bank's Technical Departments.[9]

Nevertheless, there is a need for an enhanced training effort in areas such as institutional development, participation, technical assistance, public expenditure management (including financial management), and civil service reform. This is required not just to keep specialist staff on the cutting edge of their field

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nance topics but did not cover the full range of the topic. Three CAS statements did not discuss any aspect of governance.

Interviews with World Bank regional managers suggest the following reasons for the failure to cover governance issues consistently in country strategy documents.

First, because the subject matter of governance is often highly sensitive, Bank staff might be reluctant to commit their analysis to paper.

Second, because the political and economic dimensions of governance are closely linked, staff might feel that just raising certain governance issues involves treading near the boundaries delineated by the Bank's Articles of Agreement. This would account for the predominance of comment on familiar issues such as public enterprises and the condition of the civil service and the absence of discussion on more sensitive governance topics.

Third, staff might be unfamiliar with the subject matter and uncomfortable with concepts of accountability and transparency.

However, the absence of governance from the CAS statements does not mean that it plays no role in decisions on the Bank's country lending. As the report elsewhere makes clear, both the number of projects with governance elements and the extent to which governance issues have featured in the country dialogue with the Bank suggest otherwise. Whatever the reason for the relative absence of governance analysis in written Bank documents, governance issues are of such fundamental importance to the development agenda that they warrant more systematic treatment.

BOX 2.2 TECHNICAL ASSISTANCE HANDBOOK

Institutional development is the basis of public sector management reform. Much of the World Bank's support for institutional development is provided in the form of technical assistance (TA). In March 1993 the Bank published the *Handbook on Technical Assistance* to give substance to the recommendations of the Technical Assistance Review Task Force. The handbook focuses primarily on institutional development technical assistance (IDTA) and is intended to guide staff in capacity-building initiatives.

The handbook takes a comprehensive approach to institutional development and covers a broad range of activities that increase the capacity of institutions to perform their functions. The first section of the handbook discusses the role of TA in furthering institutional development in recipient countries. Subsequent sections deal with the formulation of a TA strategy for institutional development, the design and implementation of that strategy, and finally the supervision, monitoring, and evaluation of TA operations. In this context, topics such as the process approach to institutional development, modes of transferring expertise, management concerns, and the costs of IDTA are covered.

The handbook is presented in modules, facilitating easy access to detailed information on matters of particular interest to the user. In this way it provides brief, yet well-focused, training for World Bank staff. It will be updated periodically to keep staff informed of experience gained from new TA operations. The handbook marks an important step toward consolidating best practice and providing guidelines for staff in this area.

but also to keep the large number of operations staff, such as country economists, country officers, and sector specialists current with governance issues. Upgraded training programs are under preparation in all of these areas and will be put into effect in the coming year (Arnold 1993).[10]

Policy Dialogue on Governance

The Bank's policy dialogue with its borrowing members is being carried out in a political and economic framework that has changed substantially over the last ten years. Because of these changes, the environment for discussing development policy is much more open than it was before. In this new climate, certain governance issues have become important components of the Bank's overall policy dialogue with many of its borrowers. This dialogue has generally been carried out at four levels: first, in coordination with other donors through consultative groups and similar meetings of donors and aid recipients (box 2.3);

second, through discussions between the Bank's senior management and the political leadership of borrowing governments; third, through the regular exchange of ideas between the Bank's country teams and their counterparts on the government side; and fourth, through the day-to-day interactions of the Bank's resident missions. In countries that have no consultative groups (such as most of those in the Latin America region and East Asia) the dialogue is maintained through the last-named channels.

The World Bank also pursues consultations at the regional level and with groups outside government. Discussions between Bank staff and advisory groups, such as the World Bank's Council of African Advisors and the Council of Middle Eastern Advisers, as well as Bank seminars for public policymakers from Africa in particular, have helped to place governance on a regionwide agenda as well. In Bolivia and Venezuela, at their governments' invitation, the World Bank held seminars recently with the leading presidential candidates and their advisers to explain Bank strategies and to relate them to policy options prior to the elections. Although not explicitly focused on governance, these sessions added transparency to the local political process and allowed the Bank to place important development issues in the context of the different parties' political platforms.

Policy dialogue has become a critical vehicle for raising governance issues with borrower countries. In its role as head of consultative group meetings, the Bank coordinates complementary approaches to the provision of aid in a way that strengthens the adoption of good governance practices.[11] Chairing the meetings also often puts the Bank in the position of having to act as an intermediary between donors and the borrower countries. Sometimes this involves issues that the Bank will not address in its own dialogue with borrowers because the issues relate to the political dimensions of governance that fall outside the Bank's mandate. However, the Bank has advised borrowing governments on such issues in the context of adequately communicating bilateral donor concerns—as these may have an impact on subsequent aid commitments and, thus, the financing of the government's economic program.

The Bank has also used policy dialogue as the vehicle for discussing issues that fall within the framework of economic governance but are nevertheless of a sensitive nature. Such concerns are raised both in the context of consultative group meetings as well as in senior management discussions with a country's political leadership. The issue of military expenditures has been discussed with a number of African and Asian governments. Aspects of human rights that have an impact on the effectiveness of the Bank's assistance have also been raised in this way, and in a number of countries, public sector corruption and its implications for continued Bank lending have been part of the dialogue agenda.

Finally, the World Bank's economic and sector work is being used as an

BOX 2.3 GOVERNANCE ISSUES AT CONSULTATIVE GROUP MEETINGS

Governance has been a recurring theme of the consultative group meeting of donors and governments chaired by the World Bank since 1990. The different dimensions of governance—political, institutional, technical, and material—have been recognized by donors and governments as important factors in development. Consensus has evolved on the need to ensure accountability of government officials to their superiors and to the public, to enhance transparency in government expenditure programs and policies, and to develop and enforce a legal framework to promote development.[a]

Donors urged the governments to:

- Strengthen their accounting and auditing capacity; decentralize decision-making to encourage the growth of responsible local governments
- Ensure greater participation of NGOs and civil society in the development process
- Make reliable, timely, and relevant economic information available to the players
- Develop a legal framework to promote private sector development and public sector management
- Ensure independence of the judicial process, transparency of laws, and freedom of the media
- Protect the legal rights of women, children, and labor.

effective tool for dialogue on governance issues. *Country economic memoranda, public finance reviews, public expenditure reviews, sector reports, Country procurement assessment reviews,* and *private sector assessments,* for example, have all been used to bring to governments' attention the Bank's analysis and recommendations on governance issues.

Participation and Governance

Participation is intrinsic to good governance. Indeed, participatory development can be thought of as a local-level reflection of good governance. Measures at the national level to improve the effectiveness and efficiency of government have direct parallels at the microlevel as well. *Transparency* enables people affected by development plans to know the options available to them. *Accountability* of government structures and officials to local organizations (for example, civil councils and village committees) reinforces macrolevel accountability. *Due process* of public hearings and other local-level consulta-

Corruption in some governments was also a concern.

In all meetings, the importance of public sector management was discussed. Administrative, financial, and institutional capacity for an effective and efficient public sector was recognized as the central issue. Donors stressed the need to privatize public enterprises, eliminate excessive rules and regulations that constrain private sector development, and enhance procurement capacity for efficient use of external assistance. Greater transparency in budgeting was deemed key to the continued availability of counterpart funds.

Clear consensus did not emerge from any side on reducing military spending. Although most governments agreed that expenditures on defense take important social and economic resources away from development programs, some governments argued that these expenditures ought to be looked at in the geopolitical context of the country. Bilateral donors also emphasized that observing democratic processes and respect for human rights are part of good governance and sustainable development.

a. From October 1990 to January 1993, forty-five consultative group meetings were held for twenty-nine countries. Following is a list of the issues discussed and the number of countries for which each issue was discussed: military expenditure (12); transparency (13); human rights and democracy (18); accountability (21); legal framework for development (22); and public sector management (28).

tions ensures that people affected by development activities can voice their concern, debate alternatives, and negotiate compensation. Finally, the effective *voice* of local people, particularly the poor, can be increased by policy reforms at the national level that allow greater freedom to join nongovernmental organizations, trade unions, and other bodies to understand better and influence decisions that affect them.

Public involvement thus helps improve information flow, accountability, due process, and voice and thereby improves public sector management.

Instruments for participatory development

Participatory development requires good governance policies and practices within borrowing countries. The World Bank is assisting government efforts in this respect, as part of its regular institutional development work, by looking at factors that impede participation in borrowing countries. Staff incentives, training, and the skills mix of civil servants can be strengthened. In addition, the

Bank can promote participation in borrowing countries through its support to governments in their administrative and fiscal decentralization efforts and by strengthening the dialogue between governments and civil society.

The Bank is also encouraging a more participatory approach in its own economic and sector work and lending operations—to involve a wide range of entities that have a stake in the outcomes, from government bodies to NGOs and local community groups. The World Bank's report on portfolio management (World Bank 1992c) lists a variety of actions that can deepen borrower ownership and public participation through information sharing, consultation, wider decisionmaking, and increasing local groups' initiatives on behalf of their own development. Available instruments include joint sector work with government agencies; beneficiary assessments and stakeholder workshops during project preparation and appraisal; and greater NGO and community-level involvement in the design, preparation, and implementation of projects. Other methods would include broader and more substantive borrower participation and leadership in implementation planning, project launch workshops, joint implementation reviews of the country portfolio, and joint discussions of country strategy, including the development of a pipeline of projects for future financing by the World Bank.

The World Bank's new information disclosure policy, will facilitate public participation in borrowing countries and increase transparency and accountability. Although NGOs by themselves do not ensure greater participation of the beneficiaries of World Bank projects, they are nonetheless likely to continue to play an intermediary role in channeling information to and from beneficiaries. In the past year, NGOs have participated in 73 (30 percent) of the 245 World Bank projects approved by the Executive Directors.

Recent initiatives

Against this background, an effort has been under way since 1991 throughout the World Bank to learn more about and strengthen efforts to promote participatory approaches in Bank work. This learning process has been supported by the Swedish International Development Authority and guided by the Bank's *Participatory Development Learning Group.* After the Bank's hosting of an international workshop on participation in February 1992 and with the support of senior management over the past year, the learning process has been transformed into a major effort to mainstream participation concerns into the Bank. In this respect the learning process has yielded several important products, and there have been some encouraging developments in participatory approaches throughout the Bank:

■ Select Bank-supported operations, including economic and sector work and lending, that are considered participatory have been identified and are being documented as best practice. About thirty-five cases are being analyzed, fifteen of them in depth.

■ A number of other studies are being produced on particular aspects of Bank or country experience in promoting participation. One study focuses on popular participation in economic theory and practice (Gerson 1993). Another study examines how the Bank's procurement and disbursement procedures facilitate or hinder efforts to support community participation in projects. A study is also under way to determine the costs and time implications of supporting participatory approaches in Bank-financed operations. A further study, almost completed, statistically analyzes the experience of 121 completed rural water and sanitation projects around the world and shows clearly that participation is the single most important determinant of project effectiveness.

■ A handbook for World Bank staff on participatory approaches to development is being prepared with technical and financial support from the German Technical Assistance Agency (GTZ)[12].

■ The World Bank's Africa Region has taken a clear lead in exploring and supporting efforts to promote participatory approaches. Workshops on participatory planning techniques have been held, and a few *country implementation reviews* have been conducted in a consultative manner. The Southern Africa Department issued an instruction requiring that each new project under preparation include a provision for systematically listening to relevant stakeholders and beneficiaries. On the basis of its growing experience, this department is preparing a guide for the staff on participatory assessments. Other regions are also actively pursuing participatory approaches. The Latin America and Caribbean region has made explicit the link between strengthening popular participation early in the design of operations and ensuring borrower commitment to improving the quality, impact, and sustainability World Bank projects. And the Bank jointly sponsored with the South Asian Association for Regional Cooperation a regional workshop on poverty in South Asia, with a particular focus on promoting greater participation by the poor.

■ Complementing its continuing work on poverty assessments, the World Bank has started to develop and employ participatory techniques to listen to poor people's own views on their condition and on poverty reduction strategies. Guidelines on *participatory poverty assessments* have been prepared and some ten participatory poverty assessments are expected to be undertaken in the coming year.

■ In July 1993 a *participation fund* was established in the amount of US$300,000 to support innovative activities in both lending operations and economic and sector work. Through the benefit of a matching requirement, the fund allowed World Bank staff to lay claim to up to US$600,000 in the past six months. More than thirty proposals have been submitted from twenty-five different units representing a wide range of countries and sectors; of these, seventeen have been approved. The fund was almost fully committed in less than two months and should be replenished in the current year in a larger amount.

The final report of the *Participatory Development Learning Group* will expand on the above lessons and draw on the cases and other studies commissioned for the learning process. A workshop will take place in May 1994 to review these lessons, to recommend how to make the World Bank's core business processes more participatory, and to improve staff incentives, training, and administrative procedures.

Making participation effective

Early lessons from the learning group on the practicalities of encouraging participation include the following:

■ It is already clear that there is growing staff awareness of the importance of participatory approaches, more so as a result of the work of the World Bank's Portfolio Management Task Force and the *Next-Steps* program. To ensure that the World Bank is in a position to support these efforts will require major investments in training and some changes in the skill mix of Bank staff.

■ Participatory development is not without risk: those with a stake may not gain directly from their efforts, or their benefits may be negated by external factors; local voluntary organizations may not represent the views of ultimate beneficiaries; and elected officials and bureaucrats are often out of touch with the needs and interests of their constituents or are actively hostile to local initiatives.

■ The extent to which participatory approaches yield better projects varies from sector to sector. In the water sector, for example, the experience with participation is well documented, and the approach clearly works—all participants have an interest in cooperating to share water. In the education and health sectors, the scope for participatory approaches requires further exploration. Progress has been slower than expected with participatory poverty assessments.

- More work needs to be done on the cost of using participatory approaches for project preparation. There are incremental overhead costs associated with participation, in the form of increased pressure on World Bank staff time and support costs. This may require tradeoffs with staff budgets and work programs, given the expectation of zero growth in the Bank's budgetary resources. Participation also implies a more flexible approach to the Bank's traditional project cycle.

- Despite these risks, there is evidence that projects requiring beneficiary contributions of time or money are more effective. The World Bank Operations Evaluation Department's review of fiscal 1992 project evaluations brought out the importance of borrower ownership and beneficiary participation in the success of the twenty-four projects evaluated as outstanding. The greater the intensity of participation (in terms of information sharing, consultation, decisionmaking, and initiating action), the greater the sustainability.

- Government has a key role to play in promoting an environment for participation. With the right incentives, including a degree of autonomy, public agencies have been able to reorient themselves in support of beneficiary participation. Linked to this is the need to strengthen public sector management capacity and to encourage greater decentralization in governments. The legal framework for intermediary organizations is also critical in supporting participation of the poor.

Military Expenditures

The level of military expenditures in some countries has long been a concern of the Bank. In many developing countries, government budgets lack transparency, especially with regard to military expenditures. The latter may be no more than a single-line entry in budgets, tax revenues may be directed to extrabudgetary funds, and military debt is often unrecorded. Military spending may not be properly scrutinized when budgets are prepared or accounted for and audited when the money is spent. Furthermore, the military in some countries may control protected state enterprises that impose a heavy fiscal burden. Because of the secrecy that traditionally surrounds military budgets and the sensitivity of governments to the questioning of defense outlays, and because providing for security needs is intrinsic to political sovereignty, the level of military expenditure has been seen as a governance issue rather than a straightforward matter of public expenditure priority.

In recent years, the World Bank's interest in military expenditures has grown. First, as countries struggle to contain fiscal deficits and create conditions for sustained growth, there is a need to shift resources from public consumption to more productive spending categories, such as infrastructure and the social sectors, which contribute more directly to economic performance. There are member countries in which the high share of military spending in the budget is crowding out allocations to programs more directly relevant to social progress and economic growth.

Second, the end of the Cold War provides an opportunity to reassess military budgets that owed more to a country's association with major power blocs than to domestic or regional security needs.

Third, there is the perception by many bilateral donors that because of the fungibility of budget resources, aid has indirectly financed higher levels of military spending than would otherwise have been possible. This concern applies as much to World Bank Group lending as it does to bilateral aid. Donors have raised the subject of military expenditure in aid coordination forums in which the Bank is looked toward for leadership. Some bilateral donors have made reductions in the level of military expenditures an explicit allocation criterion for their aid. Finally, there have been countries whose governments have directly sought Bank assistance, either for the conversion of defense industries to peaceful purposes or for demobilization and reintegration of former combatants into the civilian economy.

To explore the implications of military expenditures for the Bank's mandate, a working group was convened in 1991. This working group reviewed the issues raised by military expenditures in relation to the Bank's Articles of Agreement, whether the Bank had a comparative advantage in the field, and the types of assistance that might be sought by governments trying to reduce military outlays. In addition, a symposium on military expenditure issues was held (Lamb and Kallab 1992). A clarification of the Bank's approach was provided to the Executive Board and to World Bank staff in December 1992 while the Bank agreed to work closely with the International Monetary Fund (IMF) in seeking from borrowers better information on military-related aggregate expenditures and military-related debt.

Within the framework of its guidelines, the World Bank has confronted the issue of military expenditure in the case of several countries in which such allocations seemed excessive relative to spending on development objectives and when important social and physical infrastructure programs were being starved of resources. Because of the sensitivity of the topic, the dialogue has been at the level of Bank senior management and country leaders. The Bank stands ready to work with borrowers to analyze the impact of nondevelopment expenditures, including military expenditures, with a view to reducing them to the extent feasible.

In some countries (Argentina and Uganda, for example), the World Bank has responded to government requests to develop options for bringing military expenditures more in balance with other spending priorities and has provided broad support for implementing such changes. In such circumstances, care is taken to ensure that a proper distinction is made between those aspects of the subject that fall within the competence of the Bank to advise on and those that lie outside it. Although the aggregate level of military expenditure is an appropriate area for the Bank to focus on if such expenditure has an adverse impact on development programs, the focus on specific equipment purchases, for example, is not. The Bank addresses the level of military expenditure in the context of the resources needed for economic development.

An important study has recently been completed by staff of the Bank's Africa region on the comparative experience of eight countries in demobilization and reintegration of military personnel, following civil war. The purpose of the study is to better equip the Bank to provide assistance to countries that seek to reintegrate former combatants (box 2.4), a task that has some parallels (as well as major differences) with civil service reform and downsizing.

Several conclusions may be drawn from the Bank's experience of grappling with the issue of military expenditure. The first is the complexity of the topic. Although there may be a number of countries where high levels of military expenditure crowd out budgetary allocations to more directly productive programs in the social and economic sectors and also contribute to high fiscal deficits, a direct inverse relationship between military expenditure and economic growth is difficult to establish. In an econometric study of data from 71 noncommunist countries (Landau 1993), no clear relationship could be found between military spending and economic growth except at very high levels of the former. A strong correlation, however, was found between military expenditure in one country and the level of military spending in neighboring countries.

Second, the cases where the Bank has discussed military expenditure as an issue have tended to be countries with a relatively high dependence on external aid flows. Since bilateral aid donors are increasingly making the level of military expenditure a criterion of their assistance, the issue inevitably arises in the dialogue with governments, given the Bank's central role in aid coordination forums. Elsewhere, the Bank's treatment of this highly sensitive issue has depended on country circumstances and the state of the dialogue with the government.

Third, as Argentina's experience shows (box 2.5), there is scope for developing what might be termed a governance approach to military expenditure. In contrast to many developing countries, civilian control over the military is

BOX 2.4 DEMOBILIZATION AND REINTEGRATION

For many African countries it has become painfully clear that continuing insecurity and the diversion of resources caused by civil war represent the primary roadblocks to economic and social development. African countries embroiled in such conflict routinely spend between 15 and 40 percent of their national budgets and between 5 and 10 percent of their GNP on the military. These countries rank in the bottom 15 percent of the UNDP's human development index and spend only between 0.6 and 6 percent of their GNP on priority development expenditures. However, the combination of economic deterioration and the end of the Cold War rivalry between East and West has created a climate in which many African governments are starting to explore ways to shift human and material resources to nonmilitary sectors of the economy.

It is in this context that the World Bank is increasingly receiving requests by member governments for technical and financial assistance to reintegrate demobilized combatants. However, experience with such programs is limited, particularly in weak economies with low administrative and institutional capacities. Thus, in April 1992, the World Bank's Africa Region sought to educate itself by undertaking informal research on the experience with demobilization and reintegration programs (DRPs) to date. The report focused on seven countries—Angola, Chad, Mozambique, Namibia, Nicaragua, Uganda, and Zimbabwe.

Analysis of the programs shows up their institutional, logistical, and political complexity. Some programs have required disarming former combatants and transporting and targeting benefits to more than 80,000 people in a relatively short period of time. Moreover, in most cases, governments were newly formed, in transition, or weakened after years of civil war.

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firmly established in the industrialized democracies. Budgets are transparent, defense priorities are regularly debated and reviewed by officials, legislators, and an informed media, and spending proposals are subject to the same scrutiny as civilian programs. The more extensively other countries are able to apply this approach, the more likely military budgets will become consistent with a country's genuine security needs and resources will be used efficiently and be properly controlled and accounted for.

The conclusion relates to defense industry conversion, a major issue for countries in Europe and Central Asia. Here the World Bank's Articles of Agreement explicitly permit the Bank to assist countries in conversion of wartime facilities for civilian use, and the Bank's reluctance to become directly involved in the restructuring of specific defense industries has to do with the

DRPs thus demand close coordination among a diverse group of players who may not be in the habit of communicating among themselves—the military, the civilian government, NGOs, donors, and local communities. Reintegration programs that were planned, even notionally, while combatants were still demobilizing, provided crucial information on ex-combatants' background, skills, and intended place of settlement and allowed officials to issue identification cards for benefits eligibility.

Although virtually all DRPs ended up providing some form of cash compensation (ranging from 12 percent to five times GNP per capita), program planners stressed the importance of basic and vocational training. Anecdotal accounts suggest that smaller, privately run training programs were more efficient and effective than large government-run programs. Program planners also stressed the importance of involving veterans in program management, as has been done in Uganda with the creation of local veterans' organizations.

The cost of a DRP is generally similar to or less than that of a civil service retrenchment program, ranging from US$1,050 per combatant in Chad to more than US$3,000 per combatant over a period of five years in Zimbabwe. In the latter, which had a program offering the highest total payments to ex-combatants, 83 percent of former guerrillas had found employment eight years after the DRP. However, 55 percent of them found that employment in either the civil service or the military. Analysis noted that in Uganda the "peace dividend" generated US$14 million in fiscal 1993 alone; in Nicaragua, defense expenditures dropped from 28 percent of GDP in 1989 to 5 percent in 1991, and in Zimbabwe defense expenditures as a percentage of GNP decreased from 8.8 percent in 1980 to 6.7 percent in 1989.

practical difficulty of achieving a successful outcome rather than an absence of mandate. Instead it has emphasized the role of macroeconomic and sector policy reforms to provide an environment in which market-based enterprise restructuring may take place.[13] This would appear to be a more realistic approach than direct intervention. Defense industry is often spread across many different industrial sectors, and the Bank has concluded that isolating military conversion as a topic for special attention other than in the context of policies for overall industrial restructuring would be inappropriate for the institution. The Bank's review of the experience of defense conversion in Western industrialized economies has found few successful examples to follow (H[illegible]witz 1992). Where alternative product lines had been developed, they absorbed only a fraction of the labor force formerly employed in defense production.

BOX 2.5 DEFENSE BUDGET RESTRUCTURING IN ARGENTINA

Argentina's achievements in stabilization and structural reform in the past two years are widely recognized. One element in the reform of the public sector has been a reduction in military spending, accompanied by a program to rationalize the armed forces in tune with the country's security needs.

At the request of the Ministry of Defense, a recent World Bank internal report analyzed military expenditure in detail. Although Bank reports in the past have touched on defense expenditures, this was the first deep analytical work on the subject in a country context. Specifically, the discussion on military expenditure covered the following:

- Analysis of military expenditure, historically and by major categories, highlighting shares and trends (downward relative to GDP but with a growing imbalance between the wage bill and operations and maintenance
- Review of defense enterprises and the government's plans to privatize them, along with recommendations on asset disposal policy
- Analysis of the military and civilian wage bill of the Ministry of Defense, including pensions. Costs and benefits of different downsizing options (in terms of wage bill savings and severance costs—not military effectiveness); recommendations on rationalizing pensions, simplifying pay scales, and retrenchment.
- Basic principles for treating military expenditure: subjecting defense spending proposals to same budgetary processes as other categories; transparency; use of asset sales proceeds to finance structural reforms in the military; or overall deficit reduction, not consumption.

The public finance review is pathbreaking not only for the topic chosen but also for the way in which the analysis proceeded. This was to treat military expenditures as essentially no different from other categories of spending. At the same time, care was taken to analyze options that the Argentina authorities were already considering and to avoid making judgments about military expenditures. A follow-up project assisting the defense ministry in privatizing airports and disposing of real estate is under preparation, using divestiture techniques applied in other sectors.

Human Rights

Within the donor community the political dimensions of governance are becoming increasingly important in determining the allocation of bilateral aid flows. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) links the World Bank's definition of governance with participatory development, human rights, and democratization. It sees an overall agenda emerging in the aid policies of its member states with the following links: legitimacy of government (degree of *democratization*), accountability of political and official elements of government (media freedom, transparency of decisionmaking, accountability mechanisms), competence of governments to formulate policies and deliver services, respect for human rights and rule of law (individual and group rights and security, framework for economic and social activity, and participation) (OECD 1993).

Although human rights are in a larger sense indivisible, the World Bank, as an international financial institution, deals with those aspects of human rights relevant to its mandate. Except in situations where the violation of human rights has created conditions hostile to effective implementation of projects or has other adverse economic consequences, or where there are international obligations relevant to the Bank, such as those mandated by binding decisions of the U.N. Security Council, the World Bank does not take into account the political dimensions of human rights in its lending decisions. The World Bank's Articles of Agreement prohibit the institution from taking political considerations into account, interfering in the political affairs of any country, or being affected by the political form or orientation of a country. Consistent with the Articles, the focus of the Bank's efforts in the area of human rights is on those rights that are economic and social in nature.[14]

The Bank's contribution to economic and social human rights is embodied in its strategy on poverty reduction and has two mutually reinforcing elements. As elaborated in *World Development Report 1990*, the first element in this strategy is to promote the productive use of the poor's most abundant asset—labor—through policies that provide opportunities and enable poor people to participate in economic growth. In turn, this means economywide and sectoral polices that encourage rural development and urban employment, such as relatively undistorted product and factor markets, sound macroeconomic management, public provision of infrastructure, and an environment that makes technical change accessible to small farmers and the poor. The Bank's strategy for economic and social human rights also means specific policies to improve the participation of the poor in growth by increasing their access to land, credit, and public infrastructure and services, together with special measures for resource-poor regions where poverty and environmental degradation are interrelated.[15]

The World Bank has also been concerned with the treatment of indigenous people, such as in regard to resettlement and land titling. An example of the latter is the new Natural Resources Management Project in Colombia.

The second element in the Bank's poverty reduction strategy is to provide basic social services to the poor, such as primary health care, family planning, nutrition, and primary education, thus enhancing economic and social human rights. These policies may also need to be augmented by targeted transfer programs and social safety nets.

The promotion of human rights through the Bank's poverty reduction strategy is reflected in the growing share of World Bank lending commitments to human resources development. As noted in the Bank's 1993 poverty report (World Bank 1993c), total Bank lending to human resources development has increased almost fivefold in dollar terms since the early 1980s and rose from 5 percent of total Bank lending in fiscal years 1981–83 to 14 percent in fiscal years 1990–92. The share of lending further rose in fiscal 1993 to 16 percent.

Accompanying the rising share has been a shift in the composition of World Bank lending to human resource development, with lending now concentrated in the development and extension of basic social services, such as primary health care and primary education, with special emphasis on maternal and child health and on improving educational opportunities for girls. There has also been increased targeting of resources within projects toward the poor. An increasing number of World Bank adjustment loans are addressing poverty-related issues, such as the promotion of social safety nets, the protection and reorientation of public spending for social services, and the development of poverty policy and the monitoring of poverty conditions by the government. In addition, in recent years a major shift has occurred in human resources lending, with a growing number of investment loans supporting the introduction, development, and extension of the various facets of social safety nets and labor market interventions, such as social security systems, health and social insurance systems, and social assistance schemes. Accompanying this has been a sharp increase in the amount of country-specific poverty analysis the World Bank is carrying out, through its country poverty assessments and poverty related economic and sector work. By mid-1994, twenty-nine country poverty assessments had been carried out, with a further forty under way. These assessments provide a vehicle for dialogue on poverty issues—in some countries not just with governments but with a wider audience (for example, Uganda and Zambia).