The Parliament of the Commonwealth of Australia

Joint Standing Committee on Foreign Affairs, Defence and Trade

Australia, the World Bank and the International Monetary Fund

Australian Government Publishing Service
Canberra

Australia, the World Bank and the International Monetary Fund

The Parliament of the Commonwealth of Australia
Joint Standing Committee on Foreign Affairs, Defence and Trade

The Parliament of the Commonwealth of Australia
Joint Standing Committee on Foreign Affairs, Defence and Trade

Australia, the World Bank and the International Monetary Fund

Australian Government Publishing Service
Canberra

ISBN 0 644 28707 1

Printed in Australia by A. J. LAW, Commonwealth Government Printer, Canberra

TERMS OF REFERENCE

Australia's relationship with the World Bank and IMF and the opportunities for Australia's participation in Bank and Fund projects, highlighting those aspects which would be in Australia's long term economic and trade interests.

JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

MEMBERSHIP OF THE COMMITTEE

36th Parliament

Senator C. Schacht (Chairman)
Hon M.J.R. MacKellar, MP (Deputy Chairman)

Senator M.E. Beahan
Senator V.W. Bourne (from Oct 91)
Senator D.G.C. Brownhill
Senator C.M.A. Chamarette (from Mar 92)
Senator H.G.P. Chapman
Senator B.K. Childs
Senator N.A. Crichton-Browne
Senator G.N. Jones
Senator D.J. MacGibbon
Senator P.A. McLean*
Senator G.R. Maguire
Senator J. Vallentine**
Mr R.A. Atkinson, MP (from Sept 92)
Mr A.R. Bevis, MP
Mr D.M. Connolly, MP (to Aug 92)
Mr S.C. Dubois, MP
Dr H.R. Edwards, MP
Mr L.D.T. Ferguson, MP
Mr E.J. Fitzgibbon, MP
Mr E.L. Grace, MP (from Nov 91)
Mr R.G. Halverson, OBE, MP
Mr N.J. Hicks, MP
Mr C. Hollis, MP
Mr J.V. Langmore, MP
Mr M.J. Lee, MP
Mr E.J. Lindsay,
Hon J.C. Moore, MP RFD, MP
Hon G.F. Punch, MP (to Nov 91)
Mr J.L. Scott, MP
Rt Hon I. McC. Sinclair, MP
Mr W.L. Taylor, MP
Dr A.C. Theophanous, MP

* Resigned from Parliament on 23 August 1991
** Resigned from Parliament on 31 January 1992

Secretary: Ms M.J. Vincent (to March 1993)
Secretary: Mr P McMahon (from March 1993)

JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

MEMBERSHIP OF THE COMMITTEE

37th Parliament

Senator S. Loosley (Chairman)
Hon M.J.R. MacKellar, MP (Deputy Chairman)

Senator M.E. Beahan
Senator V.W. Bourne
Senator D.G.C. Brownhill
Senator C.M.A. Chamarette
Senator H.G.P. Chapman
Senator B.K. Childs
Senator N.A. Crichton-Browne
Senator B. Harradine
Senator G.N. Jones
Senator D.J. MacGibbon
Senator the Hon M. Reynolds
Senator B. Teague
Mr A.R. Bevis, MP
Hon N. Blewett, MP
Mr G. Campbell, MP
Mr L.D.T. Ferguson, MP
Mr E.J. Fitzgibbon, MP
Mr G.D. Gibson, MP
Mr E.L. Grace, MP
Mr R.G. Halverson, OBE, MP
Mr D.P.M. Hawker, MP
Mr N.J. Hicks, MP
Mr C. Hollis, MP
Hon J.C. Kerin, MP
Mr J.V. Langmore, MP
Hon L.S. Lieberman, MP
Hon L.R.S. Price, MP
Hon D.M. Simmons, MP
Rt Hon I. McC. Sinclair, MP
Mr W.L. Taylor, MP

Secretary: Mr P. McMahon (from March 1993)
Secretary: Mr P. Stephens (from September 1993)

TRADE SUB-COMMITTEE

MEMBERSHIP OF THE SUB-COMMITTEE

36TH PARLIAMENT

Mr J.V. Langmore, MP (Chairman)
Senator H.G.P. Chapman (Deputy Chairman)

Senator M.E. Beahan
Senator D.G.C. Brownhill
Senator B.K. Childs
Mr R. Atkinson, MP (from September 1992)
Dr H.R. Edwards, MP
Mr L.D.T. Ferguson, MP
Mr E.L. Grace, MP
Rt. Hon I. McC. Sinclair, MP

Senator C. Schacht (ex officio)
Hon M.J.R. MacKellar, MP (ex officio)

Secretary: Ms M.J. Vincent (to 19 March 1993)
Acting Secretary: Mrs C.J. Samuels (from 19 March 1993)

Advisers: Mr G.K. Barrett
Dr H. Hill
Mr. P. Hanratty

Inquiry Staff: Mrs. M. Ellis

TRADE SUB-COMMITTEE

MEMBERSHIP OF THE SUB-COMMITTEE

37TH PARLIAMENT

Hon J.C. Kerin, MP (Chairman)
Senator D.G.C. Brownhill (Deputy Chairman)

Senator H.G.P. Chapman
Senator B.K. Childs
Mr A. Bevis, MP
Hon. N. Blewett, MP
Mr E.L. Grace, MP
Mr D. Hawker, MP
Mr J.V. Langmore, MP
Hon L.S. Lieberman, MP
Hon D.W. Simmons, MP
Rt. Hon I. McC. Sinclair, MP

Senator S. Loosley (ex officio)
Hon M.J.R. MacKellar, MP (ex officio)

Secretary:	Ms M.J. Vincent
Inquiry Secretary:	Mrs C.J. Samuels
Inquiry Staff:	Mrs. M. Ellis

FOREWORD

1 In its 1989 report on Third World Debt: An Australian View the Joint Committee on Foreign Affairs, Defence and Trade examined the impact of multilateral development bank (MDB) adjustment programs on the poor in developing countries. The committee recognised that the primary responsibility for action lies with recipient country governments because the impact of MDB loans on poverty depends on recipient government policies. However the World Bank and the International Monetary Fund have the ability to encourage recipient governments to increase the priority accorded to poverty reduction through their country assistance strategies and loan conditions.[1]

2 In 1989 both the Bank and Fund recognised the importance of designing policies to protect the poorest segments of the population during adjustment operations. Today however the perception remains amongst non government organisations (NGOs) that the MDBs still fail to adequately address developmental problems of employment growth, equity, poverty, population growth and environmental conservation.

3 For countries like Australia, membership of MDBs offers both the potential to influence Bank and Fund policies and the opportunity to export Australian goods and services to developing countries under their programs. However to date Australia has failed to capitalise on the opportunities offered by membership.

4 In 1991 the Committee requested the Minister for Foreign Affairs and Trade to provide terms of reference for an inquiry examining Australia's relationship with the World Bank and the International Monetary Fund (IMF), highlighting those aspects of Australia's relationship with the World Bank and Fund which would be in Australia's long term economic and trade interests.

---

1 Joint Committee on Foreign Affairs, Defence and Trade, ***Third World Debt: An Australian View***, AGPS, 1989, pp 45 - 51

5 The reference was advertised in national and capital city newspapers in November 1991 and the Trade Sub-Committee, chaired by Mr John Langmore, MP, conducted public hearings in Canberra during May, August and September 1992. A further public hearing, chaired by the Hon John Kerin, MP, was held in Canberra in July 1993. Seventy six submissions and 101 exhibits were received during the inquiry.[2]

6 The Committee believes that membership of the World Bank and International Monetary Fund has a five-fold benefit to Australia as it provides the opportunity:

- to participate as an active member of the international economic and financial system;
- to influence the policies of the MDBs to ensure that effective, equitable development policies are implemented;
- for Australian firms to participate in the procurement of goods and services for MDB projects, thereby increasing exports; and
- on the regional level, to enable Australia to encourage Bank and Fund involvement in South East Asia and the South Pacific, thereby enhancing our regional bilateral development programs; and
- to participate in the development debate in our region through the Bank's research into the economies of the South Pacific.

2 See ***Appendix 1*** for the list of public hearings and witnesses, ***Appendix 2*** for submissions and ***Appendix 3*** for exhibits presented to the Committee during the course of the inquiry.

7 Many of these issues have been discussed in recent reports by the Treasurer, the Australian International Development Assistance Bureau (AIDAB) and the Department of Foreign Affairs and Trade.[3]

8 The Committee welcomes the work within the departments to evaluate Australia's role within the MDBs. However evidence taken during this inquiry has confirmed our belief that there is still a serious lack of analysis within these about Bank and Fund policies that is exacerbated by a lack of communication with non government organisations. Furthermore there is a gaping hole in public discussion and scholarly research about Bank and Fund activities and a belief that an increased level of participation in MDB projects hinges upon the development of a new export culture within Australian business.

9 Until these problems are solved, the Committee believes that benefits to be gained by membership of the Bank and Fund remain limited.

3 See for example, the Annual Report to the Parliament under the International Bank for Reconstruction and Development (General Capital Increase) Act 1989 by the Hon J Dawkins, MP, Treasurer, Australia and the World Bank 1991 - 92; the Annual Report to the Parliament under the International Monetary Agreements Act 1947 by the Hon J Dawkins, MP, Treasurer, Operations of the IMF and World Bank 1991 - 92; Australian International Development Assistance Bureau, Exhibit 11; Department of Foreign Affairs and Trade, Exhibit 81; and Department of Foreign Affairs and Trade, Australia's Business Challenge : South-East Asia in the 1990s.

CONTENTS

APPENDICES

LIST OF BOXES

LIST OF FIGURES

LIST OF TABLES

GLOSSARY AND ABBREVIATIONS

Glossary

Boards of Governors

Both the Bank and Fund have similar management structures consisting of a Boards of Governors, an Executive Boards, and either a Managing Director or President and staff. The Boards of Governors consists of one Governor and Alternate from each member country, usually finance or economic ministers or heads of central banks and meets once a year. With the exception of certain reserve powers, the Boards of Governors have delegated their authority to the Executive Boards.

Commitments

Total amount of loans allocated by the World Bank and International Monetary Fund.

Co-financing

In 1969 the Bank created the Vice Presidency for Co-financing and Financial Advisory Services (CFS) as a catalyst for promoting the flow of additional financial resources to developing countries. The CFS helps to mobilise financial resources by providing general coordination of official bilateral and multilateral and private-sector co-financing of Bank projects, particularly in the power, water supply and industrial development/finance sectors. Co-financing arrangements with the Bank complement Australia's bilateral aid programs (see *Box 8*) and enhance opportunities for the involvement of Australian consultants in Bank projects through the Consultants Trust Fund.

Conditionality

The term refers to the economic policies that members must adhere to as a condition for the use of Fund resources. These are often expressed as performance criteria (for example, monetary and budgetary targets) and are designed to ensure that the use of Fund credit is temporary and otherwise consistent with the Fund's programs. The purpose of conditionality draws from Article V of the Fund's Articles of Agreement.

Constituencies

Members of the Bank and Fund are divided into 24 groups or constituencies which elect or appoint an Executive Director and Alternate to represent their interests and cast votes on their behalf on decisions taken by the Executive Boards. (See Executive Directors)

Cross cutting

The terms refers to projects aimed at reducing poverty which cut across sectoral lines and include investments to improve education, ensure environmental sustainability, expand economic opportunities for women, strengthen population-planning, health, and nutrition services and develop the private sector.

Disbursements

Amounts paid to contractors and suppliers for work undertaken and goods procured for projects funded by World Bank loans.

Executive Boards

The Executive Boards of the Bank and Fund are responsible for conducting the business of their respective organisations. The Executive Boards of the Fund consists of a Managing Director (the Fund) and 22 Executive Directors, whilst that of the Bank consists of a President and twenty four Executive Directors.

Executive Directors

The six members of the Fund holding the largest quotas (United States, United Kingdom, Germany, France, Japan and Saudi Arabia) appoint their own Executive Directors whilst the remaining sixteen are elected by the members of their constituency. (See ***Appendix 7***) The five members of the Bank having the largest shares of capital stock appoint their own Executive Directors (United States, Japan, Germany, France and the United Kingdom with the remaining nineteen being elected to represent constituencies. (See ***Appendix 8***)

Policy based lending

The Bank provides policy based lending through structural adjustment programs and sectoral adjustment lending. The former are widely focussed on the introduction of broad structural reforms in a borrowing country whilst sectoral adjustment lending is designed to support adjustment programs and reform in particular sectors. (See ***Appendix 16***)

Project lending

In its first decades, Bank lending was largely directed towards the creation of basic infrastructure such as roads, railways, telecommunications and port and power facilities. During the 1970s, a shift in emphasis towards project investments that made natural resources and physical infrastructure more productive was made. More recently however, project lending has been targeted towards poverty reduction and social sectors and cross cutting issues. Lending in the education, population, health and nutrition sectors in particular has been increased.

Structural and sectoral adjustment

Under Fund structural adjustment programs, highly concessional loans are provided to eliminate structural imbalances and rigidities in the economies of eligible countries facing balance of payments problems. The Fund has two special facilities which finance their structural adjustment programs, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility. (See ***Box 13***)

Structural and sectoral adjustment loans were established by the Bank under its policy based lending facility to contribute to a more sustainable balance of payments in the medium and long-term and to the maintenance of growth in the face of severe constraints, and to lay the basis for regaining momentum for future growth. Loans are provided in close connection with a Fund loan and are designed to achieved a more efficient use of resources. The Bank's support of economic restructuring in many of its borrowing member countries is based on the knowledge that the precondition for restoring economic growth-the cornerstone of successful development and poverty reduction-is structural adjustment.

Although Bank adjustment loans resemble those of the Fund, the Bank does not judge compliance with its terms on the basis of strictly quantified performance criteria such as changes in the money supply. Compliance with Bank loans is judged on the implementation of specific economic measures such as tax reform or deregulation of the market for certain goods.

Procurement

Goods and services are procured by countries utilising funds provided by Bank loans. The procurement rules and procedures to be followed in the execution of each project depend on individual circumstances but three considerations generally guide the Bank's requirements: the need for economy and efficiency n the execution of the project; the Bank's interest, as a cooperative institution, in giving all eligible bidders from developing and developed countries an opportunity to compete in providing goods and works financed by the Bank; and the Bank's interest, as a development institution, in encouraging the developing of local contractors and manufacturers in borrowing countries. (See ***Appendices 9 - 11***)

Quotas

The equivalent, expressed in Special drawing rights (SDRs), of the subscription paid by each member to the International Monetary Fund, of which up to 25 per cent is payable in SDRs or other acceptable reserve assets and the remainder in the member's own currency. Quotas vary with the economic size and circumstances of each member and are determined by the Boards of Governors. The quota is the most fundamental element in a member's financial and organisational relations with the Fund because it determines voting power, maximum access to the Fund's financial resources, and share in the allocation of SDRs. (See ***Box 3***)

Special drawing rights (SDRs)

The SDR is an international reserve asset created by the International Monetary Fund following the First Amendment of the Articles of Agreement in 1969. Participants' holdings of SDRs constitute an integral part of their international reserves, together with their holdings of gold, foreign exchange and reserve tranche positions within the Fund.

The SDR was created as a supplement to existing reserve assets and is allocated by the Fund to members participating in the SDR Department. Its value as a reserve asset derives essentially from the commitments of participants to hold and accept SDRs and to honour various obligations connected with its proper functioning as a reserve asset. Thus the functioning of the SDR Department is based on the principle of mutuality and inter-government cooperation. (See *Box 8*)

Abbreviations

ACFOA	Australian Council for Overseas Aid
AIDAB	Australian International Development Assistance Bureau
AUSTRADE	Australian Trade Commission
CAA	Community Aid Abroad
DASET	Department of the Arts, Sport, the Environment and Territories
DEST	Department of the Environment, Sport and Territories
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
DITARD	Department of Industry, Technology and Regional Development
EFIC	Export Finance and Insurance Corporation
ESAF	Enhanced Structural Adjustment Facility
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Association
IDC	Inter-departmental committee
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	Multilateral development banks
MIGA	Multilateral Investment Guarantee Agency
MTIA	Metal Trades Industry Association
NGO	Non government organisation
OECD	Organisation for Economic Cooperation and Development

RBA	Reserve Bank of Australia
SAF	Structural Adjustment Facility
SDR	Special drawing rights
STF	Systematic Transformation Facility
UNAA	United Nations Association of Australia
UNDP	United Nations Development Program

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

SELECTION OF AUSTRALIA'S EXECUTIVE DIRECTOR

1 The Committee recommends that the Government guarantee that the position of Australian Executive Director in all international financial institutions be advertised publicly and that expertise in development and development finance issues be an essential criterion for selection. Selection panels should be broadly based and must include an appropriately qualified member with development experience in addition to Treasury and Department of Foreign Affairs and Trade officers. (Recommendation 6, paragraph 1.90)

THE AID BUDGET

2 The Committee recommends that multilateral aid should be a separate component of the aid budget. A special mechanism should be established for dealing with MDB contributions so that payment does not take pockets of money out of the bilateral aid budget. (Recommendation 5, paragraph 1.73)

PARLIAMENTARY SCRUTINY

3 The Committee recommends that details of the Fund's Article IV consultation with Australia be included in the Treasurer's report to the Parliament under the International Monetary Agreements Act 1947. The Treasurer's report should also include the reasons why Article IV consultations have not been placed on the public record in the past.(Recommendation 2, paragraph 1.28)

4 The Committee recommends that Treasury and the Reserve Bank of Australia produce a discussion paper on the role of the International Monetary Fund in the management of the value of the Australian dollar. (Recommendation 3, paragraph 1.35)

5 The Committee recommends that the Departments of Foreign Affairs and Trade and the Treasury adopt a broader perspective when assessing and reporting on the appropriateness of Bank and Fund activities. (Recommendation 16, paragraph 3.29)

6 The Committee recommends that the Treasurer's Annual Report to the Parliament under the International Bank for Reconstruction and Development (General Capital Increase) Act should include details of the Government's efforts to enhance poverty alleviation by the World Bank. It should also evaluate the impact of these efforts. (Recommendation 18, paragraph 3.83)

7 The Committee recommends that the responsible Minister should report annually to the Parliament on the expected poverty impact of all structural and sectoral adjustment loans approved by the Bank and the Fund over the preceding period. (Recommendation 19, paragraph 3.85)

8 The Committee recommends that our Executive Director press for greater availability of Bank and Fund documentation to Members of Parliament. (Recommendation 30, paragraph 4.43)

9 The Committee recommends that information on Australia's voting patterns on Bank and Fund decisions be included in the Treasurer's annual report to the Parliament. (Recommendation 31, paragraph 4.45)

10 The Committee recommends that the Speaker of the House of Representatives and the President of the Senate write to the Presiding Officers of the parliaments of the countries which at present supply the Executive Directors of the International Monetary Fund and the World Bank inviting them to attend a preliminary meeting in Washington to establish an inter-parliamentary assembly to monitor the International Monetary Fund and the World Bank and that they invite the Secretariat of the Interim and Development Committees to provide the conference secretariat for that meeting. (Recommendation 32, paragraph 4.55)

LIAISON BETWEEN GOVERNMENT DEPARTMENTS AND NON GOVERNMENT ORGANISATIONS

11 The Committee recommends that there be more public exposure and discussion of the operation of the Bank and Fund through the establishment of a permanent working group (IDC) to monitor Bank and Fund activities and to brief the relevant departments, non government organisations and the Parliament. This IDC should take the form of an Advisory Council on International Development comprising Treasury, DFAT, AIDAB, academics and NGOs. (Recommendation 28, paragraph 4.39)

12 The Committee recommends that our Executive Director press for wider contact between the Bank, Fund, and Australian non government organisations and academics through regular information seminars. (Recommendation 29, paragraph 4.42)

MEASURES TO EXPAND THE USE OF AUSTRALIAN GOODS AND SERVICES IN BANK PROJECTS

13 The Committee recommends that Australian agencies be encouraged to improve the timeliness and level of their statistical reporting. (Recommendation 8, paragraph 2.26)

14 The Committee recommends the preparation and distribution of a pamphlet by AUSTRADE of guidelines to Australian companies on how to meet Bank tender requirements. (Recommendation 9, paragraph 2.36)

15 The Committee recommends that AUSTRADE and AIDAB investigate mechanisms, such as business consultative groups, to encourage the formation of consortia to bid for Bank projects and to better link consultants with suppliers. (Recommendation 10 paragraph, 2.36)

16 The Committee recommends that Australia press the Bank to adopt similar measures to the OECD mixed credit guidelines. (Recommendation 11, paragraph 2.39)

17 The Committee recommends that Austrade and the offices of Australia's executive director must increase their efforts to:

- enhance the knowledge and competitiveness of Australian companies of Bank tender opportunities; and

- increase the awareness of both Bank and loan country procurement personnel about Australian products and services that meet their requirements. (Recommendation 12, paragraph 2.52)

18 The Committee recommends that programs such as the Metal Trades Industry Association (MTIA) visit be continued and expanded to include as many companies as possible. Annual visits by a delegation of Australian business people to Washington and project identification missions into recipient countries should become a regular feature of contact between Australia and the Bank. (Recommendation 13, paragraph 2.54)

19 The Committee recommends that the co-financing facility be developed and that AIDAB draw closely on the National Trade Strategy in identifying projects that will maximise trade and commercial benefits. (Recommendation 14, paragraph 2.58)

20 The Committee recommends the maintenance of the Consultants Trust Fund at the current level and the establishment of a Consultants Development Fund. (Recommendation 15, paragraph 2.60)

AUSTRALIA'S ROLE IN IMPROVING THE EFFECTIVENESS OF THE BANK AND FUND POLICIES

21 The Committee recommends that Australia join the Multilateral Investment Guarantee Agency. (Recommendation 1, paragraph 1.18)

22 The Committee strongly recommends that Australia's full entitlement to additional shares in the Bank be taken up so as to maximise our influence within the Bank. (Recommendation 4, paragraph 1.63)

23 The Committee recommends that the Government strive within the Fund to achieve a poverty alleviation focus in all structural adjustment lending. Within the Bank the Government should press for full implementation of the Bank's poverty alleviation policies in its structural adjustment lending and for more resources to be directed to evaluating the poverty impact of these loans. (Recommendation 17, paragraph 3.85)

24 The Committee recommends that the Australian executive director exercises a more stringent oversight of Bank loans to ensure that the Bank takes a more active role in evaluating the impact of its programs upon the environment and the population. (Recommendation 20, paragraph 3.104)

25 The Committee recommends that Australia strongly press the Bank and Fund to strengthen advice given during loan negotiations to take greater account of poverty, population growth, land redistribution and the environment. (Recommendation 21 paragraph 3.117)

26 The Committee recommends that Australia urge the Bank and Fund to give greater priority to the implementation and supervision of projects and to evaluate the effectiveness of their loans. (Recommendation 22, paragraph 3.133)

27 The Committee recommends that Australia support the new issue of Special Drawing Rights. (Recommendation 25, paragraph 3.148)

28 The Committee recommends that Australia take more initiative in the development of Bank and Fund policies so as to increase the effectiveness of the institutions in stimulating growth of employment, equity and environmental responsibility in all member countries. (Recommendation 26, paragraph 4.24)

29 The Committee recommends that Australia's executive director open discussion within the Boards that the Bank be permitted to raise funds in international capital markets beyond a limit set by its funded and contingent capital and as a multiple of that capital base. (Recommendation 27, paragraph 4.29)

AUSTRALIA'S ROLE IN IMPROVING OPERATIONAL EFFICIENCY WITHIN THE BANK AND FUND

30 The Committee recommends that the Bank be encouraged to devote more resources to procurement data collection and management with a view to improving the quality of its statistical reporting. (Recommendation 7, paragraph 2.26)

31 The Committee recommends that Australia support the proposal to establish an independent inspection panel to investigate complaints about adherence to the Bank's operating rules and procedures in relation to projects it supports. (Recommendation 23, paragraph 3.134)

32 The Committee recommends that Australia urge the Bank and Fund to make public their internal and external audits to enable effective scrutiny of their operations. (Recommendation 24, paragraph 3.140)

CHAPTER 1
OVERVIEW OF AUSTRALIA, THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND

Box 1

The Roles of the International Monetary Fund and the World Bank

The International Monetary Fund		***The World Bank***
Oversees the international monetary system and promotes international monetary cooperation.	.	Seeks to promote the economic development and structural reform in developing countries.
Promotes exchange stability and orderly exchange relations among its members.	.	Assists developing countries through long-term financing of development projects and programs.
Assists members in temporary balance of payments difficulties by providing short-to-medium-term financing, thus providing them with the opportunity to correct maladjustments in their balance of payments.	.	Provides special financial assistance to the poorest developing countries through the International Development Association (IDA).
Supplements the reserves of its members by allocating Special Drawing Rights if there is a long-term global need.	.	Stimulates private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC).
Draws its financial resources principally from the quota subscriptions of its members.	.	Acquires most of its financial resources by borrowing on the international bond market.

Source : International Monetary Fund, ***Annual Report 1992***, p 54

ORIGINS OF THE BANK AND FUND

1.1 The International Monetary Fund (IMF) was conceived in July 1944 when members of 44 nations met in Bretton Woods, New Hampshire, USA to finalise negotiations for establishing a mechanism to promote international monetary cooperation. It formally came into being on 27 December 1945 and began operations in May 1946. Australia was one of the founding members of the Fund, formally joining in August 1947.

1.2 The World Bank was also conceived at the Bretton Woods conference and given primary responsibility for financing economic development. The Bank began operations in December 1945 and today comprises the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The Bank has two affiliates: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). *Boxes 1 and 2* outline the roles of each of these institutions.

1.3 The IBRD's basic objective is economic development achieved through the instrument of a bank which, on the basis of capital contributed by member countries, borrows on world markets and then lends funds to governments for development purposes. On the other hand, the IDA lends on much more concessional terms to the least-developed countries utilising funds which are not borrowed commercially but which are contributed through replenishments from members.

1.4 The original development objective of the Bank has been supplemented over the years by cross-cutting objectives which include concerns for the environment, women in development and human resources development, particularly poverty alleviation.[1]

[1] Mr N Hyden, Acting Deputy Secretary (Financial), Department of the Treasury, ***Evidence 15 July 1993***, p 405

Box 2

The World Bank Group

The term World Bank refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The Bank has two affiliates: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Together the four institutions comprise the World Bank Group.

The International Bank for Reconstruction and Development is a multilateral development bank and was established in 1945. The capital of the Bank is subscribed by its member countries and its lending operations are financed by borrowings in the world capital markets. Loans are directed toward developing countries at more advanced stages of economic and social growth and generally have a grace period of five years, repayable over fifteen to twenty years.

The International Development Association was established in 1960 to provide assistance for the same purposes as the IBRD but primarily in the poorer developing countries. Loans are directed toward countries with an annual per capita gross national product of $US610 or less (in 1990 dollars) and more than forty countries are eligible under this criterion. The terms for IDA credits, so-called to distinguish them from IBRD loans, are designed to bear less heavily on borrower's balance of payments than would IBRD loans with ten-year grace periods, thirty-five or forty-year maturities, and no interest.

The International Finance Corporation (IFC) was established in 1956 to assist the development of less-developed countries by promoting growth in the private sector of their economies and helping to mobilise domestic and foreign capital for this purpose.

The Multilateral Investment Guarantee Agency (MIGA) was established in 1988, and has a specialised mandate to encourage equity investment and other direct investment flows to developing countries through the mitigation of investment barriers. To this end, MIGA offers investors guarantees against risks; advises developing member governments on the design and implementation of policies, programs and procedures related to foreign investments; and sponsors a dialogue between the international business community and host government on investment issues.

The Bank also administers the International Centre for the Settlement of Investment Disputes (ICSID) under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

The common objective of the World Bank group is to help raise standards of living in developing countries by channelling financial resources to them from rich countries.

1.5 There are many similarities between the Bank and the Fund. For example, both institutions concern themselves with economic issues and concentrate their efforts on broadening and strengthening the economies of their member nations, particularly through policies of structural adjustment. The two institutions hold joint annual meetings, seminars and missions and staff often appear at the same international conferences. They are both are headquartered in Washington and until recently were located in the same building near the White House.

1.6 Despite these similarities, there is a fundamental difference between the Bank and the Fund: the Bank is primarily a development institution whereas the Fund is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations.[2] It is important to recognise that the World Bank is first and foremost a bank. Its function should not be confused with that of agencies designed to provide aid to developing countries.

1.7 Particularly during the Republican years (1980 - 92), United States economic policies and philosophies have had a considerable bearing on the Bank. However the rapidly rising role of Japan as the world's (and increasingly the Bank and Fund's principal financier) has implications for Bank policies because Japan's bilateral aid program tends to be less 'policy prescriptive' than that of the US.

1.8 The President of the Bank and the Managing Director of the Fund are selected by their respect Executive Boards. Traditionally the Managing Director of the Fund is European, or at least a non-American whereas the President of the Bank has always been an American, coming from political backgrounds. The present incumbent, Mr Lewis T Preston III, is a slight break from this tradition in that his background is in the private banking system.

1.9 The Committee questioned whether this should still be the case, given that the economic balance in the Bank is changing.

2 D. Driscoll, *The IMF and the World Bank : How Do They Differ?* IMF, Washington DC, 1992, pp 1 - 2

MEMBERSHIP OF THE BANK AND FUND

1.10 Membership of the Fund is open to every state that controls its own foreign relations and is prepared to fulfil the obligations contained in the Articles of Agreement, a summary of which appears in ***Appendix 4.*** Since 1946 membership has grown from an initial 39 countries to 177 at the end of April 1993.

1.11 Membership of the Bank is conditional upon members' willingness to submit themselves to supervision by the Fund. The IBRD is currently owned by the governments of 174 countries and membership in its affiliates is only open to these countries. At the end of April 1993, 150 countries had joined IDA and 154 the IFC.[3] A summary of the Group's Articles of Agreement appears in ***Appendix 5.***

1.12 Australia joined the International Bank for Reconstruction and Development in 1948, the International Finance Corporation in 1956, the International Development Association in 1960 but is not currently a member of the Multilateral Investment Guarantee Agency.

1.13 By the end of April 1993, 121 countries had signed the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Although Australia signed the Convention in 1975, it was not ratified until 1991 because of questions raised over taxation privileges and immunities to be granted to ICSID officials and employees.

AUSTRALIA AND THE MULTILATERAL INVESTMENT GUARANTEE AGENCY

1.14 A final decision has not yet been taken as to whether Australia should join MIGA by the government. Ministers and their advisers in Treasury, Department of Industry, Technology and Regional Development (DITARD) and the Export Finance Insurance Corporation (EFIC) have yet to resolve the question of whether membership is warranted by the potential benefits relative to the cost.

3 Treasury, ***Submission 17F,*** p 1

1.15 The Committee sought advice from Treasury, DITARD and EFIC as to these costs and benefits. In a joint submission, they advised that membership of MIGA involves a commitment to share the multilateral insurance risk of investment by other countries in regions where Australia has little economic or aid interest. MIGA's risk profile is much higher than EFIC's and this could result in a continuing call for additional capital.

1.16 When the issue was examined several years ago, departments felt that the cost was not justified, however the international economic and political environment has become more risky and more information about MIGA, based on several years of operation, is now available. Accordingly EFIC has included a reconsideration of the issue within their 1993/94 business plan.[4]

1.17 Cover for Australian foreign investment in developing countries is already available from EFIC. In an earlier submission, Treasury indicated that the main benefit to Australia of joining MIGA would be to reduce EFIC's exposure in countries such as Papua New Guinea, Indonesia and Sri Lanka through reinsurance and the need for Development Import Finance Facility (DIFF) projects to be covered by the national interest account in countries where EFIC's exposure is already at the limit.

1.18 Based on the available information, the Committee believes that the benefits sufficiently outweigh the cost of $A5 million and that Australia should join MIGA.[5]

Recommendation 1

The Committee recommends that Australia join the Multilateral Investment Guarantee Agency.

[4] Treasury, *Submission 17H*, p 1

[5] Treasury, *Submission 17*, p 44

RESOURCES OF THE INTERNATIONAL MONETARY FUND

1.19 The Fund maintains a pool of resources which are primarily derived from currencies deposited by members but may also be supplemented by borrowing. Each member of the Fund has a quota (see *Box 3*), expressed in special drawing rights (SDRs) that is equal to its subscription to the Fund. When a country applies for membership, an appropriate quota is calculated based on that for existing members of comparable economic size.

Box 3

Quotas

A member's quota is the most fundamental element in its financial and organisational relations with the Fund:

- first, it determines a member's voting power in the Fund above the basic votes of 250 for each member;
- second, it determines a member's maximum access to the financial resources of the Fund (that is, the amount of balance of payments assistance it can obtain); and
- third, it determines the participants share in the allocation of special drawing rights (SDRs), an international reserve asset created by the Fund. Holdings of SDRs form part of members' international reserves.

1.20 The Articles of Agreement provide for a general review of quotas at intervals of not more than five years. The latest of these, the Ninth General Review of Quotas, was adopted by the Board of Governors on 28 June 1990 and provided for an aggregate quota increase of 50% from SDR 90.1 billion to around SDR 135 billion. This increase will not come into effect before the effective date of the Third Amendment of the Fund's Articles of Agreement.

1.21 This Amendment provides for the suspension of voting and other related rights of members that do not fulfil their obligations under the Articles and becomes effective when three fifths of Fund members, having 85% of the total voting power, have accepted the proposed amendment.[6]

LEGISLATIVE BASIS FOR FUND MEMBERSHIP

1.22 The increases under the Ninth General Review will not come into effect until the necessary legislative and/or regulatory processes have been completed in a sufficient number of member countries.

1.23 In the case of Australia, the legislative basis for membership is the *International Monetary Agreements Act 1947*, which also provides for the Treasurer to be Governor of the Fund for Australia, the Treasury to be the 'fiscal' agent, and the Reserve Bank to be the 'depository' for Australia's financial balances with the Fund. Australia supported the proposed quota increase under the Ninth General Review through the *International Monetary Fund (Quota Increase and Agreement Amendments) Act 1991*.

AUSTRALIA'S FUND QUOTA

1.24 Australia's current quota of SDR 1619.2 million (approximately A$2,848.7 million) will increase by 44 per cent to SDR 2333.2 million (approximately $A4.3 billion) when the latest increase comes into effect. The proposed increase will not affect Australia's current ranking of fifteenth (or 1.57%) in terms of quota size and voting strength in the Fund.

ARTICLE IV CONSULTATIONS

1.25 Under the provisions of Article IV of the Articles of Agreement, the Fund conducts regular consultations with all member countries as part of its surveillance responsibility. The purpose of these consultations is to provide the Fund with detailed and accurate information about the economic situation of each member and about the conduct of its economic policies.

6 International Monetary Fund, *Annual Report 1992*, pp 70 - 71

1.26 In his 1992 report to the Parliament under the ***International Monetary Agreements Act 1947***, the Treasurer commented that the last Article IV Consultation with Australia was held in March 1992, however because Article IV reports are prepared by the Fund they are not made publicly available.[7]

1.27 The OECD also reports on the Australian economy, but takes a different approach in that its findings are published. In supporting the confidential nature of the Fund's Article IV consultations, Treasury said that their reports are concerned very much with the external account and exchange rates which is not the sort of advice that can be given publicly. It would be possible to publish a report similar to that of the OECD but its usefulness would be diminished.[8]

1.28 The Committee believes that the taxpayer has the right to know what external pressures are being put on the government therefore consideration should be given by the Government to publishing details of the Article IV consultations between Australia and the Fund.

<u>Recommendation 2</u>

The Committee recommends that details of the Fund's Article IV consultation with Australia be included in the Treasurer's report to the Parliament under the *International Monetary Agreements Act 1947*. The Treasurer's report should also include the reasons why Article IV consultations have not been placed on the public record in the past.

7 The Hon John Dawkins MP, Treasurer, ***Operations of the IMF and World Bank 1991 - 92***, Annual Report to the Parliament under the International Monetary Agreements Act 1947, p 16

8 Mr E Evans, ***Evidence 15 July 1993***, pp 436 - 437

FINANCIAL TRANSACTIONS BETWEEN AUSTRALIA AND THE FUND

1.29 Australia has drawn upon Fund resources on several occasions over the course of its membership, in particular:

- credit tranche purchases in 1949, 1952 and 1961;
- use of the Fund's Compensatory Financing Facility in conjunction with export shortfalls in 1976; and
- use of the Fund's Buffer Stock Financing Facility in 1982 and 1983.

1.30 Currencies used in purchases, repurchases and other Fund transactions are selected by the Fund every quarter to be included in the operational budget. Since 1988-89 Australia has been involved in thirteen transactions under the operational budget. Nine of these (on the receipt side) involved providing Australian dollars in exchange for US dollars, with the remaining transactions exchanging US dollars for Australian.[9]

1.31 Details of Australia's financial transactions with the Fund are published in the Treasurer's Annual Report to the Parliament under the ***International Monetary Agreements Act 1947*** and a summary of 1991-92 transactions appears in ***Appendix 6***.

1.32 Orderly exchange rates are a central objective of the Fund and require the Fund to "promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation". (See ***Appendix 5, Article iii***) This Article is intended to guide all the Fund's policies and decisions. Unfortunately since Fund fixed exchange rates were abandoned in the early 1970s, the objective of orderly exchange rates and avoidance of competitive depreciations has been far too rarely achieved.

1.33 Australia in particular has suffered from very large swings in the value of its currency since the Australian dollar was floated. These often large short term swings in the value of the currency cause significant problems for Australian exporters and importers, because currency swings over hours or days are often large enough to extinguish export profits built up over years of market development.

---

9 Treasury, ***Submission 17***, p 39

1.34 The Reserve Bank of Australia (RBA) intervenes in the foreign exchange market to smooth the volatility of swings in the Australian dollar. It does this by buying or selling Australian dollars and foreign currencies. Obviously the RBA purchases of foreign held Australian dollars is limited by its access to foreign currency to pay for them.

1.35 The Fund's stated role in promoting exchange stability should encourage its involvement in stabilising the value of the Australian dollar. However Australia has not used Fund resources since the dollar was floated in 1983. Therefore the Fund does not appear to have been useful in smoothing the volatility of the Australian dollar.

> <u>Recommendation 3</u>
>
> **The Committee recommends that Treasury and the Reserve Bank of Australia produce a discussion paper on the role of the International Monetary Fund in the management of the value of the Australian dollar.**

FUND CONSTITUENCIES

1.36 Quotas are also used to determine representation on the Executive Board of the Fund, which comprises 24 Executive Directors. The quotas of the United States, Japan, Germany, France, the United Kingdom, Saudi Arabia, Russia and China are large enough to permit them to appoint their own Executive Directors, with the remaining sixteen Executive Directors representing groups of countries. An Alternate is also selected to represent the Executive Director during periods of absence.

1.37 Details of Fund constituencies and their voting power appear in ***Appendix 7***.

AUSTRALIA'S FUND CONSTITUENCY

1.38 Australia is a member of the Western Pacific Constituency, which also includes Korea, New Zealand, the Philippines, Papua New Guinea, Vanuatu, Western Samoa, the Solomon Islands, the Seychelles, Kiribati, Mongolia and the Marshall Islands. The Executive Director of this constituency is also assisting the Federated States of Micronesia until they complete the membership process.

1.39 Originally the constituency consisted of only three countries: Australia, New Zealand and South Africa. When South Africa withdrew in the early 1970s Australia looked for support from other countries to maintain our seat on the board, particularly from the Philippines and Korea. With the exception of Fiji, the smaller countries in the Pacific have joined our constituency automatically upon becoming members of the Fund. The Seychelles joined Australia because the relevant officials had good relations with us, going back to their education.

1.40 Provision exists for the Executive Director to be elected, however our influence within the constituency has ensured that an Australian has held the position since 1948. During 1991-92 the Executive Director was Mr A.E. Evans, now Secretary of the Treasury. His replacement is Mr E Waterman, a former Treasury official.

THE ORGANISATION AND MANAGEMENT STRUCTURE OF THE FUND

1.41 Under the Articles of Agreement the Fund consists of a Board of Governors, an Interim Committee, an Executive Board, a Managing Director and approximately 2,000 staff members. (See *Box 4*) All powers not conferred directly on the Executive Board or the Managing Director are vested in the Board of Governors.

1.42 The Fund maintains 3 small offices in Paris, Geneva and at the United Nations in New York, however most of its staff are located in Washington.

THE DEVELOPMENT COMMITTEE (THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES)

1.43 The link between the Bank and Fund is the Development Committee which consists of 24 members and meets in conjunction with the Interim Committee of the Fund. Its role is to advise and report to the Boards of Governors of the Bank and Fund on all aspects of the transfer of real resources to developing countries.

Box 4

The Board of Governors, Executive Board and the Interim Committee of the Fund

The Board of Governors, usually finance or economic ministers or heads of central banks, meets once a year and consists of one Governor and Alternate from each member country. With the exception of certain powers specifically reserved to them by the Articles of Agreement, the Governors of the Fund have delegated their authority to the Executive Board.

The **Executive Board** is the Fund's permanent decision-making body, and comprises 23 Executive Directors appointed by member countries or elected by individual countries or groups of countries. Chaired by the managing director, the Board usually meets several days a week to conduct Fund business. Prior to reaching decisions, Executive Directors discuss papers prepared by Fund management and staff.

In financial year 1991/92 the Board spent more than half of its time on member-country matters (Article IV consultations and reviews and approvals of arrangements) and most of its remaining time on policy issues (surveillance and the world economic outlook, the Fund's income position and use of its resources, world monetary and capital market issues, and the debt strategy).

The **Interim Committee of the Board of Governors on the International Monetary System** is an advisory body made up of 23 Fund Governors who represent the same constituencies as in the Executive Board. The Interim Committee normally meets twice a year, in April or May, and at the time of the Annual Meetings in September or October.

It advises and reports to the Board of Governors on the latter's supervision of the management and adaptation of the international monetary system, considers proposals by the Fund's Executive Board to increase quotas or amend the Articles of Agreement, and deals with sudden disturbances that might threaten the international monetary system.

Source: International Monetary Fund, *Annual Report 1991-92*, p 14

THE ORGANISATION AND MANAGEMENT STRUCTURE OF THE BANK

1.44 The organisational structure of the Bank consists of a Board of Governors, an Executive Board, a President and approximately 6,000 staff members. (See *Box 5*) The World Bank Group maintains 40 offices throughout the world, although the majority of its staff work at its Washington headquarters.

1.45 A list of Executive Directors and constituencies of the Bank appear at *Appendix 8*.

Box 5

The Board of Governors and Executive Board of the Bank
Under the Bank's Articles of Agreement, all powers of the Bank are vested in a Board of Governors, consisting of one Governor from each member country. As with the Fund, the Board have delegated much of their authority to an Executive Board comprising 24 Executive Directors representing constituencies.
The Executive Board exercises its authority in three general areas:
. through the Board's annual oversight of the financial and operating programs, and administrative budgets, the Bank determines the allocation of financial and staff resources for the coming year;
. through the Board's review and approval of policy proposals, the Bank determines the direction of the Bank's policies; and
. through its review of evaluations of completed Bank projects and the Bank's experience in individual sectors and with particular policies, and consideration of proposals for future evaluation activities, the Board ensures that the Bank and its member countries can benefit from the lessons of experience.
The President of the Bank is the chairman of the Executive Directors and is the chief of the operating staff of the Bank. The Executive Directors are responsible for the conduct of the general operations of the Bank, which includes deciding on Bank policy in the framework of the Articles of Agreement and approving all loan and credit proposals.
In recognition of the Bank's current focus on the environment and sustainable development, human resources and private sector development, the regionally-based senior management structure has recently been enhanced by the additional of three new vice presidential positions.
Source: World Bank, *Annual Report 1991 - 92*, p 23 11

RESOURCES OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION

1.46 The IBRD funds its loans through capital subscriptions from members, borrowings in international capital markets and retained earnings and at 30 June 1992 the total subscribed capital stock was $US152,248 million. During fiscal 1992, loan disbursements of $US11.7 billion were made and loan principal repayments of $US9.5 billion received. In fiscal 1992 the IBRD borrowed the equivalent of $US11.8 billion in the world's capital markets and retired $US12.5 billion of existing

borrowings. For the recipient countries the net disbursements (difference between new loans and principal repayment) in fiscal 1992 was $US1.9 billion which was dwarfed by the $US7.8 billion interest payment on existing IBRD loans.

1.47 Projects are also funded through co-financing arrangements with official bilateral and multilateral development institutions as well as private sector organisations. A discussion of Australia's co-financing arrangements with the Bank appears in *Chapter 2*.

1.48 IDA does not have capital stock shares like the Bank and the IFC and the initial subscription of funds is replenished by members when a general increase in resources is required.

1.49 Credits are funded mostly from subscriptions, general replenishments from IDA's more industrialised and developed members and transfers from the net earnings of the Bank. During fiscal 1992, 110 IDA credits were approved totalling $US6.6 billion and total replenishments to IDA amounted to $US72,747 million at 30 June 1992.[10] Disbursements were $US4.8 billion, principal repayments were $US0.3 billion and net disbursements were $US4.4 billion. The disbursements were principally funded by the $US4.7 billion contributions by member countries in fiscal 1992. The total resources of IDA at 30 June 1992 were $US82 billion and, of this, $US73.4 billion came from member country subscriptions and contributions.

1.50 Members contribute to each IDA replenishment on a voluntary basis depending on their current economic circumstances. Agreement by 34 IDA donors on the 10th Replenishment was announced on 16 December 1992, and the replenishment of $US18 billion when combined with repayments by IDA borrowers on previous loans, will finance a total of about $US22 billion in commitments for development projects over a period of three years beginning 1 July 1993.

10 World Bank, *Annual Report 1992*, p 74 and Treasury, *Submission 17E*, p 1

1.51 Both the Bank and Fund also receive substantial payments from developing countries by way of loan repayments and interest charges. In net terms the Fund is taking more funds away from developing countries than it provides and the Bank a small net transfer to developing countries. Taken together the two institutions provide a negative net transfer. (See *Table 1)* However it should be noted that repayments of any loan will always exceed the initial value - whether it be for international borrowings or for a house loan.

1.52 The Committee felt that it was particularly disappointing that the level of net lending to the developing countries is now so small. The Bank and Funds lending policies and the effect of net transfers on developing countries is discussed further in *Chapter 3*.

Table 1

Net capital transfers (inflows less outflows)

	1980 $US	1990 $US	1980-90 % increase pa
Short term debt	-14,375	9,857	16.9
IMF	-10,461	-2,414	7.7
Long term debt	30,230	-25,173	-18.3
of which			
World Bank	3,110	1,750	-4.4
Commercial Banks	9,466	-15,173	-26.9
Aid Loans	8,857	11,153	2.6
Direct Foreign Investment	-5,163	11,110	31.5
Aid grants	18,389	38,492	10.9
NGOs	2,400	4,300	7.9
Total transfers	49,834	36,459	-2.7
of which			
Total aid	27,246	49,645	8.2

NB outflows equal principal repayments plus interest or dividends.

Source: ACFOA, *Submission 28*, p 7

AUSTRALIA'S SHAREHOLDING IN THE WORLD BANK GROUP

1.53 As at 30 June 1992 Australia held 21,610 shares valued at $US2,6 billion in the IBRD, representing 1.71% of capital stock subscribed to the Bank. At the same date Australia had contributed $US1.3 billion to IDA or 1.38% of total IDA contributions and subscriptions.

1.54 Australia's current shareholding in the IFC is 26,751 shares (valued at $US26,751,000) which represents 2.14% of the capital stock.[11]

1.55 *Table 2* shows the change in Australia's percentage of shares since the IBRD and IFC since the Bank's establishment.

Table 2

AUSTRALIA'S PERCENTAGE OF SHARES SINCE THE INITIAL SUBSCRIPTIONs

IBRD Proportion of Capital Stock (%)

1947	1950	1955	1960	1970	1980	1990	1991	1992
2.43	2.40	2.22	2.76	2.30	2.14	2.08	1.87	1.71

IFC Proportion of Capital Stock (%)

1956	1965	1970	1975	1980	1985	1990	1991	1992
2.83	2.24	2.07	2.06	.72	2.23	2.49	2.34	2.14

The fluctuations in Australia's percentage reflects the impact of new and existing members taking up subscriptions.

Source : Treasury, *Submission 17*, page 48-49, *Submission 17E*, and *Submission 17G*, p 2

[11] The Hon John Dawkins, MP, *Operations of the IMF and World Bank 1991 - 92*, Annual Report to the Parliament under the International Monetary Agreements Act 1947, p 9

LEGISLATIVE BASIS FOR WORLD BANK GROUP MEMBERSHIP

1.56 The authority for membership of the World Bank group is covered under various Acts which provide for Australia's subscription to shares. For example, membership of the IBRD is covered under the ***International Monetary Agreement Act 1947***, the IFC by the ***International Corporation Act 1955*** and IDA by the ***International Development Association Act 1960***. Authorisation for subsequent capital increases has been provided for in specific legislation as required, for example in the ***International Bank for Reconstruction and Development (General Capital Increase) Act 1989*** and the ***International Financial Institutions (Share Increase) Act 1986***.

IDA REPLENISHMENTS

1.57 IDA operates on the basis that, since the funds are used in highly concessional terms they are replenished every three to four years to enable further lending. Australia's contribution to each IDA replenishment is authorised by specific legislation as in the Ninth Replenishment under ***the International Development Association (Further Payment) Act 1990***. Under this legislation Australia agreed to contribute $A382.5 million to the Ninth replenishment of IDA which represented 1.99 per cent of donor contributions. Legislation for the Tenth Replenishment (the ***International Development Association (Further Payment) Act 1993***) was passed on 27 May 1993. Under this replenishment Australia will contribute 1.46 percent, amounting to $A350 million.

1.58 Contributions towards the Ninth Replenishment were made in three equal instalments in the form of promissory notes, with the last of these (valued at $A127,500.000) being lodged on 30 November 1992. The promissory notes are to be encashed by IDA over a period of around eight to ten years (commencing in 1990-91) as programs are implemented and monies disbursed. During 1991-92 Australia made payments totalling $A109.5 million, through draw downs of promissory notes.[12]

1.59 Australia's share in IDA has decreased as indicated in ***Table 3*** because of an increase in the number of donors and an adjustment to bring our contribution back into line with our relative size in the donor community.

[12] The Hon J Dawkins, MP, ***Operations of the IMF and World Bank 1992***, Annual Report to the Parliament under the International Monetary Agreements Act 1947, p 21

Table 3

IDA Replenishments (%)

1st	2nd	3rd	4th	5th	6th	7th	8th	9th
2.66	2.00	1.97	2.00	1.91	1.91	1.98	1.98	1.99

Australia's % share of voting in IDA

1964	1965	1970	1975	1980	1985	1990	1991
1.86	1.84	1.78	1.63	1.47	1.43	1.38	1.40

Source: Treasury, ***Submission 17***, p 49 and ***Submission 17G***, p 2

INTERNATIONAL FINANCE CORPORATION (IFC) CAPITAL INCREASE

1.60 Australia has decided not to purchase a share entitlement of 20,578 shares, valued at $US20.6 million, in the IFC's third capital increase. As a result, Australia's IFC shareholding will fall from 2.06 per cent to 1.16 percent.[13]

AUSTRALIA'S SHARE OF CAPITAL STOCK IN THE IBRD

1.61 Under the Bank's 1987 General Capital increase, Australia was entitled to subscribe to an additional 10,734 shares of capital stock and in 1989 took up 7,880 shares. In the past Australia has always taken up its full allocation of shares and the Government has until September 1993 to take up the remaining 2,854. The cost of taking up these shares is $US 10,328,768.70. ($A 14,755.384), however no decision has yet been made by the Government on whether Australia will subscribe to its remaining entitlement. [14]

[13] Treasury, ***Submission 17G***, p 8

[14] Treasury, ***Submission 17H***, p 2

1.62 As at 27 May 1993, the largest members of the Bank - UK, Germany, Japan, Canada, China, France, Russian Federation, Saudi Arabia, India and Italy - had all completed their subscriptions. The USA has 21,860 shares left unsubscribed but is likely to seek an extension of time to subscribe to the balance.[15]

1.63 Failure to take up the remaining shares would have implications for Australia's reputation within the Bank. As Treasury pointed out during evidence, within the institution itself and on the board, people's willingness to listen to our views or to accept our arguments may be affected by the feeling that we are not really someone who should be listened to if we are not paying our way.[16]

<u>Recommendation 4</u>

The Committee strongly recommends that Australia's full entitlement to additional shares in the International Bank for Reconstruction and Development (IBRD) be taken up so as to maximise our influence within the Bank.

BORROWINGS BY AUSTRALIA

1.64 Australia has been a modest borrower with loans totalling $US417 million all of which have been repaid. (see *Table 4*) In the early 1950s Australia possessed large sterling reserves and was receiving substantial inflows of private sterling capital. These resources could not be used to import all the goods and equipment needed for development because adequate supplies were not available from non-dollar countries. Therefore Bank loans (in $US) provided the necessary currency and enabled the Government to issue extra licenses for imports of capital equipment from the US dollar areas.

[15] Treasury, *Submission 17H*, p 2

[16] Mr N Hyden, Acting Deputy Secretary (Finance), Department of the Treasury, *Evidence 15 July 1993*, p 427

Table 4

BORROWINGS BY AUSTRALIA FROM THE WORLD BANK

Date Of Loan	Amount In ($US)	Purpose Of Loan
1950	100	Purchase of imported
1952	50	capital goods and equipment
1954	54	for the agricultural,
1955	54	manufacturing, mining,
1956	50	transport and power sectors
1956	9	Purchase of aircraft and equipment by QANTAS
1962	100	To finance part of the cost of the Snowy Mountains Project
TOTAL	417	

(Source: Treasury, *Submission 17*, p 50)

BANK CONSTITUENCIES

1.65 The five members of the Bank having the largest number of shares of capital stock also appoint their own Executive Directors (United States, Japan, Germany, France and the United Kingdom) with the remaining 19 being elected to represent constituency groups of member countries. Formal votes are rare as most decisions are reached by consensus. Details of Bank constituencies and voting power appear in *Appendix 8*.

AUSTRALIA'S BANK CONSTITUENCY

1.66 Australia is the largest shareholder in a Bank group constituency comprising New Zealand, the Republic of Korea, Vanuatu, Papua New Guinea, Western Samoa, Solomon Islands and Kiribati. As with the Fund, the Executive Director of our constituency is also currently looking after Mongolia. At 30 June 1992 the constituency held 3.32% of voting power in the IBRD and 2.57% in IDA.

1.67 The appointment of the Executive Director for our Bank constituency rotates between the three most influential members, with Australia providing the Executive Director from 1982-87, New Zealand from 1987-89 and Korea 1989-91. Australia again holds the position at present with New Zealand providing the Alternate .

CONTRIBUTIONS TO THE BANK AND FUND AS A PROPORTION OF THE AID BUDGET

1.68 Since 1984-85 MDBs have been protected from 15 per cent real cuts faced by the aid program as a whole. In contrast to the rest of the program however, Bank contributions have increased by 31 per cent while UN contributions have fallen by 36 per cent in real terms.

1.69 Concern was expressed to the Committee about the substantial increase in the proportion of Australia's aid program which is taken up by our contributions to the MDBs and the fact that further real aid cuts without substantial reductions in the Banks would lead to further distortions.

1.70 In particular AIDAB believes that this has implications for the rest of the Aid program because the whole program is virtually static in growth. [17] The United Nations Association of Australia also believes that our involvement with the Bank is at the expense of our bilateral aid program. The most effective use of membership can, they believe, be achieved by ensuring that the 12 per cent of Australia's official development assistance currently going to the MDBs reaches target beneficiaries of interest to Australia.[18]

[17] Mr C Terrell, Deputy Director General, Asia, Africa and Community Programs Division, AIDAB, *Evidence 12 May 1992*, p 110

[18] Mr P na Champassak, Vice president, ACT Division of the United Nations Association of Australia, *Evidence 13 May 1992*, p 203

Table 5

Asian Development Fund and International Development Association: Payments as a proportion of Total Aid

ADF $000	IDA $000	Total $000	ODA $ m%	Total/ODA	
1970/71	325	2,815	3,140	180.6	1.7
1974/75	1,971	15,314	17,285	328.1	5.3
1980/81	5,507	33,800	39,307	568.0	6.9
1981/82	6,857	35,600	42,457	658.0	6.5
1982/83	8,714	43,100	51,814	744.6	7.0
1983/84	12,750	70,100	82,850	833.4	9.9
1984/85	18,567	60,000	78,567	1,011.4	7.8
1985/86	23,000	62,500	85,500	1,031.0	8.3
1986/87	21,600	65.600	87,200	975.6	8.9
1987/88	11,700	70,600	82,300	1,019.6	8.1
1988/89	52,500	126,771	179,271	1,194.6	15.0
1989/90	21,200	43,000	64,200	1,173.8	5.5
1990/91	70,000	108,500	178,500	1,261.0	14.2
1991/92 E	49,900	109,500	159,400	1,313.9	12.1
1992/93 E	47,000	105,000	152,000	1,313.9	12
1993/94 E	102,000	113,000	215,000	1,313.9	16
1994/95 E	107,000	113,000	220,000	1,313.9	17
1995/96 E	113,000	99,000	212,000	1,313.9	16

E estimating using constant 1991/2 dollars

Source: ACFOA, *Submission No 28*, p 32

1.71 ACFOA is also concerned at the proportion of our contributions in relation to the overall program, estimating that this is expected to grow in the future and unless the size of Australia's aid program is expanded, future commitments to the Bank will significantly cut aid resources for other purposes.[19] (See *Table 5*)

1.72 Treasury believes that the bracketing of expenditures shows a recognition that a close relationship exists between multilateral and bilateral aid. In terms of contributions to our region, they argued, the multilateral banks have advantages in that they can influencing the policy framework of the recipient countries. With bilateral aid, generally Australia cannot question conditions for and policies of recipient countries. Therefore they doubted whether moving away from a global budget for aid would resolve the problem of the increasing percentage that is given to the MDBs.[20]

1.73 The Committee disagrees with this view and believes that the aid budget consist of two distinct parts: bilateral and multilateral.

Recommendation 5

The Committee recommends that multilateral aid should be a separate component of the aid budget. A special mechanism should be established for dealing with MDB contributions so that payment does not take pockets of money out of the bilateral aid budget.

FUND AND BANK LENDING TO DEVELOPING COUNTRIES

1.74 Although few net resources are provided by the Bank and the Fund they have an enormous influence over the developing countries. The Bank and the Fund often coordinate government and commercial lending in developing countries, and with their thousands of staff, are the pre-dominate influence in the intellectual and policy framework of development.

[19] ACFOA, *Submission 28*, p 30

[20] Mr E A Evans, Secretary, Department of the Treasury, *Evidence 15 July 1993*, pp 432 - 434

1.75 The failure of the earlier development policies to substantially reduce the huge numbers of extremely poor people and a growing awareness of the environmental problems of earlier policies has prompted a policy reappraisal by the Bank.

1.76 The Fund was originally intended to discourage countries from resorting to 'beggar-thy-neighbour' exchange rate devaluations which severely damaged world trade during the Great Depression. Members of the Fund were required to fix their exchange rates at a par value against the United States dollar (USD) which was backed by USD gold holdings.

1.77 The par value system performed well until the 1960s when changes emerged in the competitive positions of the major industrialised countries that were not reflected in timely and adequate adjustments in exchange rates. The reserve currency countries continued to run large deficits which added to global liquidity and budget deficit financing by the United States of the Vietnam War exacerbated these problems. In August 1971 the United States formally suspended the official convertibility of the dollars and by early 1973 the par value system had broken down entirely. This breakdown of the Bretton Woods system reduced the significance of the Fund.

1.78 Fiscal imbalances in several major countries and steep increases in prices for crude oil contributed to rapid growth in inflation and massive balance of payments deficits for oil importers in the 1970s. At the same time oil exporters were faced with huge surpluses and the world economy moved into recession.

1.79 The Fund's response to these problems included a dramatic increase in its lending activities supported by the General Arrangements to Borrow (established in 1962), two general increases in members' quotas and in December 1978, a restructuring of functions under the Second Amendment of the Articles of Agreement.

1.80 During the 1970s developing countries became the focus of the Fund's attention and facilities because expanded international capital markets provided financing for developed countries. Several facilities such as the oil facility and subsidy account and the Extended Fund Facility targeted developing countries.

1.81 The 1980s were the decade of the developing countries' international debt crisis. The Fund and the World Bank played an important role in the response to the crisis by providing loans to the debtor countries and by organising finance for them from governments and commercial banks in the industrial countries.

1.82 The 1990s have begun with many major challenges to the Fund. For example, the international monetary implications of European union and the growing importance of the European Currency Unit (ECU) have, to a large degree, reduced the Fund's role in exchange rate management and its SDR in Europe. Secondly, although monies are coming in from other sources, the desperate need of the new countries of Eastern Europe for financial assistance has outstripped the Fund's resources. It is of concern to the Committee that many developed countries are willing to divert resources to Eastern Europe to the detriment of other developing countries.

THE ROLE OF AUSTRALIA'S EXECUTIVE DIRECTOR

1.83 Our Executive Directors hold positions of influence within the Bank and Fund structures because they are conduits between the Australian government, other members of our constituency and the Executive Boards of the Bank and Fund.

1.84 Treasury maintains that the briefing provided to the Executive Director on matters coming before the Board is the result of consultation between interested Commonwealth departments and non government organisations (NGOs). Evidence presented to the Committee indicates however that this consultation is quite inadequate, an issue which is examined further in *Chapter 4*. The Committee is of the view that neither Cabinet nor the Parliament are adequately appraised.

1.85 In the past Treasury has held a monopoly on the Executive Director positions of the multilateral development banks (MDBs), a practice that was criticised by this Committee in its 1989 report on ***A Review of the Australian International Development Assistance Bureau and Australia's Overseas Aid Program***. In that report, the Committee recommended that:

> Australia's Executive Director and Alternate Director positions for both Banks should be filled on the basis of expertise in development and development finance issues. Therefore, they should be openly advertised both inside and outside the public service, and filled on merit.[21]

1.86 In evidence to this inquiry the Secretary of the Treasury said that it has now become standard practice for vacancies in these positions to be advertised outside the department.

> In terms of advertising and the composition of the selection committee, [Treasury has] progressively moved on from a position where the job was not advertised at all but somebody was appointed - it was advertised within Treasury, the Reserve Bank, the Department of Foreign Affairs and AIDAB - to a position where it has been advertised in the press.[22]

1.87 Treasury advised that the recent vacancy for Executive Director of our Fund constituency was advertised in the ***Australian Financial Review*** and ***the Weekend Australian***, and that the selection process for Australia's nomination was similar to that which the Commonwealth Public Service uses to fill any senior executive position.[23]

21 The Parliament of the Commonwealth of Australia, Joint Committee on Foreign Affairs, Defence and Trade, ***A Review of the Australian International Development Assistance Bureau and Australia's Overseas Aid Program***, March 1989, p 73

22 Mr A Cole, Secretary of the Treasury, ***Evidence 13 May 1992***, p 188

23 Mr E Evans, Secretary to the Treasury, ***Evidence 15 July 1993***, p 410

1.88 The previous Executive Director to the Fund, Mr Evans, now Secretary of the Treasury, said that fifteen applications were received. Although the successful candidate for the position was a Treasury officer, the other two applicants who were interviewed came from outside Treasury. Mr Evans also noted that the process attracted some interest at the Fund and made the historical files because there had never been a case of any country in which the position had been advertised.[24]

1.89 Whilst the Committee commends Treasury for advertising the position, concern still exists that the selection process is still weighted in favour of officers with experience more relevant to Treasury's internal requirements.

1.90 Mr Evans felt that development experience was quite essential for the World Bank and Asian Development Bank but not for the Fund, because it is not a development institution and is very much concerned with the global economy and the international monetary system. When it was pointed out to him that his predecessor, Mr Cole, had admitted that experience in development issues was still not specifically included in the selection criteria, Mr Evans added that he would be surprised if Treasury had not referred to a knowledge of development matters in the selection criteria. Whilst the actual selection criteria might have been worded in a way which did not use those specific words, it was clearly the intention to look at experience in development and economic policy issues generally.[25]

Recommendation 6

The Committee recommends that the Government guarantee that the position of Australian Executive Director in all international financial institutions be advertised publicly and that expertise in development and development finance issues be an essential criterion for selection. Selection panels should be broadly based and must include an appropriately qualified member with development experience in addition to Treasury and Department of Foreign Affairs and Trade officers.

24 Mr E Evans, Secretary to the Treasury, *Evidence 15 July 1992*, p 410

25 Mr E Evans, Secretary to the Treasury, *Evidence 15 July 1993*, p 411

CHAPTER 2
COMMERCIAL OPPORTUNITIES

2.1 All member countries of the Bank have the opportunity to compete for Bank-financed contracts. For example, at the end of fiscal 1992, 58 percent of Bank disbursements covered goods and services were provided directly by foreign suppliers located outside the borrowing country.

2.2 Loan disbursements by the Bank are currently around $US16 billion each year. In the five years FY88-FY92, around 49 per cent of total disbursements (IBRD and IDA) were in areas in which Australian firms have traditionally performed well as a supplier, namely the agriculture, energy, and transport sectors.

2.3 Evidence presented to the Committee indicates that involvement in Bank-financed business opportunities can help Australian firms in becoming established in serving export markets in developing countries, including the Asian region. From a trade perspective therefore, the primary benefit to be gained from Australia's membership of the Bank is the opportunity to participate in the procurement of goods and services, particularly in areas of comparative advantage.

THE COMPARATIVE ADVANTAGE OF SERVICE PROVIDERS OVER MANUFACTURERS

2.4 In relative terms Australian service providers perform better than our manufacturers in Bank projects. Indeed Australia's share of Bank service contracts has shown a rising trend over the past five years.

2.5 *Table 6* indicates the percentage of total Bank disbursements for goods and services for 1988 - 92 where Australia is the country of domicile of the contractor, whereas *Table 7* shows the same figures in US dollars. *Tables 8 and 9* show Australia's share of procurement funding under IBRD and IDA loans for the same period. All four tables utilised Bank disbursement figures, however it is important to recognise that the peak in 1989 for goods merely represents a period in which a high number of payments were made to contractors for contracts awarded in previous years, rather an increase in the level of participation.

Table 6

AUSTRALIA'S PROCUREMENT UNDER WORLD BANK LOANS
FY88 to FY92

	FY88	FY89	FY90	FY91	FY92
(by percentage share)					
Consultants	1.7	1.7	1.8	2.1	1.9
Equipment	0.5	0.7	0.4	0.7	0.5
Civil Works	-	-	0.2	-	-
Other	1.8	2.8	0.7	1.3	1.6
Total	**1.2**	**1.7**	**0.5**	**1.3**	**1.0**

Source : The Hon J Dawkins, MP, Treasurer, ***Australia and the World Bank 1991 - 92***, p 79

Table 7

AUSTRALIA'S PROCUREMENT UNDER WORLD BANK LOANS
FY88 to FY92

	FY88	FY89	FY90	FY91	FY92
(in $US million)					
Consultants	12.3	11.0	11.0	12.0	11.0
Equipment	16.6	26.0	19.0	30.0	20.0
Civil Works	-	-	1.0	-	-
Other	82.3	122.0	33.0	78.0	62.0
Total	**111.2**	**159.0**	**64.0**	**120.0**	**93.0**

Source : The Hon J Dawkins, MP, Treasurer, ***Australia and the World Bank 1991 - 92***, p 79

Table 8

AUSTRALIA'S PROCUREMENT UNDER WORLD BANK LOANS
FY88 to FY92

	FY88	FY89	FY90	FY91	FY92
(by percentage share)					
IBRD	1.2	1.9	0.6	1.6	1.0
IDA	1.0	1.3	0.4	0.5	1.0
Total	**1.2**	**1.7**	**0.5**	**1.3**	**1.0**

Source : The Hon J Dawkins, MP, Treasurer, ***Australia and the World Bank 1991 - 92***, p 78

Table 9

AUSTRALIA'S PROCUREMENT UNDER WORLD BANK LOANS
FY88 to FY92

	FY88	FY89	FY90	FY91	FY92
(in $US million)					
IBRD	86.3	126.0	53.0	106.0	70.0
IDA	24.9	33.0	11.0	14.0	23.0
Total	**111.2**	**159.0**	**64.0**	**120.0**	**93.0**

Source : The Hon J Dawkins, MP, Treasurer, ***Australia and the World Bank 1991 - 92***, p 78

2.6 In the period FY88-FY92 66 per cent of Australia's procurement was in the "other" category (mainly commodities imported under policy-based loans). The next largest categories were equipment (22%) and consultancy services (11%).

2.7 Hassall and Associates believe that there were a number of reasons for the perceived comparative advantage in consultancy services:

- Australia's technical excellence in the fields demanded by the Bank is high and Australians are known to be conscientious and thorough in their investigation and reports.

- Australia is an English speaking country and consultants provide access to the vast English language technical literature and produce good reports in English, the working language of the Bank. The major areas utilised by the Bank are agriculture and rural development, economics, social sector studies, organisation and management and resource management.

- Australia has never protected or subsidised consultants to any extent: they have been working in the international market for many years and Australian consultancy fees are about the world average.[26]

2.8 AUSTRADE believes that service providers try harder, put in more resources when making a bid and work over a longer timeframe. Conversely Australian manufacturers generally take a shorter timeframe and a more opportunistic approach and do not put in the resources essential for success. [27] In their experience the approach of equipment exporters in particular has been inconsistent, with non compliance with technical specification or delivery schedule bidding requirements being a particular problem.[28]

---

[26] Hassall and Associates, *Exhibit 81*, p 3.25

[27] Mr J Lightfoot, General Manager,Projects and Engineering Group, Australian Trade Commission, *Evidence 12 May 1993*, p 5

[28] Austrade, *Submission 23*, p 20

2.9 Future Bank involvement in the Eastern European region may provide increased opportunities for Australian service providers and manufacturers. However AUSTRADE believes that Australian companies will be somewhat disadvantaged because of the close proximity to the region of strong competitors from developed Western European countries, and by the strong bilateral relations between Eastern and Central European developing economies and their affluent neighbours. However niche possibilities may exist for Australia in the areas of privatisation (consulting and training) and in coal-fired power generation, agriculture and the environment. [29]

THE PROCUREMENT PROCESS

2.10 Opportunities to participate in the procurement process exist either through:

- *direct procurement* where the contract to supply goods is between the borrowing country and the Australian firm;

- *direct procurement* where the contract to supply consultancy services is between the Bank and the Australian firm; and

- *indirect procurement,* under which Australian goods and services are bought by firms from other countries.

2.11 Rules and procedures to be followed in the execution of each project depend upon individual circumstances, however three considerations generally guide the Bank's requirements:

- the need for economy and efficiency in the execution of the project;

- the Bank's interest, as a cooperative institution, in giving all eligible bidders from developing and developed countries an opportunity to compete in providing goods and works financed by the Bank; and

- the Bank's interest, as a development institution, in encouraging the development of local contractors and manufacturers in borrowing countries.

---

[29] Austrade, *Submission 23*, p 6

2.12 Virtually no direct procurement of goods is undertaken by the Bank except for normal operating requirements. There is however a considerable volume of direct consulting procurement by the Bank for loan identification, design, appraisal, supervision and evaluation.[30]

2.13 The Bank's role in the procurement process is to identify the project and provide finance through either project or policy lending loans. The borrower country is responsible for preparing the specifications and documents for the project, setting up the procurement schedule, evaluating the bids and awarding the contract.

TENDER PROCEDURES

2.14 Various tender procedures are utilised for the procurement of goods:

- International Competitive Bidding (ICB)
- Limited International Bidding (LIB)
- Local Competitive Bidding (LCB)
- International or Local Shopping
- Direct Contracting or Purchasing
- Force Account

2.15 An explanation of these appears in *Appendix 9*. In most cases International Competitive Bidding is the most effective method of procurement. However where the amount of the purchase is small, the goods or works are urgently needed or there may be only a few suppliers, the Bank permits alternate methods of procurement that may be more appropriate.

2.16 The system for procurement of services is significantly different from goods in that the competitive basis is quality, not price and there is no requirement for competitive bidding. The competence and experience of the firm and the personnel to be assigned, the quality of the proposal and the client/consultant relationship are the principal factors in choosing a firm and the award is made to the lowest evaluated bid.

2.17 Guidelines for Procurement under Bank Loans and IDA Credits and for the Use of Consultants appear at *Appendices 10 and 11* respectively.

30 A Melbourne firm, (Schiavello Commercial Interiors) recently won a contract to refurbish the Bank's Washington office.

AUSTRALIA'S PROCUREMENT RECORD IN BANK FUNDED PROJECTS

2.18 A variety of figures were presented to the Committee which purported to demonstrate Australia's procurement record in Bank funded projects. (See **Table 10** and ***Appendices 12 - 15***) However an attempt by the Committee to compare Australia's performance with other countries using the figures shown in Table 10 evoked conflicting opinions as to their reliability.

Table 10

INDUSTRIAL COUNTRIES : SHARE OF DEVELOPING COUNTRY TRADE AND WORLD BANK PROCUREMENT 1990

Selected industrial Countries	Share of 1990 Exports to Developing Countries	Share of Industrial Countries WB Procurement (average FY 87 - 91)
Australia	2.8	1.6
Austria	1.3	1.4
Belgium	2.5	2.6
Canada	1.9	3.3
Denmark	0.8	0.7
Finland	0.5	0.6
France	7.9	10.1
Germany	12.8	13.1
Ireland	0.3	0.3
Italy	6.1	5.8
Japan	22.5	16.4
Netherlands	2.4	2.7
New Zealand	0.6	0.3
Norway	0.5	0.4
Sweden	1.3	1.6
Switzerland	2.4	5.0
UK	6.6	12.3
US	26.6	21.0
	100.0	100.0

NB: totals do not agree through rounding

Source: Austrade, *Submission 23*, page 18

2.19 The Committee interpreted these figures to mean that, of the countries listed, only New Zealand had a worse ratio than Australia between the share of 1990 exports to developing countries and average Bank procurement. AUSTRADE had provided these figures because they believed that on the basis of its current share of exports to developing countries, Australia could considerably increase its share of Bank procurement, particularly to Asia. However AUSTRADE noted that the figures in *Table 10* were misleading because Australia and New Zealand were primary producers whereas Bank procurement was mostly in industrial goods. Therefore our share of exports to developing countries was higher than for Bank contracts because the export data would have included such factors as a large number of wheat contracts to China.[31]

2.20 Treasury disagreed with the Committee's interpretation, arguing that, in terms of country size, Australia's procurement performance compares favourably with some larger countries such as Japan, Canada and the United States, but is worse than that of most European countries.[32] This view was supported by Hassall and Associates, who argued that Australian procurement performance is creditable in comparison to other countries given its relatively small size and its structure of manufacturing and exports.[33]

2.21 A task force comprising officers from the Department of Foreign Affairs and Trade, AUSTRADE, AIDAB and Hassall and Associates (the Portfolio Task Force) was established in September 1991 to examine present and potential commercial benefits deriving from Australia's membership of the specialised agencies and other subsidiary bodies of the United Nations system and the Multilateral Development Banks (MDBs). Hassall and Associates were commissioned by the Task Force to conduct a study of Australia's procurement with the MDBs and UN agencies.

31 Austrade, ***Submission 23***, p 19

32 The Hon J Dawkins, MP, ***Australia and the World Bank 1991 - 92***, Annual Report to the Parliament under the International Bank for Reconstruction and Development (General Capital Increase) Act 1989, p 79

33 Hassall and Associates, ***Exhibit 81***, p 0.1

Box 6

WORLD BANK STATISTICS

The World Bank collects two types of statistics for procurement under its loans:

- ***Procurement, or contracts awarded*** (based on contracts awarded by country) which only covers contracts subject to prior review by the bank; and

- ***Disbursement*** statistics which are based on actual payments made to contractors in the each country under Bank loans.

The basis of the two sets of data is different: Disbursements relate to money paid within the period on previous contracts; Contracts Awarded relates to new contracts in the period which will attract disbursements at a later date.

Disbursement data is published in the World Bank Annual Report and reported to countries. The Contracts Awarded data, distributed to the Executive Directors and internally in the Bank, covers only those contracts subject to the Bank's prior review and represents about 60% of total contract value, and 30% for developed countries. For Australia, the data only represents 23% of the value of disbursements. The data is not only wrong as a measure of Australian procurement, but it is biased against Australia so that comparisons with other developed countries may be erroneous. It is important that this data not be used for official purposes as a measure of Australian procurement.

The definition of a country for procurement purposes is not the country of origin, but the country of domicile of the contractor.

Source: Hassall and Associates, ***Exhibit 81***, pages 3.2 and 3a.3

2.22 In their report to that Task Force, Hassall and Associates warned against using Bank statistics (see ***Box 6***) which measured contracts awarded because of their inherent bias against Australia and recommended that comparisons be made using only those statistics based on disbursements.

> If Australia wishes to have more satisfactory data from the World Bank on contracts awarded to Australia including details of bids won and lost, it should consider whether a formal request should be made at very senior levels to request the Bank to devote more resources to procurement data collection and management. It is understood that discussions are continuing between the World Bank and the American Executive Director's Office on the quality of procurement statistics.[34]

34 Hassall and Associates, ***Exhibit 81***,p 3.18

2.23 The Portfolio Task Force reiterated this view in its report issued in July 1993, saying that:

> The statistics produced by the UN agencies were of very poor quality and minimal coverage...business transacted by companies in developing countries using Australian goods, plus Australian goods transhipped via third ports, could mean that Australia supplies a substantially larger share of components to projects than the records indicate, especially in the Asia Pacific region.

2.24 In these circumstances, the Task Force was not satisfied that any substantial conclusions could be reached regarding the precise level of Australia's exports of goods and services to UN/MDB projects.[35]

2.25 AUSTRADE also doubted the reliability of statistics based on contracts awarded because of the failure of project managers to complete administrative tasks at the end of the project process. For example, the Bank's lending program constituted about $22 billion worth of lending last year, however figures for contract awarded totalled only about $8 billion.[36]

2.26 After examining the evidence, the Committee came to the conclusion that it is difficult to obtain an accurate picture of Australia's level of performance because of:

i. the manner in which statistics are compiled by the Bank; and

ii. problems in determining appropriate benchmarks for use in comparing Australia's performance relative to other countries.

---

[35] Department of Foreign Affairs and Trade, the Australian International Development Assistance Bureau and Austrade, ***Portfolio Task Force Report on United Nations and Multilateral Development Bank Procurement***, July 1993, p 4

[36] Mr B Coyne, Trade Commissioner, International Projects, Australian Trade Commission, ***Evidence 12 May 1993***, pp 5 - 6

<u>Recommendation 7</u>

The Committee recommends that the Bank be encouraged to devote more resources to procurement data collection and management with a view to improving the quality of its statistical reporting.

<u>Recommendation 8</u>

The Committee recommends that Australian agencies be encouraged to improve the timeliness and level of their statistical reporting.

AUSTRALIA'S BID RATE

2.27 The Committee also examined Australia's performance from the perspective of the ratio of successful bids for Bank projects. As can be seen in **Table 11**, Australia's success rate in international competitive bidding is roughly the same as Japan and the United Kingdom, although fewer bids were lodged by Australian firms. When compared to ***Table 12***, Australian firms in 1991 showed a marked improvement over 1990. Bank staff commented that Australia has a high success rate in International Competitive Bidding (ICB) with a 52% success rate, but does not put in a large number of bids.

2.28 The Committee surveyed several Australian firms who attended an AUSTRADE information seminar on Bank tendering procedures. Several indicated to the Committee that their knowledge of Bank procedures had increased and that they had either submitted bids or would so in the future should the opportunity arise. (See ***Submissions 36A - 36V***).

2.29 However many also highlighted problems that they believed would hinder their ability to bid successfully, namely:

- the Bank's tender processes were too drawn out and were less encouraging than those of ADB, AIDAB and UNDP;
- the need for market intelligence and watching resources close to the Bank;
- the need for the formation of consortiums to allow small companies to participate in the tender process.

Table 11

PROCUREMENT SUCCESS RATIOS					
FY 91 - Bid Success Report					
Country	Bids Lost	Bids Won	Total Contracts	% Won	Contracts Won US$m
USA	263	317	580	55	505.2
UK	206	197	403	49	90.0
Japan	186	202	388	52	233.8
Italy	152	63	215	29	185.0
France	173	16	359	52	530.2
Switzerland	69	38	107	35	51.5
Spain	35	20	55	36	34.7
Australia	11	12	23	52	10.2

Total contracts = 3239

Table 12

PROCUREMENT SUCCESS RATIOS					
FY 90 - Bid Success Report					
Country	Bids Lost	Bids Won	Total Bids	% Won	Contracts Won US$m
USA	176	249	425	59	249.5
UK	147	138	285	48	138.0
Japan	206	166	372	45	229.6
Italy	111	57	168	34	364.5
France	159	110	269	41	575.4
Switzerland	40	30	70	43	70.5
Spain	29	15	44	34	27.2
Australia	14	6	20	30	6.2

Total contracts = 2566

Figures for Tables 11 and 12 are based on civil works, goods and equipment contracts only.
Source : World Bank Data

2.30 From the submissions received, it appears that the most common cause for hesitancy amongst firms is a perceived lack of market intelligence and watching resources close to the Bank. (See ***Submissions 36A - 36V***)

2.31 AUSTRADE operates several systems for advising interested Australian firms of tender opportunities:

- a computer database operated out of Washington which lists every Bank operation. This is known as the IPIN Summary Service and has approximately 200 subscribers;
- education seminars and visits by trade commissioners which are designed to make companies aware of the opportunities in broad terms; and
- the establishment of industry networks designed to provide a market-wide focus.

2.32 Where firms had not participated in the AUSTRADE seminars, knowledge was limited and they believed that it was not being widely disseminated so as to stimulate interest and achieve increased participation. It was also evident to the Committee that some firms failed to understand that procurement is not done by the MDBs, but by the borrower country.

2.33 The inability of Australian companies to design their bid to meet the Bank's tender requirements was also identified as a major reason for failure. Bids not complying with specific requirements are not considered by the Bank. The solution, according to AUSTRADE, lies in the education of Australian companies to get them to a position where they at least meet the basic tender specifications. In evidence, AUSTRADE said that:

> Many companies feel that their knowledge of the requirement is far greater than the Bank's. They tend to put a submission which they think will do the job in a more economic manner...but unfortunately that immediately knocks them out of the race. We are trying to encourage the companies to put in a technically complying bid, then offer options if they want to get their own influence or design involved.[37]

[37] Mr B Coyne, Trade Commissioner, International Projects, Austrade, ***Evidence 12 May 1992***, pp 22-23

2.34 Several firms said that they would be tendering through parent companies and consortia which were located outside of Australia but added that it would be useful if AUSTRADE could play a role in facilitating the formation of Australian based consortia to address tenders.

2.35 In their report the Portfolio Task Force noted that the IPIN network should be the principal delivery agency for information to Australian exporters in the MDB market. They stressed however that care should be taken to ensure that coordination between the functional areas of AUSTRADE and AIDAB is strengthened. They also recommended that AUSTRADE should play an expanded role in the education of Australian firms with particular emphasis on responding to the specific needs of exporters.[38]

2.36 Although companies have access to Bank Guidelines for Procurement, the Committee felt that they would benefit greatly from the availability of guidelines which addresses these the Bank's tendering process from an Australian perspective.

Recommendation 9

The Committee recommends the preparation and distribution by AUSTRADE of guidelines to Australian companies on how to meet Bank tender requirements.

Recommendation 10

The Committee recommends AUSTRADE and AIDAB investigate mechanisms, such as business consultative groups, to encourage the formation of consortia to bid for Bank projects and to better link consultants with suppliers.

[38] Department of Foreign Affairs and Trade, ***Portfolio Task Force Report on United Nations and Multilateral Development Bank Procurement***, July 1993, p 5

2.37 The problem of wealthier countries offering soft loans to promote their own trade which inhibits Australia's ability to compete for Bank projects was also identified as an area that warrants further examination. For instance:

> One of the great difficulties if you are a trade commissioner out in the field is seeing a contract pulled out from under you by a company from a country that is offering soft loans that you simply cannot match, either because you do not have the volume or because they are in a country that we cannot provide them to.[39]

2.38 The OECD Export Credit Group (ECG) reached agreement on 31 October 1991 on a package which is aimed at curbing the use of tied aid (mixed credits). The key discipline in the package will ban mixed credits from projects that normally should be commercially viable if financed on market or standard OECD export credit terms.

2.39 Australia has played a prominent role in the development of the new OECD rules on mixed credits and the Committee believes that similar action should be taken to deal with the Bank problem.

Recommendation 11

The Committee recommends that Australia press the Bank to adopt similar measures to the OECD mixed credit guidelines.

COMPARISONS BETWEEN AUSTRALIA'S CONTRIBUTION AND PROCUREMENT LEVEL

2.40 Australia's recorded procurement of $US547.2 million ($A704 million at average exchange rates) in the five years to June 1992 exceeded our payments to the IBRD's capital and IDA resources over the same period of around $US390 million ($A501 million).[40] This means that for every dollar we put into the IBRD and IDA we get back $1.40.

[39] J. Lightfoot, General Manager, Projects and Engineering Group, Austrade. ***Evidence 12 May 1992***, p 39

[40] The Hon. J Dawkins, MP, ***Australia and the World Bank 1992***, Annual Report to te Parliament under the International Monetary Agreements Act 1947, p 78

2.41 Representations made to the Committee by several business organisations indicated that they felt that Australia should be awarded a higher percentage of contracts relative to the level of contributions. However, within the Bank's procedures, there is of course, no quota system which links the number of contracts awarded to a country to the size of their contributions or share of membership.

2.42 Contributions relate to government policy decisions, whereas procurement results from the activity and competitiveness of firms and individuals selling goods and services to the MDBs. Hassall and Associates also found that there also exists a belief among many Australian government officials:

> ....that it is against contributions that procurement levels should be judged. Some said that there should be procurement quotas based on contributions while a few believed that such quotas already existed. There are widespread misconceptions of multilateral procurement among the non-trade areas of government.[41]

2.43 Both AUSTRADE and Treasury believe that the level of our procurement and the size of our contributions are not directly related, therefore a comparison of these does not provide an adequate representation of our performance. What is important, they argue, is that our contribution gives us both access to the Bank's procurement process and influence on policy.

2.44 The Committee accepted this view but believes that the benefits are greater for Australian firms participating in procurement opportunities arising out of our own bilateral aid program. It is therefore in Australia's long term economic interest that our contributions to the Bank be proportional to the opportunities provided for procurement and not at the expense of our bilateral aid program.

41 Hassall and Associates, ***Exhibit 81***, p 3.11

HOW AUSTRALIA COULD DO BETTER

2.45 In addition to the work undertaken by the Portfolio Task Force, other government departments and agencies have also examined Australia's participation in Bank projects. For example, in his report to the Parliament the Treasurer found that the share of Bank procurement which Australian companies obtain depends on:

- the timeliness and quality of the information they obtain about new projects and the related procurement requirements;
- how many Australian companies with potential to be suppliers go ahead and bid -- reflecting the extent of their 'export orientation and culture'; and
- the competitiveness of their bids, in the eyes of the executing agencies in borrowing countries.[42]

2.46 A major report, ***Australia's business challenge: South East Asia in the 1990s*** was released in December by the Minister for Foreign Affairs. This report found that Australian firms have a reasonable record of procurement in the Bank given that Australia's comparative advantage lies in raw material and primary produce, which are not prominent in Bank-funded procurement.[43]

2.47 The Committee was interested to see that the report had drawn similar conclusions to those arising out of this inquiry, namely that:

> The World Bank and the Asian Development Bank will continue to be major financiers of capital goods, construction and consultancy service purchases in the region. Australia's procurement record has been reasonable relative to size of economy and industrial base, although Australian firms have submitted relatively few bids for the supply of capital goods compared to those for consultancy work. Indirect procurement, including via Australia's regional subsidiaries, has been most successful:

42 Treasury, ***Exhibit 13***, p 43

43 Department of Foreign Affairs and Trade, ***Australia's Business Challenge : South-East Asia in the 1990s***, p 137

- increased competitiveness in Australia's manufacturing sector in recent years suggests increasing capacity to secure contracts for supply of capital goods in the 1990s, although consultancy services will continue to be an area of Australian strength;

- networking to link Australian capital goods supply to consultancy work for major projects could produce substantial benefits;

- obtaining early information about procurement and projects is a key to success. This involves establishing sound contacts with officials and business people in the relevant aid-recipient country, as well as obtaining regular information from the headquarters of the institutions;

- Australia's success in indirect procurement reinforces the need for Australian firms to maintain a presence in South-East Asian countries. This is usually the most effective means to obtain early notice of procurement and projects.[44]

2.48 The report also noted that Australia's aid program will require a more strategic approach to the identification of activities which draw on Australian expertise and commercial interests and that involvement by the business community in this process will continue to be essential in the 1990s.[45]

SHOULD AUSTRALIA FOCUS ON ASIA AND SOUTH EAST ASIA?

2.49 Several government initiatives have been launched to identify and review opportunities for Australian trade in Asia and South East Asia. For example, a new business council called the Asia in Australia Council has also been established in Australia to promote awareness of Asia and increased trade with the region. The Council's role, which is a government funded initiative of the Australian Chamber of Commerce and Industry, is to advise the Minister for Foreign Affairs and Trade on strategies for forging greater commercial links between Australia and neighbouring Asian countries.

---

44 Department of Foreign Affairs and Trade, ***Australia's Business Challenge : South-East Asia in the 1990s***, pp 139 - 140

45 Department of Foreign Affairs and Trade, ***Australia's Business Challenge : South-East Asia in the 1990s***, p 141

2.50 Another excellent start has been made with the Asia-Pacific Fellowship Program which aims to increase the pool of people within Australian industry who have skills in the business practices, languages and cultures of Asian markets. Target markets for the Program are Indonesia, Thailand, Republic of Korea, the People's Republic of China, Taiwan, Vietnam, Malaysia and Japan.

2.51 Whilst the government is now directing its efforts towards improving Australia's trade relationship with South East Asia, the Committee believes that it is important not to lose sight of the opportunities provided by Bank projects, not only in South East Asia but elsewhere. Participation in other niche markets has the potential to not only introduce Australian products and services but to provide an ongoing market, particularly in areas where Australia has a comparative advantage.

2.52 The Committee believes that particular attention should be paid to identifying procurement opportunities under structural adjustment loans. Approximately one-third of Australia's total procurement in World Bank financed projects during 1990 was under these loans which are often used to purchase commodities not normally procured under project loans. For instance, purchases of coal, valued at over $US120 million by India, commencing during 1989, used funds advanced under structural adjustment lending.[46]

Recommendation 12

The Committee recommends that AUSTRADE and the offices of Australia's Executive Director must increase their efforts to:

- **enhance the knowledge and competitiveness of Australian companies of Bank tender opportunities; and**

- **increase the awareness of both Bank and loan country procurement personnel about Australian products and services that meet their requirements.**

---

46 Austrade, ***Submission 23***, p 10

2.53 The identification of projects for World Bank funding involves technical work on project specification. This is funded by the Bank, other UN agencies (particularly UNDP), and bilateral aid agencies. This identification stage of the project cycle is very important for procurement because it determines whether projects are in a sector or form which fits Australian comparative advantage. Many national governments, especially the Japanese, sponsor project identification missions into recipient countries.

2.54 There is much that AUSTRADE and Australia's Executive Directors can do to assist business with these ventures. For example, there should be a program of annual visits to World Bank and IMF by Australian business groups, self funded but coordinated by the Executive Director. An example was given to the Committee of a visit to Washington by the Metal Trades Industry Association which included a number of very large companies, some of whom who had been unsuccessful in bidding in the past.

<u>Recommendation 13</u>

The Committee recommends that programs such as the Metal Trades Industry Association (MTIA) visit be continued and expanded to include as many companies as possible. Annual visits by a delegation of Australian business people to Washington and project identification missions into recipient countries should become a regular feature of contact between Australia and the Bank.

Box 7

AUSTRALIAN CO-FINANCING WITH THE WORLD BANK GROUP

Two kinds of co-financing currently exist between Australia and the Bank: parallel and broad:

- Parallel financing is provided through EFIC, bilateral aid programs or the implementation of various trust funds and under this arrangement the procurement is tied to Australian services and products;
- Under broad co-financing arrangements, Australia is just one of the many contributors and has no control over the procurement selection process.

CO-FINANCING

2.55 Bank resources are complemented by about $US9 billion annually from countries and multilateral agencies co-financing projects. (See *Box 7*) [47] Therefore an alternate source of funding would be the development of the co-financing facility between Australia and the Bank.

2.56 Most co-financing is generally for activities early in the project cycle such as design studies. In FY92, approximately $A13.6 million of Australian aid was spent on projects in individual countries co-financed with the Bank. Other Australian aid activities co-financed with the Bank included:

- $A400,000 provided to the Economic Development Institute, in support of its programs for training officials from developing countries;
- $A1.4 for a South Pacific facility for funding Bank activities in the region;
- $A500,000 provided to the Consultant's Trust Fund to hire Australian consultants to assist in the planning, implementation and evaluation of Bank projects.[48]

2.57 Although one objective of co-financing is to enhance future Australian procurement from downstream requirements of design projects, Hassall and Associates believe that direct benefits have only rarely eventuated. Instead the trade benefits have been more diffuse and difficult to identify. AIDAB is currently reviewing its co-financing activities and the preliminary conclusion is that co-financing should be undertaken for a set of clear objectives which may differ from one country program to another, but that trade as a co-financing objective cannot be pursued except on an ad-hoc basis.[49]

---

47 Hassall and Associates, ***Exhibit 81***, p 5.12

48 Hon J Dawkins MP, ***Australia and the World Bank 1991-92***, Annual Report to the Parliament under the ***International Bank for Reconstruction and Development (General Capital Increase) Act 1989*** p 82

49 Hassall and Associates, ***Exhibit 81***, p 5.12

2.58 The Portfolio Task Force disagrees with this approach and believes that AIDAB should draw closely on the National Trade Strategy in identifying co-financed projects that will maximise trade and commercial benefits.[50]

Recommendation 14

The Committee recommends that the co-financing facility be developed and that AIDAB draw closely on the National Trade Strategy in identifying projects that will maximise trade and commercial benefits.

CONSULTANTS TRUST FUND

2.59 A Consultants Trust Fund (CTF) is already in existence under co-financing arrangements which provides the fees and travel expenses of consultants for short term assignments in support of the Bank's lending operations. The purpose of the CTF is to familiarise Australian consultants with the Bank and is currently set at $500,000 a year. In its submission, Treasury indicated that at least one-half of the consultants making use of the CTF had not previously worked for the Bank, which suggests that the CTF is effective in encouraging participation by Australian consultants.[51]

2.60 No such fund exists for Australian manufacturers, nor does the CTF provide a vehicle for a linkage between consultants and manufacturers. AUSTRADE agreed with the Committee's suggestion that a "Consultants Development Fund" would provide a means of follow through to manufacturers by enabling the development of specifications by consultants which were written to more closely suit Australian products.[52]

Recommendation 15

The Committee recommends the maintenance of the Consultants Trust Fund at the current level and the establishment of a Consultants Development Fund.

---

[50] Department of Foreign Affairs and Trade, *Portfolio Task Force Report on United Nations and Multilateral Development Bank Procurement*, July 1993, p 5 - 7

[51] Treasury, *Submission 17*, p 27-28

[52] Mr J Lightfoot, AUSTRADE, *Evidence 12 May 1992*, p 10.

CHAPTER 3
POLICIES OF THE WORLD BANK AND INTERNATIONAL MONETARY FUND

3.1 Despite claims by the Bank and Fund that they have adapted their policies to suit both the changing world economy and the needs of developing countries critics argue that they still fail to address the issues of unemployment, inequity, poverty, the environment, the involvement of women in the development process, and most importantly, the impact upon the poor of structural adjustment policies and loan conditions.

BANK LENDING

3.2 The Bank's first loans in 1947 were for approximately $US500 million to four European countries for reconstruction. With the advent of the Marshall Plan in 1948 the Bank turned its efforts towards development lending to Third World countries. These countries have continued to be the principal recipients of the majority of funding, although demand from Eastern Europe for structural adjustment lending is increasing rapidly. It is a valid proposition that the needs of Eastern Europe may divert resources from the rest of the poor countries until additional resources are found by the MDBs.

3.3 Total commitments by the Bank during fiscal 1992 amounted to $US21,705.7 million ($US15,156 million from the IBRD and $US6,549.7 from IDA). Of this structural adjustment lending support amounted to $US5,847 million, or 27% of commitments. Net disbursements from the IBRD to member countries totalled $US1,818 million and from IDA $US4,441 million.[53]

3.4 The Bank's lending program employs four strategies:

- Project Lending
- Policy-Based Lending
- Country Strategies and
- Technical Assistance

---

[53] World Bank *Annual Report 1992*, pp 18 and 21

Details of these strategies and the Bank's special facilities for developing countries appear in *Appendix 16*.

FUND LENDING

3.5 The Fund also argues that it has also responded to international economic problems by undergoing several structural changes since its inception in 1944. For example, the Fund was originally designed to function in three ways:

- to administer a code of conduct on exchange rate policies, payments associated with current account transaction and convertibility of currencies;
- to provide members with the financial resources to enable them to observe the code of conduct and assist in achieving or maintaining balance in their international payments; and
- to provide a forum in which members could consult and collaborate with each other on international monetary affairs.[54]

3.6 By the 1970s the world economy was in severe recession and the existing currency system had broken down. The Fund therefore restructured its functions under the Second Amendment of the Articles of Agreement to take account of its less regulatory role over exchange arrangements and to promote the Special Drawing Right (SDRs) (See *Box 8*) as the principal reserve asset of the system.

3.7 The 1970s and 80s also saw a trend towards the Fund's financial arrangements being used almost wholly by developing country members, with the establishment of facilities specifically for their benefit. (See *Appendix 17*)

[54] Treasury, *Submission 17*, p 4

Box 8

SPECIAL DRAWING RIGHTS (SDRS)

The SDR is an international reserve asset created by the Fund and members share in its allocation in proportion to their quotas. Allocations of SDRs occurred in 1970-72 and 1979-81, for a cumulative total of SDR 21.4 billion.

The value of the SDR is defined and calculated as the value of a weighted 'basket' of five major currencies: the US dollar, Deutschemark, Japanese Yen, French franc and pound Sterling. On 19 February 1992, one SDR equalled 1.83 Australian dollars.

Participants' holdings of SDRs form part of their international reserves, along with official holdings of gold, foreign exchange and reserve positions in the Fund. SDRs may be used by members in transactions and operations with the Fund, including the settlement of members' financial obligations to the Fund (quota payments, repurchases and charges).

THE FUND IN THE 1990s

3.8 The Fund in the 1990s has the following functions:

- the surveillance of member countries' policies
- the provision of balance of payments support
- the co-ordination of international economic policies and
- co-ordination of international economic co-operation.

Details of these appear in *Appendix 18*.

3.9 There was a sharp rise in overall Fund financial support for member countries during 1991/92. Three large borrowers--Argentina, Brazil and India--accounted for more than two thirds of total commitments and new commitments totalled SDR 8.7 billion, compared with SDR 5.6 billion in 1990/91, with 29 new arrangements approved.[55]

[55] International Monetary Fund, *Annual Report 1992*, p 48

3.10 On 5 October 1991 the Fund and the then Soviet Union signed an agreement establishing a Special Association which made policy advice and technical assistance immediately available to the states which now comprise the Commonwealth of Independent States (CIS). Economic studies were then undertaken and in April 1992 the Fund announced quota calculations for all 15 states. 14 States were admitted as members of the Fund in April 1992, with Azerbaijan joining in May.

3.11 During the April 1992 meetings of the Interim Committee, the Fund called on the international community to provide adequate support for the stabilisation and reform programs of the states of the former USSR and to help finance a stabilisation fund for the rouble, provided appropriate conditions were met.

3.12 On 15 December 1992 the Fund also officially recognised the break-up of Yugoslavia and asked the new states of Bosnia-Herzegovina, Croatia, Slovenia, Macedonia and the remainder of Yugoslavia to join the organisation and each take responsibility for a share of the former Yugoslavia's debt.

3.13 The Fund also announced on 31 December 1992 that the new nations of the Czech and Slovak Republics will qualify for membership once they have agreed to shares and normal membership conditions and provided that outstanding financial obligations have been met.

3.14 The United States eased its embargo on other countries providing assistance to Vietnam in clearing its arrears to the Fund in July 1993. It is anticipated that a decision will be taken by the Fund's executive board in October on stand-by arrangements with Vietnam.

SYSTEMATIC TRANSFORMATION FACILITY

Box 9

SYSTEMATIC TRANSFORMATION FACILITY (STF)

The Systematic Transformation Facility is a temporary facility under which finance will be provided on certain terms and conditions, but which will be softer than normal Fund stand-by arrangements.

Broadly the conditions require recipient countries to demonstrate reasonable efforts to overcome their balance of payments difficulties. This includes a commitment toward stabilising the economy, stemming capital flight, and implementing structural and institutional reforms needed to create a market orientated economy and to conduct economic policy in a market economy. The facility will make available up to $US 4.5 billion to countries in the transition process.

Source: Treasury, ***Submission 17G***, p 2

3.15 The needs of the former Soviet Union prompted the development by the Fund of a new facility specially in response to the balance of payments problems created by "countries in transition from centrally planned to market economies. In April 1993 the Fund outlined its new temporary loan facility which was aimed at providing financial assistance to those countries experiencing severe disruptions to their economies as they shift from non-market to market prices. It was envisaged that some $US4 million to $US6 million in balance of payments assistance to 28 countries would be disbursed by the new Systematic Transformation Facility (STF) over the next 18 months. (See ***Box 9***).

CRITICISMS OF THE BANK AND FUND

3.16 Particular areas of concern addressed by witnesses to the inquiry were:

- the failure of the Bank and Fund to lead a process of major debt reduction for severely indebted countries;

- the social problems created by the current focus of both the Bank and Fund on structural adjustment loans;

- the failure of the Bank and Fund to address cross sectoral issues such as unemployment, inequity, poverty, population, growth, land redistribution and environmental issues in developing countries;

- the failure of the Bank to learn from its mistakes through program evaluation; and

- the dominance of the Fund and Bank by industrialised countries with a particular narrow and naively theoretical philosophy of unconstrained markets, regardless of the extent of market failure.

3.17 Regardless of the validity or otherwise of these concerns, the difficulties in dealing with countries without developed systems of incorrupt government and sound administration cannot be put aside. Quite apart from internal dissent and oppression, warfare and border disputes with issues of race and religion not settled, some countries have cultural norms that do not lend themselves readily to the values of the capitalist world where democracy and market systems are more common. "Western" perceptions of "corruption" can also be misplaced e.g. tribal family and societal obligations may mean that government does not survive unless key people are part of a wider patronage than is accepted in so-called democratic societies.

3.18 Community Aid Abroad contends that the Fund has not got it right, that its policies over the last decade or so vis-a-vis debt distressed countries have been

> Short-sighted and, to a large extent, ineffective and the results have been horrendous...They have not enabled debt distressed countries to grow out of debt, nor to return to economic health, nor to credit worthiness, that is to a state where commercial banks will start lending then new money.[56]

3.19 In their 1992 ***Human Development Report*** the United Nations Development Programme (UNDP) extensively criticised the Fund,[57] and similar concerns were expressed at a forum, sponsored by groups such as Greenpeace, Third World Network and the Development Group for Alternative Policies, that was held in Washington to coincide with the Fund Development Committee's meeting in September 1992. A panel of citizen activists and environmentalists at the forum found that Fund policies to promote development in Third World countries were "wreaking social and economic havoc" and that the Bank and Fund were concentrating too much of their effort on requiring debt repayment and not enough on investing in programs that would create jobs and help lift people out of poverty.

[56] Mr J Atkinson, Community Aid Abroad, ***Evidence 13 May 1992*** p 233

[57] United Nations Development Programme, ***Human Development Report 1992***, p 75

3.20 Despite this the Secretary of the Treasury, Mr Cole, asserted during evidence to this inquiry that criticisms of the policies and conditions imposed by the Bank and Fund have become less strident in recent years.[58] The Committee found this difficult to accept, believing that it was indicative of the tendency of government departments to accept Bank and Fund policies with insufficient analysis. This chapter therefore canvasses the issues raised by witnesses as a means of promoting discussion at both the public and official levels.

3.21 The Joint Committee on Foreign Affairs, Defence and Trade has previously examined some of the effects of Bank and Fund policies on developing countries in its 1989 report on ***Third World Debt: An Australian View***. The conclusion drawn in that report was that debt problems have been severe and chronic for many developing countries, particularly those in Latin America and in Sub-Saharan Africa. Foreign debt levels in many countries have been such that the debt could not be serviced under contractual conditions. As a result since 1980 over $US500 billion of debt has been restructured, most of it being rescheduled many years into the future.

3.22 The social and economic decline in many developing countries following the debt crisis has led to problems in many areas. Infant mortality and malnutrition are rising in poor countries and in poor areas of middle income countries; schooling is contracting in countries where governments must cut back social welfare budgets; and capital stock is deteriorating for want of domestic investment and savings (or indeed for want of foreign capital).[59]

3.23 Since the Committee's report was published, the Bank has accepted that the need to address sectoral issues is a necessary adjunct to its policy of growth through structural adjustment. Whilst acknowledging that the Bank is attempting to deal with these issues, many witnesses and other commentators considered that the change in actual policies has been inadequate.

[58] Mr A Cole, Secretary of the Treasury, ***Evidence 13 May 1992***, pp 145 - 146

[59] Joint Committee on Foreign Affairs, Defence and Trade, ***Third World Debt: An Australian View***, November 1989, p xv

3.24 In their 1992 Annual Report, the Bank answered its critics by saying that:

> While the World Bank has traditionally financed all kinds of capital infrastructure, such as roads and railways, telecommunications, and port and power facilities, the centrepiece of its development strategy emphasises investments that can directly affect the well-being of the masses of poor people of developing countries by making them more productive and by integrating them as active partners in the development process.
>
> The Bank's efforts to reduce poverty cut across sectoral lines and include investments to improve education, ensure environmental sustainability, expand economic opportunities for women, strengthen population-planning, health and nutrition services, and develop the private sector. The Bank's support of economic restructuring in many of its borrowing member countries is based on the knowledge that the precondition for restoring economic growth - the cornerstone of successful development and poverty reduction-is structural adjustment.[60]

3.25 The Committee noted in particular the role played by the Bank and Fund in assisting Indonesia to undertake economic reforms. (*Appendix 21* provides an outline of Bank and Fund involvement in Indonesia.)

3.26 The Committee is concerned that evidence presented by the Department of Foreign Affairs and Trade and the Treasury provided a rather sanitised view of Bank and Fund activities. For example, the DFAT submission failed to address the question of the net transfer of funds out of developing to creditor countries and the MDBs or to the fact that loan repayments always exceed the initial loan value. DFAT also blandly supported the debt strategy of the Bank and Fund without any reference to widespread criticisms about the effects of structural adjustment and loan conditionality . Only passing reference was made to cross sectoral issues[61]

[60] World Bank, *Exhibit 91*, p 5

[61] Department of Foreign Affairs and Trade, *Submission 25*, pp 20 and 28

3.27 In both its evidence and submission, Treasury also accepted the adequacy of Bank and Fund policies, believing that the two institutions:

> ...have made powerful contributions to global economic development and growth over the post-war period, both in terms of their policy advice and financial assistance to individual countries and in fostering the multilateral international economic framework. [62]

3.28 Speaking from his experience as an Alternate Executive Director in the Bank, the Secretary of the Treasury, Mr Cole, said that the Bank and Fund occupy key positions which could not be met by bilateral arrangements with governments because the policy changes that usually accompany finance help the sustainable development effort. Therefore the major contribution of the Bank and Fund to economic development is through the policy guidance they provide to individual countries. The important role of the two institutions can be seen in the world response to recent developments in the countries of central and eastern Europe and the former Soviet Union. Both the Bank and Fund will play central roles in mobilising financial support and providing policy advice and technical assistance.[63]

3.29 In contrast to DFAT and Treasury, AIDAB demonstrated a wider view of Bank policies and supported calls by NGOs and other commentators for greater Australian involvement in directing Bank and Fund policies towards cross sectoral issues. AIDAB added however that a great deal of the criticism of the Bank, by only taking examples of specific difficulties that had arisen, failed to recognise that the Bank, through a process of evolution and evaluation has brought in specific additional measures in its structural adjustment lending, in the way of safety nets and policy dialogue, to try to reduce the impact on the social sector and in particular on poverty groups.[64]

<u>Recommendation 16</u>

The Committee recommends that the Department of Foreign Affairs and Trade and the Treasury adopt a broader perspective when assessing and reporting on the appropriateness of Bank and Fund activities.

[62] Mr A Cole, Treasury, *Evidence 13 May 1992*, p 145

[63] Mr A Cole, Treasury, *Evidence 13 May 1992*, pp 145 - 146

[64] Mr M Casson, Assistant Director-General, International Organisations and Public Affairs Branch, AIDAB, *Evidence 4 August 1992*, p 268

DEBT

3.30 The obligation to repay official and commercial debt has become a heavy burden for developing countries. Official debt is owed by government to other governments, usually to their development or export credit agencies, or to international financial institutions, whereas commercial debt is owed to banks in the industrialised countries under loans which are normally made at higher interest rates and with shorter maturities than World Bank loans.

3.31 Commercial lending to developing countries expanded significantly during the 1970s when, in order to offset "petrodollars" deposited by oil-producing countries, the banks accelerated their lending to developing countries. During 1972-82 an average of $US21 billion a year was lent, reaching a peak of $US36 billion in 1981.[65] After 1979 however, real interest rates started to rise dramatically, the global economy sank into a recession and prices dropped for raw materials which many developing countries relied upon for export earnings.

3.32 The 1982 decision by Mexico to suspend its debt repayment led to fears that the failure of developing countries to pay back accumulated debt would lead to a complete breakdown of the international banking system. As a result, official and commercial lending suddenly dropped and by 1988 net financial transfers to developing countries were minus $US35 billion. *Figure 1* illustrates net transfers to developing countries from the Bank and Fund for the period 1982-92.

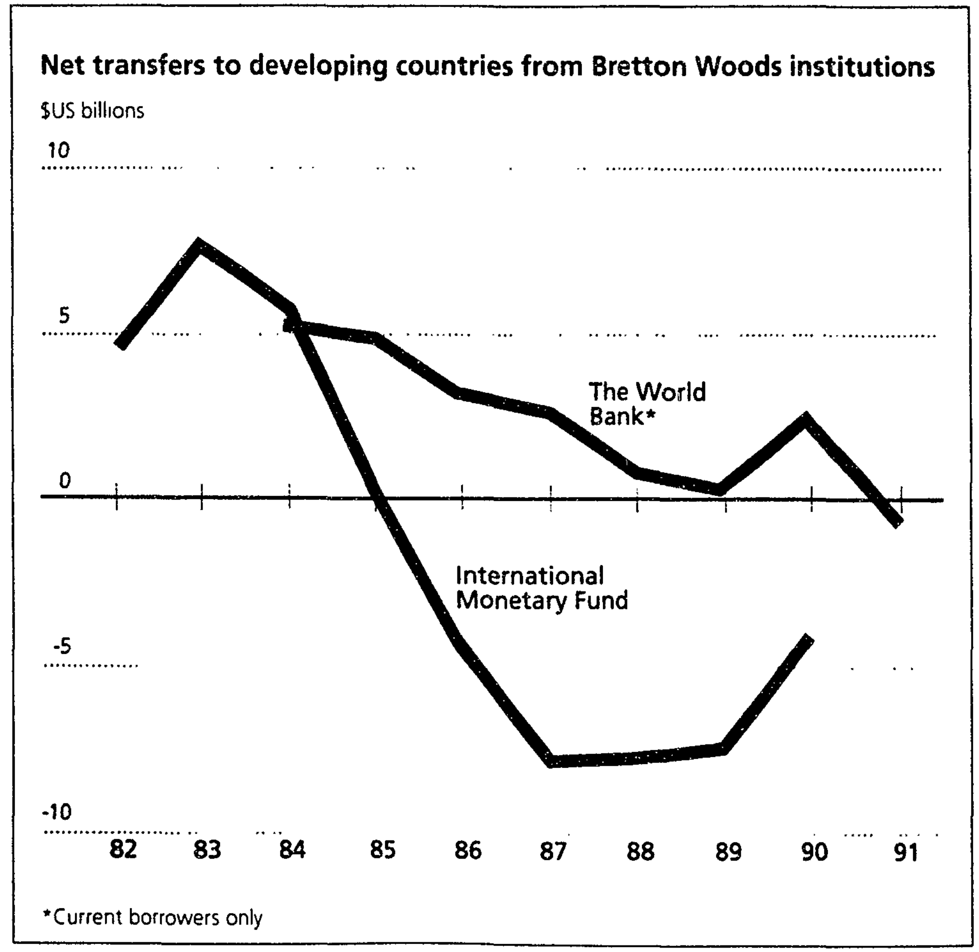
3.33 UNDP suggests in their report that there is a good case for institutions such as the Bank to play a stronger role by serving as an intermediary between developing countries and the financial markets and to take measures to ease the burden of real interest rates. UNDP further argues that the Bank and Fund have not provided a mechanism for moderating the extreme cycles of unregulated financial markets as they were originally intended. Far from dampening the cycles, UNDP contends, the Bank and Fund have amplified them because they lack the necessary resources as well as the official mandate to intervene in global markets in a meaningful way.[66]

---

[65] UNDP, *Human Development Report 1992*, p 76

[66] UNDP, *Human Development Report 1992*, pp 50 - 51

Figure One



Source : UNDP *Human Development Report 1992*, p 51

3.34 The total external debt of developing countries has multiplied thirteenfold during the last two decades: from $US100 billion in 1970 to around $US650 billion in 1980 and by 1990 to around $US1,350 billion.[67]

3.35 When giving evidence on the current inquiry, AIDAB highlighted the complexity of debt relief, saying:

> ...debt relief is one of those real examples of where it is a symptom as much as a cause of the problem. If you simply go in and try to eliminate debt without changing the fundamental policies that are in place, you are simply postponing the inevitable that it is going to happen a few years later on; they all continue to build up the debt. I think it is very important that you get the country, through policy dialogue et cetera, to try to adopt appropriate policies which will not only help the growth of the country, but will ultimately lead to the alleviation of debt.[68]

3.36 The Committee is of the view that the successful alleviation of debt is a question of judgement, options and timing.

3.37 Several initiatives have been put forward for dealing with the debt problem, namely the 1985 Baker Plan of new lending to indebted countries; the 1988 Toronto Terms, the 1989 Brady Plan, and Paris Club reschedulings (see *Box 10*). However Paris Club arrangements for rescheduling cover only bilateral debt and the Bank is addressing commercial debt through its so far minute Debt Reduction Facility for IDA-only countries. (see *Box 11* for details of the facility).

[67] UNDP, *Human Development Report 1992*, p 45

[68] Dr M Dalton, Director, Development Banks and Commonwealth Section, AIDAB, *Evidence 4 August 1992*, p 269

Box 10

THE BRADY PLAN

The Brady Plan to reduce commercial debt - launched in March 1989 - emphasised that debt needed to be reduced, not merely rescheduled. And with the support of the World Bank, the Fund and Japan, the Plan has been implemented for five countries: Costa Rica, Mexico, the Philippines, Uruguay and Venezuela. For Mexico, at least, the World Bank's assessment in 1991 is that the results have been very positive. Growth has increased and financial conditions have improved as flight capital has returned. Foreign direct investment has increased. And the country has improved its access to external capital, albeit at higher interest rates. For the other countries, the effect of the Brady Plan is not yet clear.

Originally the Plan was intended to help 39 countries over three years, but it is now clear that far fewer will benefit. And meanwhile, most Latin American countries continue to accumulate interest rate arrears - which by the end of 1991 were in the neighbourhood of $US25 billion.

THE TRINIDAD DEBT REDUCTION PROPOSALS

At a meeting of Commonwealth Finance Ministers in Trinidad in September 1990, modifications were proposed to previously agreed Toronto terms for bilateral debt reduction. The Toronto terms of 1988 had offered low-income, debt distressed countries a series of options that included writing off one-third of their debts with various combinations of reduced interest rates and long repayment periods. The Trinidad modifications were:

- **Total debt** - Instead of negotiating new terms as debts mature each year, the total debt of each country should be dealt within one long-term operation.
- **Debt write-off** - Instead of one-third of the debt being written off, this should now be two-thirds. This would mean writing off about $18 billion of the debt stock of the poorest countries in Africa.
- **Repayment period** - This should be lengthened to 25 years.
- ***Capitalisation*** - Interest payments due in the first five years should be capitalised. Principal and interest could then be repaid in a phased manner - increasing along with the debtor's capacity to repay.

Source: UNDP, *Human Development Report 1992*, p 47

Box 11

THE DEBT REDUCTION FACILITY

The Debt Reduction Facility was established in fiscal 1990 in recognition of the absence of adequate mechanisms for easing the burden of external commercial debt owed by IDA-only countries. The facility was financed by the transfer to it of $US100 million of the IBRD's net income for fiscal 1989.

Facility resources are made available on a grant basis - normally up to a limit of $US10 million to any one country - to allow for the maximum possible impact in reducing a country's external commercial debt.

All IDA-only countries with heavy debt burdens are eligible for facility support. Support, however, is decided on a case-by-case basis and is contingent on the existence of:

- a medium-term adjustment program that is acceptable to IDA, as demonstrated, for example, by the existence of an operational policy framework paper (PFP), a structural-adjustment program, or a country's inclusion in the Fund's enhanced structural-adjustment facility (ESAF); and

- a strategy for debt management that is satisfactory to IDA and that (a) includes a program for resolving the commercial-debt problem through funds provided by the facility and other sources: (b) provides for substantial debt relief from official bilateral creditors through an agreement with the Paris Club, preferably on terms that offer the most favourable treatment accorded by that body; and (c) materially enhances the country's prospects for growth and development.

3.38 To date seventeen countries have expressed an interest in gaining access to the facility's resources.[69] In addition to significant support from bilateral donors such as Switzerland and France who granted $US7.5 million and $US12 million respectively approximately $US13.8 million of facility resources has been used. Two debt-reduction operations have been completed (in Mozambique and Niger) and the Bank expects that three operations (for Bolivia, Guyana and Uganda) will be brought to the executive board for its consideration during the first half of fiscal year 1993. In the cases of Mozambique and Niger, about $US230.8 million of principal commercial indebtedness has been retired, along with interest arrears totalling some $US90 million.[70]

[69] Benin, Bolivia, The Gambia, Guinea, Guinea-Bissau, Guyana, Madagascar, Mali, Mozambique, Nicaragua, Niger, Sao Tome and Principe, Senegal, Tanzania, Togo, Uganda and Zaire.

[70] World Bank, *Annual Report 1992*, p 67

3.39 The Bank found that progress in carrying out facility operations had been slower than expected because of difficulties with adjustment programs, debtor-country constraints, commercial-creditor reluctance, legal complexities and funding consideration. Debtor-country constraints refer to the difficulties that some potential facility beneficiaries have in acquiring complete and accurate information on how much they owe and to whom. Facility operations have also been delayed by human-resource constraints in debtor countries that result in the understandable relegation of relatively small commercial-creditor claims, as opposed to far larger official creditor claims, to the backburner.

3.40 Despite its slow progress the Bank believes that the facility can contribute substantially to the reduction of commercial debt in the very poorest countries. The facility is the only financing mechanism that offers heavily indebted, low-income countries the prospect of obtaining the financing required for substantial debt reduction of commercial-debt obligations. The Bank believes that the creation of this facility has had positive secondary effects in that its existence has encouraged several countries to address more systematically and comprehensively the management of their external liability - both current and future. Its existence has also encouraged greater efforts at coordination in donor assistance in the field of debt management.[71]

3.41 The Bank admits that although developments within the facility have been encouraging,

> ...they have not been sufficient to resolve the debt difficulties of most of the severely indebted, low-income countries. Actual debt service is less than half the scheduled debt service for this group of countries. Although reschedulings on Toronto terms have helped, they have an implicit grant element of about 20 per cent-low for countries that need highly concessional assistance...The Trinidad terms, if accepted and implemented, would reduce the stock of outstanding debt owed to Paris Club creditors by two thirds.[72]

[71] World Bank, *Annual Report 1992*, pp 67 - 68

[72] World Bank, *Annual Report 1991*, p 67

3.42 The objectives of the Fund's debt strategy remain a restoration of a viable external position for debtor countries and their access to voluntary official and private flows, and their return to satisfactory economic growth. The Fund argues in its *Annual Report 1992* that the fundamental importance of sound macroeconomic and structural policies in these countries is the universally accepted method of meeting these objectives.

3.43 In the course of the implementation of its debt strategy, however, it became increasingly clear to the Fund that:

> Some debtor countries found it difficult to work their way out of their debt problems, even with strong policy reforms. In such cases, a further build-up of debt, combined with scepticism among foreign and domestic savers about the prospects for sustained growth, reduced the likelihood that external viability and normal access to credit markets would be restored, Moreover, while official bilateral creditors continued to provide new financing in various forms, new money from commercial banks became increasingly difficult to mobilise.
>
> In recent years, therefore, the debt strategy has evolved towards voluntary, market-based reductions of commercial bank debt, with support as necessary from international financial institutions, including the Fund (see *Annual Reports* 1990 and 1991). Official creditors have also provided increased concessional and non-concessional relief, especially for the poorest countries.[73]

3.44 Not all commentators support the Bank and Fund's policies for dealing with the problem of debt. For example Community Aid Abroad believes that the solution to the problem of debt is:

> ...that repayments should be somehow related to a country's ability to pay rather than what is owed to the creditor...The principle that debt had to be written off in order to make payments reasonable...is now increasingly being accepted. The Brady Plan was the first recognition of that and the so-called Trinidad Terms are a further recognition of that fact that if we are going to get this crisis under control, if we are going to create a situation where indebted countries are not being bled dry to the extent that it precludes growth, then we are just going to have to write off some debt.[74]

73 International Monetary Fund, *Annual Report 1992*, pp 40 -41

74 Mr J Atkinson, Community Aid Abroad, *Evidence 13 May 1992*, p 233

3.45 UNDP was critical of the Bank's failure to either forgive or reschedule Africa's debts but noted that the Bank has accelerated disbursements to some severely indebted African countries to ensure that it does not receive net transfers from these countries.[75] The Fund by contrast for several years has been taking money out of Africa. Despite new concessional mechanisms such as the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility, the Fund was absorbing net resource transfers from Africa to the tune of $US0.7 billion a year in 1986 - 90.[76]

The Committee did not necessarily agree with UNDP's criticism that the Fund has been taking money out of Africa because loan repayments always exceed the initial loan value - whether for international borrowings. If the return on the borrowed funds exceeds the interest rate there is no problem. (see *Paragraph 1.51*)

3.46 Sub-Saharan debt has increased from $US72.5 billion in 1982 to nearly $US163 billion in 1990 or 8 per cent of output. If Africa had met its scheduled obligations in 1990, debt service payments would have absorbed 15 per cent of output and nearly 60% of the region's export income.[77]

3.47 A 1991 north-south roundtable on African debt relief, recovery and democracy discussed the problem of African debt and concluded that low-income Africa cannot undertake essential reconstruction, modernisation and expansion of its capital stock out of domestic resources to any significant degree. Foreign capital inflow is therefore needed to initiate and sustain economic recovery but such capital inflow will not take place until the present debt situation is satisfactorily dealt with.

75 UNDP, *Human Development Report 1992*, p 46

76 UNDP, *Human Development Report 1992*, p 46

77 P.S. Mistry, *African Debt Revisited : Procrastination or Progress?*, FONDAD, The Hague, 1991, p 76

3.48 The roundtable recognised that debt relief needs to be complemented by domestic efforts and policies dedicated to:

- the resumption of human resource development and economic growth;
- encouraging the participation of African citizens and its private sector to play a larger productive role in development; and
- improving social conditions.

Extracts of the roundtable's action plan, known as the ***Abidjan Declaration on Debt Relief, Recovery and Democracy in Africa***, appear in ***Box 12.***

3.49 The Committee supports the recommendation of the Abidjan Declaration on Debt Relief, Recovery and Democracy in Africa that Fund Member governments should adopt a policy of "zero net transfers" to the region for at least the 1991-97 period.

3.50 An alternative solution was presented to the Committee by the United Nations Association of Australia (UNAA), which argued that the Bank should sustain new lending at levels which exceed repayments of capital and interest and should not receive net transfers from debtor countries. To date, developing countries have faced a hostile financial environment and not made the inroads required to reduce this debt. If anything, UNAA believes, the trend has deteriorated.[78]

3.51 While the latest information available to UNAA is that the Bank is now reorientating its priorities, it would prefer to see that in the context of what actually happens on the ground before making an assessment on the success or failure of the new policies.[79]

[78] Mr P na Champassak, Vice President, ACT Division of the United Nations Association of Australia, ***Evidence 13 May 1992***, p 202

[79] Mr H Wilkinson, National President, United Nations Association of Australia, ***Evidence 13 May 1992***, p 208

Box 12

THE ABIDJAN DECLARATION ON DEBT RELIEF, RECOVERY AND DEMOCRACY IN AFRICA - ACTION PLAN ON DEBT

After almost 10 years of debt crisis management, a coherent framework for debt reduction and relief has not yet emerged. In order to facilitate prospects for returning to a trajectory of sustainable long-term development Africa's debt service payments must be reduced dramatically. Such a reduction can only be achieved by a comprehensive package which addresses all forms of debt: bilateral, multilateral and private. The aim of the new debt strategy must be to restore growth and development, complemented by appropriate domestic policies of reform.

The adoption of Trinidad Terms would represent a positive step towards a more effective solution. Subsequently the proposal of Dutch Development Cooperation Minister Jan Pronk to cancel all bilateral official debt to those least developed countries which are severely debt-distressed and to other low-income countries pursuing strong economic reform programs, should be adopted. A two-thirds reduction in the stock of official bilateral debt of Sub-Saharan countries, proposed under the Trinidad Terms, should be the immediate objective of creditor governments. They should be prepared to increase this to the full stock (100%) of bilateral debt in particular cases where this may be justified to restore prospects for sustainable development.

Where only a two-thirds reduction in debt stocks is achieved, the Trinidad Terms should be enhanced either (a) by reducing interest rates applied to the residual rescheduled debt stock to intermediate, below market levels for the lowest-income countries, and/or (b) promoting the tradeability and conversion of residual official debt stocks through innovative mechanisms aimed at financing environmental, social and selective privatization programs of high development priority in low-income Africa. The total stock of debt should be reduced, rather than relief being provided in small tranches over very short consolidation periods.

The Conference calls on Fund Member governments to adopt a policy of "zero net transfers" to the region for at least the 1991-97 period. Between 1986-90 the Fund has extracted over $US3 billion by way of debt service collections from low-income countries in Sub-Saharan Africa. Debt service obligations to the Fund pre-empt too large a proportion of total debt service to permit adequate payments to other creditors or the financing of essential imports. It is urgent to expand the facilities available for some African debtors to clear their arrears with the Fund, the costs of which should not be borne by aid budgets. The Fund's present exposure in low-income Africa should be wound down through means such as a one-time emission of a small amount of SDR's to permit a write-off of Fund claims, or a sale of a small fraction of the Fund's gold reserves to achieve the same objective.The World Bank's commendable efforts to help low-income African countries cope better with debt service burdens on IBRD loans, should be improved by (A) enabling an up-front reduction in IBRD obligations through appropriately structured IDA-financing; (b) expanded IBRD and IDA lending in countries such as Côte d'Ivoire, Nigeria and Senegal where net transfers from the Bank are negative; and (c) an expansion of IDA resources commensurate with Africa's urgent needs to expanded concessional financing from external sources. A similar approach should be adopted by the African Development Bank with Member Governments being willing to expand substantially the soft loan funds of the AFDB.

Source: P. Mistry, ***African Debt Revisited : Procrastination or Progress?***, 1991, pp 77 - 79

3.52 ACFOA recommended to the Committee that:

> The World Bank and IMF should forgive interest payments owed to them from countries which are most severely affected by debt repayments and are implementing substantial poverty alleviation measures. [80]

3.53 The Bank and the Fund have strongly resisted this suggestion in the past on the grounds that forgiving debt would make it very much harder for them to borrow on international financial markets. ACFOA believes that this would not be the case because the countries that are the most suitable candidates for debt forgiveness are those which borrow primarily from IDA, whose resources are provided by donor countries and not from borrowings on the international capital market.[81]

3.54 The Committee noted that this course is often most objected to be middle income countries because they have taken the necessary action to alleviate their debt and see debt forgiveness as a reward for badness. As Treasury pointed out,

> One is dealing with the moral hazard problem of how to treat countries like Indonesia which have faithfully repaid their debts on schedule and all of those developing countries that have met their debts on schedule. Those are the voices that one hears raised on the board and in those forums as much as anyone else's. Their concern is, 'to get a special deal, to get our debt forgiven, do we actually have to go into arrears?'[82]

[80] ACFOA, *Submission 28*, p 2

[81] Mr G. Barrett, consultant to ACFOA, *Evidence 4 August 1992*, p 332

[82] Mr E Evans, Secretary, Department of the Treasury, *Evidence 15 July 1993*, p 416

STRUCTURAL ADJUSTMENT AND ITS IMPACT UPON THE POOR

> The main objective of structural adjustment lending is to facilitate the restructuring of a developing country's economy so as to provide the best basis for economic growth on a sustainable level within three to five years.[83]

3.55 The Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) (see *Box 13*) were introduced by the Fund as a means of assisting developing countries to cope with debt. These loans are disbursed by the Fund to countries encountering balance of payments difficulties for limited periods provided they adopt the monetary, fiscal and exchange rate policies deemed to be required to rectify their external deficits.

Box 13

STRUCTURAL ADJUSTMENT FACILITY (SAF)

The SAF provides concessional assistance to low-income member countries facing protracted balance of payments problems. SAF resources are intended to support medium term macroeconomic and structural adjustment programs.

Eligibility for SAF arrangement is based on per capita income, with 62 of the Fund's poorer members being eligible for assistance. The amount potentially available to each member is 70 per cent of quota (in three annual instalments).

ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF)

ESAF is an extension of the SAF and provides additional assistance to low-income countries undertaking a structural adjustment program. Eligibility for ESAF is the same as for SAF. Generally, ESAF access increases with the size of the adjustment effort being pursued. Total access under a three year arrangement is 250 per cent of quota with provision for this limit to be exceeded under exceptional circumstances, up to a maximum of 350 per cent of quota.

[83] Driscoll D, *The IMF and the World Bank: How do they Differ?*, p 13

3.56 In his report for AIDAB, Professor Stein summarised a Fund-supported adjustment program as including a reduction in the government deficit, the moderation of the growth of the money supply and/or credit and frequently, sizeable devaluations.[84] Hemming and Kochhar believe that:

> In their most basic form, Fund-supported adjustment programs can be viewed as an application of the simple monetary approach to the balance of payments, whereby monetary policy occupies centre stage with fiscal policy playing a supporting role.[85]

3.57 As of 30 April 1992 there were 8 SAF arrangements and 16 ESAF arrangements in effect with disbursements during the year totalling SDR 0.6 billion.[86]

3.58 Approximately 25% of Bank lending is also committed annually for structural or sectoral adjustment operations that are designed to provide foreign exchange to finance the general imports of goods and services. Policies concentrate on efficiency inducing measures through the removal of price subsidisation and the introduction of deregulation and the privatization of government assets. (See ***Appendix 16*** for examples of Bank structural and sectoral adjustment operations in 1992.)

3.59 Criticisms about the impact of structural adjustment policies on the poor, particularly during the 1980s, is common in development literature and a particularly trenchant one was the rigorous empirical research in the UNICEF book, ***Adjustment With a Human Face***. For example, between 1980 and 1985 an average of 47 countries each year had Fund adjustment programs (as compared to about 10 to 15 during the 1970s).

3.60 UNICEF accepted that the primary cause of the downward economic pressures on the human situation in most of the countries affected is the overall economic situation, globally and nationally, not adjustment policy as such.[87] Nevertheless, they believe that most of these adjustment programs did not reverse

[84] Professor L Stein, ***Exhibit 64***, p 3

[85] R Hemming and K Kochhar, cited by Professor Stein, ***Exhibit 64***, p 3

[86] International Monetary Fund, ***Annual Report 1992***, pp 74 - 75

[87] G Cornia, R Jolly, and F Stewart (eds), ***Adjustment with a Human Face***, Clarendon Press, Oxford, 1987, p 5

the adverse developments in the conditions of children nor, in many cases, did they lead to resumed economic growth. Rather it appeared that the type of adjustment policies adopted have been an important contributory element in many cases.[88]

3.61 Community Aid Abroad also commented on the high social cost of policy implementation, especially for the poor.[89] Examples provided indicated that the deflationary effects of Bank and Fund policies increased unemployment and decreased real wages. Rapid rises in food prices compounded the damage from falling incomes. In many countries food prices have risen faster than other prices because of reduced production subsidies, higher producer prices, decontrolled consumer prices and devalued currencies. Cuts in government spending have also had a severe impact on health and education services.[90]

3.62 In general, government policies regarding the price of goods can have perverse effects as well as being non-rational in both developing and developed countries. High levels of agricultural protection in Europe on most food items and some in Japan and the United States means that the price of food is higher than it need be and that the incidence of this falls most heavily on those on lower incomes or the welfare dependent. (For example, the Japanese pay up to seven times the world price for rice.)

3.63 Even more insidious is the affect of developed world subsidisation of the production of commodities which the developing world is well placed to produce and export. Price suppression on the international market inflicts ever lower standard of living on the developing world.

3.64 Similarly, the policies of developing countries in taxing commodity exports can penalise agricultural producers: subsidising bread can cause it to be fed to cattle and pricing food below the cost of production can cause it not to be produced.

[88] G Cornia, R Jolly, and F Stewart (eds), ***Adjustment with a Human Face***, Clarendon Press, Oxford, 1987, p 288

[89] "The poor" in this context means middle and low income urban dwellers, marginal farmers and the landless, fishing communities, nomads, indigenous groups etc. Children in such communities have been especially vulnerable. Source: Community Aid Abroad, Submission 22, p 19

[90] See Submission 22, p 19 for examples.

3.65 Both the Bank and Fund have undertaken reviews of their structural adjustment policies during the last two years and argue that the results have justified their approach. The Bank concluded that:

> Overall, adjustment lending is associated with a recovery in growth rates and improved policies. Middle-income adjusting countries did better than low-income adjusting countries...the adjustment process generally takes years, and there can be significant costs in the transition...The more difficult path toward recovery followed by the poorer group can be explained by the fact that most low-income countries have relatively weak base in infrastructure and human capital, small private involvement in the formal sector, and weak public institutions They also started off with more distorted economies than did the middle-income countries.[91]

3.66 The Fund's review covered the experiences of 36 low-income countries over a five-year period through to the end of May 1991, and found that most countries had made considerable strides. Those countries which had persisted with reform programs over several years in the domestic price, exchange and trade system areas--and had supported these with strong fiscal and monetary policies--had achieved both stronger growth and export expansion and diversification.[92] However the annual report of the Fund does not provide any examples to support this claim.

3.67 What has the Bank and Fund learned from previous experience? The Bank has concluded that countries which undertake sound macro economic policies do much better in terms of growth and poverty alleviation, than countries which have had difficulties with stabilisation or which have had badly distorted incentive regimes. However, Bank and Fund assessments of the actual outcomes of adjustment programs report a varied performance, with best results in the area of balance of payments and no conclusive outcomes in economic growth, efficiency and rates of investment.

3.68 The Bank has accepted that there are serious short term social dislocations which flow from adjustment and have established special programs to deal with the impact of adjustment intended to deliver sources of financing to local communities for infrastructure projects, public works schemes, infant nutrition schemes, credit schemes and training programs for the poor and unemployed. However these special

91 World Bank, ***Annual Report 1992***, p 68

92 International Monetary Fund, ***Annual Report 1992***, p 56

programs are only a very minor part of total structural adjustment. They are insufficient to compensate for the adverse impact on the poor. In common with other forms of lending, problems of "leakage" and political manipulation of such allocations have been reported, sparking calls for close examination of the effectiveness of this form of lending.

3.69 AIDAB also undertook two reviews of Bank and Fund policies and concluded that although controversial, policy based lending aimed at adjustment has been increasingly accepted:

> The most successful outcomes have been where domestic economic strategies were already being directed towards market reform, where governments have overcome domestic opposition to policy change, and where the physical infrastructure and human capital resources have been sufficient to enable the necessary restructuring. In poorer countries and those with poorly organised and developed infrastructure, and weak government and business sectors, adjustment lending has not produced clear and positive changes in economic growth and investment rates. In general the most productive reforms have taken place where countries possess the capacity to respond to reforms and where there is commitment to the policies by the authorities.[93]

3.70 In the AIDAB second report, Professor Stein also found that the advice tendered by the Fund and Bank is broadly sound in that it provides LDCs in crisis with seemingly sensible and practical guidance. In his opinion it was regrettable that:

> The full battery of structural adjustment measures is but one arsenal in the fight against poverty. Without a concerted effort in upgrading human resources, in reshaping social institutions and attitudes and in fostering a state apparatus conducive to investment and economic growth, the finest of structural adjustment measures are likely to be of no avail....there is a need to place the role of structural adjustment programs into proper perspective. [94]

93 AIDAB, ***Exhibit 11***, p 3

94 Professor Stein, ***Exhibit 64***, p 34

3.71 In his article on ***The IMF, The World Bank and Africa's Adjustment and External Debt Problems: An Unofficial View,*** Professor G.K. Helleiner, an eminent development economist from the University of Toronto, found that the principal shortcomings of African stabilisation and structural adjustment programs in the 1980s are obviously controversial, but many would find some fault with their:

- continued over-reliance upon demand restraint;
- over-optimism concerning the market prospects for traditional exports and the short-run possibilities for expanding nontraditional ones;
- relative neglect of the provision of crucial public goods, especially agricultural infrastructure;
- relative neglect of the maintenance of human capital, particularly health expenditures, and failure to minimise the impact upon absolute poverty;
- failure to grasp the nature of required changes in the financial system, and overestimation of the efficacy of financial "liberalization" and interest rate increases;
- over-estimation of the efficacy of privatization, especially in agricultural marketing and input distribution;
- inadequate appreciation of the fiscal implications of reform packages incorporating sharp devaluations and interest rate increases;
- exaggerated expectations of the role of foreign direct investment, and the prospect of returning flight capital;
- inadequate consideration of the potential gains from regional and subregional cooperation; and
- underfunding, and frequently inappropriate forms of external assistance.[95]

95 Professor G.K. Helleiner, ***Exhibit 74,*** pp 20 - 21

3.72 Treasury's assessment of policy lending undertaken in Africa was that it was too complex and broad and far too many objectives were sought with a single program. In some of those cases less complex sectoral loans would have been better than structural adjustment programs. It really is a matter of making sure that the relevant team understands the economy well enough to tailor the program to the conditions that exist in the country rather than transplanting policy approaches that might have worked in another place.[96]

3.73 The Bank has acknowledged the fact that structural adjustment policies have, at least in the short run, the potential to impact dramatically on the poor. Their answer has been to adopt a broad philosophy emphasising that a focus on poverty and alleviation is "an overarching objective" of all their programs. (***Box 14*** outlines the thrust of their approach since 1987.)

3.74 Of particular importance is the recognition by the Bank that these effects can be ameliorated through:

- the promotion of efficient labour intensive growth based on appropriate use of market incentives, infrastructure, institutions and technology;
- improving the productivity of the poor through the provision of basic services such as primary health care, nutrition, education and family planning; and
- a 'safety net' of well targeted transfers and support to protect the most vulnerable.[97]

3.75 According to a past president of the Bank, Mr B Conable,

> Poverty reduction is an integrating theme for the many facets of the World Bank's work, and it is the raison d'être for our operational emphases.[98]

96 Mr A Cole, Secretary, Department of the Treasury, ***Evidence 13 May 1992,*** pp 153 - 154

97 Treasury, ***Submission 17B,*** p 5

98 B. Conable, Address to the Board of Governors of the World Bank Group, 25 September 1990, cited by the World Bank, ***Annual Report 1991,*** p 47

Box 14

THE WORLD BANK AND POVERTY

In 1987 the Bank established a special task force to review its poverty work and propose new activities which were designed to achieve the objective of eliminating the worst forms of poverty in developing member countries by the year 2000. The Program was based on the belief that although economic growth, over the long term, was the major factor in the reduction of mass poverty, *growth alone was not sufficient for the alleviation of absolute* poverty at the desired speed. Growth policies, therefore, had to be supplemented by clearly defined poverty-reduction efforts.

The review culminated in the *World Development Report 1990* which recommended that developing countries adopt a two part strategy: the first part of the approach requires the encouragement of broadly based economic growth. Policies that make productive use of the poor's most abundant asset--labor--are consistent with rapid growth and reduced poverty. The second part requires the provision of social services--especially primary education, basic health care, family planning, and nutrition--to improve living conditions and increase the capacity of the poor to respond to whatever income-earning opportunities arise from economic growth.

To implement the first part of the strategy, the *World Development Report 1990* argues that countries must put in place incentive structures that make the best use of their available resources, including those of the poor. The Bank admits however that some, the old and the infirm, will not be able to afford the basic necessities or will be vulnerable to such income-reducing shocks as a drought or the loss of the family breadwinner. To help these groups, *World Development Report 1990* calls for the establishment of a system of targeted transfers and safety nets as an essential component of the basic approach.

Building on the findings in *World Development Report 1990*, policies were adopted in fiscal 1991 for fully integrating into Bank operations the two-part approach for reducing poverty. The key ingredients are:

- analysis that assesses the consistency of each country's policies, programs and institutions with the reduction of poverty; and
- recommendations for country policy and design of the Bank's program of assistance to support and complement country efforts to reduce poverty.

Source: *World Bank Annual Report 1991*, pp 47 - 48

3.76 The Bank states that it is making efforts to reduce poverty across sectoral lines and include investments to improve education, ensure environmental sustainability, expand economic opportunities for women, strengthen population-planning, health, and nutrition services, and develop the private sector. The Bank adheres to the philosophy that support of economic restructuring in many of its borrowing member countries is based on the knowledge that the precondition for restoring economic growth - the cornerstone of successful development and poverty reduction - is structural adjustment.[99]

3.77 In the area of nutrition and primary health care the Bank is working in conjunction with the World Health Organisation in support of AIDS control in the African region and now India, ranging for example, from the first free-standing Bank Aids project of an $US8.1 million credit to Zaire in fiscal 1989 to a loan of $US85 million to India which was approved in October 1991.[100]

3.78 The Bank recently issued a report saying that it was increasingly focusing assistance in the developing world to reduce poverty but faced an uphill battle because of swelling populations in many of the poorest regions. Bank lending for human resource development in education,health care, nutrition and family planning has tripled since the late 1980s and more than half of its operations in 1992 had an explicit poverty reduction focus, compared with under five per cent in the mid 80s.

3.79 The Bank maintains that recent changes to its senior management structure also represents the new focus on human resource and environmentally sustainable development.

---

99 World Bank, *Annual Report 1992*, p 5

100 World Bank, *Annual Report 1992*, p 53 and an article by L. Murdoch in *The Age*, 12 January 1993, p 9

3.80 The attempt by the Bank to alleviate poverty in developing countries received support from both public service officers and non government associations who gave evidence before the Committee.[101] AIDAB has also assessed the impact of structural adjustment loans on the poorest groups and concluded that:

> Some of the earlier loans that have been in place have been disadvantaging some of the poverty groups in a country. The World Bank has now recognised the need to put in safety nets to ensure that the poorest groups are not disadvantaged by some of these loans. It is very much an evolving area as we learn from experience and accommodate to make things better. It is an area that needs to be monitored.[102]

3.81 In its report on ***Third World Debt: An Australian View***, the Joint Committee on Foreign Affairs, Defence and Trade called for social impact statements to be prepared by the Fund.[103] Since that report was published, the Bank has adopted a practice of completing poverty assessments for all active borrowing countries and the conclusions drawn from those will used to determine lending practices. (See *Appendix 19*) The Fund has recognised that prolonged stabilisation and adjustment processes are unlikely to be sustained without paying attention to poverty issues and the provision of safety nets. It still firmly believes however that the decision on whether to undertake poverty alleviating measures remains a government decision.

3.82 In addition to evidence presented by non-government organisations, the Committee examined structural adjustment policies in Indonesia, Papua New Guinea and the Philippines. From these, the conclusion was drawn that the economic base of the country is of paramount importance in their ability to implement reform without causing serious impact upon the poor. Political receptiveness to structural adjustment plus a developed capacity to respond are also critical ingredients for success. (See *Appendices 20 - 23*)

[101] See for example, Mr A Cole, Secretary of the Treasury, ***Evidence 13 May 1992***, p 164; Mr B. Brogan, ***Evidence 13 May 1992***, p 215; and Mr H Wilkinson, National President, United Nations Association of Australia, ***Evidence 13 May 1992***, p 201

[102] Dr M Dalton, Director, Development Banks and Commonwealth Section, AIDAB, ***Evidence 12 May 1992***, p 118

[103] Joint Committee on Foreign Affairs, Defence and Trade, ***Third World Debt: An Australian View***, Recommendation 1, p 48

3.83 Military spending currently amounts to about 5 per cent of world GDP and questions have been raised about the appropriateness of this level when compared to spending on health and education by developing countries. The board of the Fund discussed the question of military in October 1991, when directors emphasised that

> National security and judgement about the appropriate level of military spending required to assure that security were the prerogative of national governments and were not part of the Fund's work...data on military expenditures should not serve as a basis for establishing performance criteria or similar conditions associated with Fund-supported programs."[104]

3.84 Nevertheless the Fund believes that because military expenditure can have an important bearing on member's fiscal policy and external position, aggregate data, encompassing military transactions must be fully reported.

3.85 From the evidence presented to the Committee, it is clear that although considerable work remains to be done, the Bank is moving, albeit slowly, in the right direction to alleviate the impact of its adjustment policies on the poor. However the same cannot be said about the Fund. Australia should therefore endeavour to raise the issues of poverty and military spending with the Fund at every appropriate opportunity.

Recommendation 17

The Committee recommends that the Government strive within the Fund to achieve a poverty alleviation focus in structural adjustment lending. Within the Bank the Government should press for full implementation of the Bank's poverty alleviation policies in its structural adjustment lending and for more resources to be directed to evaluating the poverty impact of these loans.

Recommendation 18

The Committee recommends that the Treasurer's Annual Report to the Parliament under the International Bank for Reconstruction and Development (General Capital Increase) Act should include details of the Government's efforts to enhance poverty alleviation by the World Bank. It should also evaluate the impact of these efforts.

[104] International Monetary Fund, ***Annual Report 1992***, p 53

Recommendation 19

The Committee recommends that the responsible Minister report annually to the Parliament on the expected poverty impact of all structural and sectoral adjustment loans approved by the Bank and the Fund over the preceding period.

THE ENVIRONMENT

> [There is]... a need to integrate environmental considerations into development policy making. The value of the environment has been underestimated for too long, resulting in damage to human health, reduced productivity and the undermining of future development prospects...continued, and even accelerated, economic and human development is sustainable and can be consistent with improving environmental conditions, but that this will require major policy, program, and institutional shifts.[105]

3.86 The Bank argues that it was the first multilateral development institution to issue guidelines to its staff for dealing with environmental issues raised in the formulation, appraisal and execution of projects and was at the forefront of the adoption of a declaration of environmental policies and procedures relating to economic development by almost all the multilateral development agencies, the European Economic Community, the Organisation of American States, the United Nations Development Programme and the United Nations Environment Program.[106]

3.87 The Bank also issued its ***Operational Directive on Environmental Assessment*** in October 1989 which mandates an environmental assessment for all projects that may have a significant negative impact on the environment. The Directive was revised in 1992 to require that people affected by Bank-supported projects have access to the information contained in the assessment. The revised directive also streamlines the process by which all projects in the pipeline are screened for their potential environmental effects and are rated according to their probability of adversely affecting the environment.

[105] *World Bank Development Report 1992*, Box 1, p 2

[106] I F I Shihata, *The World Bank in a Changing World*, Martinus Nijhoff Publishers, Dordrecht, 1991, p 127

3.88 A major contribution to the environmental debate was the release of the Bank's ***World Development Report 1992*** which described how environmental problems can and do present obstacles to development and offered strategies for overcoming these. (See ***Appendix 24***) The Bank has also recently appointed a Vice-President in charge of the Environment and Sustainable Development and restructured its Environment Department into the following areas:

- Pollution and Environmental Economics
- Land, Water and Natural Habitats
- Social Policy and Resettlement
- Global Environment Coordination and
- Global Environment Facility Administration

3.89 In spite of this, the Committee was provided with evidence which indicated that concern remains amongst NGOs over the failure of the Bank to take environmental considerations into account when approving loans for projects.

3.90 The most commonly cited example was that of the Sardar Sarovar (Narmada) Dam project in India of which an independent review was highly critical both of the resettlement program and the environmental and technical aspects of the project (see ***Appendix 20***).

3.91 As a consequence of that review, the Bank agreed to continue support for the project on the basis of an agreed detailed action plan comprised the following provisions:

- improvements in policies, organisation and management;
- the implementation of resettlement and rehabilitation (R&R) of people affected by the project;
- tighter linkage between progress on R&R and dam construction; and
- strengthened environmental planning and monitoring of potential environmental impacts.

3.92 Continued support by the Bank was contingent on a number of key benchmarks under the plan being met however on 30 March 1993 the Bank announced that the Government of India had decided to proceed with the dam and power project on its own and had requested cancellation of the remaining undisbursed portion of the loan.

3.93 Despite the cancellation of this loan, the Bank has agreed to continue to support priority development projects in India involving resettlement and rehabilitation so long as appropriate policies and programs, consistent with Bank guidelines, are agreed. The Bank believes that one effect of the Narmada experience has been increased attention in project preparation and implementation to beneficiary participation and consultation and this will continue to receive emphasis in the future.[107]

3.94 Examples were also given to the Committee of the Nam Theun hydroelectric scheme in Laos and the Three Gorges Project on the Yangtze River in China. The Bank has come under pressure from environmental groups not to fund either of these projects because of potentially adverse effects.

Box 15

The Global Environment Facility

The World Bank's Global Environment Facility (GEF) was established as a three year pilot program (but allows funding to extend over seven years) and launched in November 1990 using the existing resources of the World Bank, the United Nations Development program and the United Nations Environment Program. Australia joined the GEF in August 1991 with a commitment of A$30 million over seven years. The GEF was established to address four key areas of global environmental concern:

- protection of the ozone layer
- limiting emissions of greenhouse gases
- protection of biodiversity
- protection of international waters

Although only in the pilot stage, the GEF is seen as a possible manager of funds contributed by countries to support international environment conventions eg. the Framework Convention on Climate Change and the Convention on Biological Diversity. Countries which join the GEF belong to a "Participants' Assembly" which considers and advises on projects proposed for funding and officers of this Department have attended GEF meetings.

Source: DASETT, *Submission 37*, p 1

[107] World Bank *Press Release No 93/S51*

3.95 A major focus of the Bank's environment policy is through the ***Global Environment Fund (GEF)***, however, there has been considerable criticism of the Bank's involvement from two principal quarters:

- developing countries which consider they have a lack of influence in GEF decision making; and
- environmental groups who believe the Bank has a poor environmental record.

3.96 These criticisms were echoed by developing countries who attended the GEF meeting in Abidjan in December 1992, who supported an NGO campaign to oppose a dominant World Bank role in environment funding. Delegates were particularly concerned that environment funding under the GEF could be linked to the kind of stringent conditions associated with the Bank and Fund. The meeting also discussed a restructuring of the GEF's decision-making system to ensure that neither donor nor developing countries have a disproportionate say.[108]

3.97 The Committee agreed with these concerns and expressed support for an alternative proposal that the Global Environment Facility be moved from the Bank to the new United Nations Commission on Sustainable Development.

3.98 The Bank has moved to address the criticism by developing its own environment policy, having staff especially dedicated to environment matters and reviewing the GEF's governance arrangements to facilitate membership of the Participants' Assembly by developing countries. An outline of the Global Environment Facility appears in ***Box 15***.[109]

[108] Reuters, 4 December 1992, Number 0422

[109] Department of the Environment, Sport and Territories, *Submission 37*, pp 1 - 2

3.99 The Department of the Environment, Sport and Territories (formerly the Department of the Arts, Sport, the Environment and Territories) has been monitoring these developments and acknowledges the progress the Bank has made on integrating environmental concerns into its operating procedures. In their view:

> The Bank still has some way to go in winning support from environmentalists and from developing countries, but there is now general acceptance that the GEF is likely to be the donor countrys' [sic] preferred funding mechanism for environmental conventions.[110]

3.100 At the United Nations Conference on Environment and Development, the Bank proposed the establishment of an ***Earth Increment*** entailing incremental resources to be used during the IDA-10 period to help the poorest countries meet their environmental objectives. If donors are prepared to support this initiative, the Bank proposes that an annual allocation from the IBRD's net income be made available.[111]

3.101 Officials from Treasury and other departments have attended two meetings of the GEF Participants' Assembly in 1993 and three further meetings are planned to conclude negotiations. Important in these negotiations has been the governance arrangements to apply to the control of GEF funds and the approval of specific loans. The structure is likely to involve a broadly based Participant's Assembly and an executive board comprising 25 to 30 members representing constituencies. A replenished fund ranging in size from SDR2 to 3 billion is currently envisaged and Australia supports the agreement on a replenishment.[112]

RECENT BANK INITIATIVES

3.102 The Bank believes that there are strong links between housing policy reform, environmentally sustainable development and poverty reduction and in April 1993 announced a new housing policy. The Bank's new policy paper "Housing: Enabling Markets to Work" endorses a sector-wide approach addressing all housing-related problems in Third World countries rather than a project-specific approach and emphasises the need for structural reform and a greater decentralisation of authority and power in existing housing policies. Particular targets of the new

110 Department of the Environment, Sport and Territories, ***Submission 37***, p 2

111 World Bank, ***Annual Report 1992***, p 75

112 Treasury, ***Submission 17G***, p 9

policy would be the slums, rundown city neighbourhoods and squatter settlements which, the Bank believes, are very often the places of the lowest environmental quality. Polluted water, inadequate sanitation and garbage disposal, and indoor pollution caused by wood-burning stoves are sources of environment-related diseases in urban areas in the Third World.

3.103 The Bank has also indicated that it will be changing its lending policy for energy projects by emphasising improved energy efficiency, conservation, and economically justified fuel substitution.

3.104 The Fund and Bank need to assess the direct and indirect impacts of its structural adjustment lending on the environment and the population and to ensure that improved environmental policies are implemented in practice.

<u>Recommendation 20</u>

The Committee recommends that the Australian Executive Director exercises a more stringent oversight of Bank loans to ensure that the Bank takes a more active role in evaluating the impact of its programs upon the environment and the population.

RESETTLEMENT

3.105 Concern was also expressed to the Committee about the human rights implications of the Bank's resettlement programs.

3.106 The Bank's policy on involuntary resettlement is formalised in an ***Operational Directive*** which was first issued in 1980 and revised in 1986, 1988 and most recently in 1990. A new directive on indigenous people was also issued during 1992 which mandates that native people affected by Bank projects must be involved in their preparation and implementation. By identifying local preferences through direct consultation, the Bank believes that it will be better able to incorporate indigenous knowledge into project approach. Special attention will be paid to the role of culture and gender in resettlement and environmental impact studies.

3.107 As an example of the application of this policy, the Bank cites its loan to the Electricity Generating Authority of Thailand to support a project designed to increase the generation of power in the country and to increase the capacity of governmental institutions to monitor environmental conditions in the power and mining sector. Because of controversy surrounding the resettlement provisions, the

Bank reviewed the project before allowing final approval and, as a result, will now place emphasis on the monitoring of the implementation of the project's environmental-impact mitigation measures.[113]

3.108 From the evidence presented to the Committee, it would appear that although the Bank is long on rhetoric, it remains reactive rather than proactive when considering the environmental and resettlement implications of its policies.

POPULATION, LAND REDISTRIBUTION AND CONDITIONALITY

3.109 The term "conditionality" refers to the policies that members are expected to follow when they use Bank or Fund resources. Treasury believes that criticism of the policy conditions imposed by the Bank and Fund have become less strident in recent years reflecting their efforts to develop agreed programs that take account of the social consequences of policies.

3.110 At the same time, Treasury added:

> There has been an increasing desire in donor countries for a wider range of conditions extending beyond economic policy to include, for example environmental, human rights, governance and other concerns.
>
> In all of these areas a careful balance needs to be struck to ensure that the basic objectives are not lost sight of and that conditionality does not become excessive. These are important issues for the two institutions that will continue to attract much attention in the years ahead.[114]

3.111 Many witnesses considered that measures to improve the plight of the poor in developing countries should be made a condition of Bank and Fund loans. The Committee was particularly interested in suggestions that population and land redistribution issues be addressed through conditions attached to Bank and Fund loans.

[113] World Bank, *Annual Report 1992*, p 59

[114] Mr A Cole, Secretary, Treasury, *Evidence 13 May 1992*, pp 146 - 147

Box 16

Bank Lending for Population Programs

Population, health and nutrition. Bank lending for population, health, and nutrition (PHN) has increased rapidly, as well, since the five-year period fiscal 1983-7, when annual lending averaged $US205 million. In fiscal 1992, lending to the sector totalled $US961.7 million, a decrease over the fiscal 1991 total of $US1.6 billion. Sixteen projects in fourteen countries were approved.

The nature of projects in the PHN sector is also changing. As PHN has increasingly been integrated more fully into the Bank's overall country-assistance strategies, more projects are addressing PHN and other components together, and sector work is preparing the ground for dialogue and operations in integrated human-resource and social-sector activities.

The involvement of non governmental organisations (NGOs) in PHN projects is also on the increase. In nearly all the PHN projects approved during the year, NGOs will assume important roles in project implementation. To a lesser, but still significant, extent, NGOs are participating in the design of projects - especially those involving social funds, where their role results in project design and implementation that is directly responsive to the local populations.

The widening context within which population activities have been carried out since they began in 1970 - their integration with health and nutrition in 1980, and since 1987, with other social-sector operations, as well - has been associated with each stage with considerable expansion in both the number of projects and the volume of lending. In the fiscal 1980-87 period, yearly commitments for population projects averaged $US50 million. In the five following years, annual commitments averaged $US166 million.

Especially noteworthy has been the rapid expansion of population lending in Africa, following the efforts of the Bank and other donors to support countries through an "Agenda for Action to Improve the Implementation of Population Programs." Recent operations emphasise the need to (a) increase access to family planning services (especially for people who are hard to reach) and to mobilise private-sector resources to help in the provision of services; (b) raise the quality of and increase demand for family planning; (c) integrate family planning into a broader array of health-care services, particularly maternal and child health; (d) strengthen program management and technical capacity; and (e) coordinate more fully with other donor agencies and local institutions in order to leverage the Bank's support with grant assistance and to build country commitment and infrastructure.

Source: *World Bank Annual Report 1992*, p 51

3.112 Although the Bank is currently running an increasing number of population programs, (see *Box 16*) the adoption of policies to achieve desirable population growth rates and support for family planning projects is not currently part of loan conditionality. The Bank believes that evaluations of programs linking structural adjustment lending to the development of population policy in Senegal and Kenya indicate that this type of conditionality should be applied only under special circumstances. Policy dialogue leading to consensus and sustained commitment is, they contend, a far preferably approach.[115]

3.113 The Committee questioned whether Australia had ever advocated that the Bank or Fund give population policy a particularly high priority or even to suggest that one of the conditions of a loan should be a commitment to proper family planning and population policy. The answer, it would seem, is no, although AIDAB believes the latter is a policy option. As far as the Committee could ascertain, the concept is not under active discussion within either the Bank or Fund.

3.114 The Bank also argues that, in its experience, overplaying of the population issue while paying relatively little attention to such issues as access to markets, foreign debt and so on, has bolstered resistance to the development of population policies, while quiet advocacy of family planning has done much to make services available - even where official positions are opposed.[116]

3.115 As for the question of land redistribution, the general attitude of the Bank is that:

> Where it can be done, redistribution of land should be strongly supported. But the political obstacles to such reform are great.[117]

3.116 The Bank's views on land reform appear in *Box 17*, however it is of concern to the Committee that the Bank believes that reform is a matter solely for recipient governments and that it does not have the power to impose conditions that will remove impediments to equitable land redistribution.

[115] AIDAB, *Exhibit 99*, p 2

[116] AIDAB, *Exhibit 99*, p 2

[117] World Bank, cited by AIDAB in *Submission 15A*, p 4

Box 17

The Bank and Land Reform

Land reform is a potent instrument for poverty reduction. It can take many forms - reform of rent contracts, rent reduction, or land to the tiller - with or without compensation. All forms represent some transfer of ownership rights. WDR 1990 concluded that success in implementing major land reform has been rare, and has only occurred at times of major social and political upheaval. Nevertheless, opportunities for land reform must be sought wherever possible. Land tenure systems also influence patterns of development and prevailing land tenure arrangements have an immediate and direct impact on the welfare of the farm family. This, the effects of the structure of land holding and tenancy arrangements on the poor should be reviewed. In many instances, inefficient land markets - inadequate registration or cadastral surveys - and regulations governing purchase, sale or inheritance of land may be easier to change than current tenure arrangements. Opportunities for reform through changes in legislation, infrastructure investments or aid to assist land reallocation - perhaps to be effected in a phased program - should be identified."

The World Bank's support for land redistribution, be it in the form of lending, sector work or policy advice, is constrained by the extent to which the borrowing government wants the Bank to provide support or advice in this area. In the case of lending, the Bank's policies on financing local costs preclude it, other than in very exceptional circumstances, from disbursing on land purchase. However, the Bank can provide, and has provided, indirect support for land redistribution through loans for improving land titling (eg Thailand) natural resource management (eg Philippines) and land tenure reform (eg Brazil - see Box 4.5 of 1990 WDR). It has also provided advice to many borrowing governments on ways to improve land laws and regulations.

It is generally more difficult for the Bank to bring about reform in land distribution than reform in economic and development policies because vested interests (gainers and losers) are more clearly identifiable when land ownership/use interests are at stake than when economic or development policies are changed.

Source: World Bank Poverty Handbook, p 2.14 cited by AIDAB, *Exhibit 94*, p 1

3.117 AIDAB has provided advice from the Bank which indicates that although the Bank strongly supports land redistribution as an aid to poverty reduction, few developing countries can afford to borrow enough money to undertake significant amounts of land redistribution with full compensation. Although some success has been achieved in Asia, this has not been the case in Africa. Land redistribution is therefore not seen as an essential element in restructuring an economy because the Bank considers that severely inequitable land distribution has a less constraining effect on economic growth and poverty alleviation than inappropriate government interventions affecting free domestic markets, trade, prices or exchange rates.[118]

[118] AIDAB, *Exhibit 98*, p 2

Recommendation 21

The Committee recommends that Australia strongly press the Bank and Fund to strengthen advice given during loan negotiations to take greater account of poverty, population growth, land redistribution and the environment.

PROJECT EVALUATION

3.118 Criticism has also been levelled at the Bank from many quarters over its failure to achieve desired results because:

- projects were poorly designed and therefore were ineffective;
- the Bank gives more weight to new lending proposals and does not question the effectiveness of existing loans and whether they meet objectives. In short, the Bank is not paying enough attention to supervision;
- the effectiveness of projects is impaired by slowness of implementation; and
- corruption.

3.119 The Bank has recognised the rising demand for accountability both from within and outside its ranks by including a section on its Operations Evaluation Department (OED) within its latest annual report.[119] As far as the Committee could ascertain, there is no equivalent unit within the Fund's organisational structure, and no public reporting on the effectiveness or otherwise of the use of its funds.

[119] World Bank, *Annual Report 1992*, p 87

3.120 The OED audits all adjustment-lending and 40 per cent of the investment operations and reviews of project-completion reports prepared by Bank operational staff are also undertaken by the OED. The Bank admits that the OED's mandate to only evaluate completed operations limits its ability to respond to current concerns, but argues that the perspective of time is essential to find out about their effects, particularly on people.[120]

3.121 The Bank counters criticisms that it fails to take these reviews into consideration when planning new projects by saying that an evaluation review was undertaken in 1991. As a result a series of abstracts summarizing the findings of major audits and studies, together with a computerised textbase containing summaries of all its reports are now available to Bank operational staff. Reports are also distributed outside the Bank for public assessment.

3.122 AIDAB considers that the Bank is a "leader in evaluation methodology" but believes that in practice there appears still to be room for improvement because the Bank's success rates appear to have been declining - from an average of 81 per cent for the period 1968 - 1980, to 64 per cent in 1990. AIDAB argues that:

> While this may reflect the composition of the sampling rather than a trend, the outcomes need more detailed investigation. Design weakness and failure to establish appropriate policy frameworks are known to be major causes of failure. Australia should continue to press for corrective action, and should look more deeply into the apparently declining success rate.[121]

3.123 AIDAB noted that only 52 per cent of projects in the agricultural sector were satisfactory and that projects in Africa tend to have a lower success rate than those in Asia and Latin America. The Bank believes that the increasing diversity of projects is a possible explanation. The Asian Development Bank has specifically examined this issue and found that when it gets into new projects it often has a much lower success rate than it does for the projects in the areas in which it has been for a long time.[122] This is clearly an issue to which that the Bank should pay more attention.

[120] World Bank, *Annual Report 1992*, p 88

[121] AIDAB, *Submission 15*, p 12

[122] AIDAB, *Evidence 12 May 1992*, p 130

3.124 AIDAB has also expressed serious concerns about the adequacy of the environment appraisal of one major project, the Pak Mun dam in Thailand and argues that:

> There is a need for ongoing monitoring and evaluation to ensure that spending pressures do not override the effective implementation of environment policies.[123]

3.125 Because of the Bank's perceived failure to adequately utilise knowledge gained from past projects, concern was also expressed to the Committee that the Bank still has as its primary focus new commitments rather the effectiveness of its lending. Australia abstained on the Bank's budget this year because it was thought to be too ambitious and that it contained undesirable new lending. Certainly greater priority must be given by the Bank to the implementation and supervision of projects and to the effectiveness of its loans.

3.126 Of primary concern to the committee was the failure of the Bank to evaluate programs and in particular, the reference to loan officers who have been keener to launch new projects rather than to see them through. The Bank has accepted this criticism, saying that these concerns were explored in the Report of the Bank's Portfolio Management Task Force (the Wapenhans Report) and that management were acting on their recommendations. In ***Appendix 25*** the Bank answers some of the issues raised in that report.

3.127 In report issued in July 1993 the Bank outlined their agenda for improving development effectiveness:

> Portfolio management will become a central part of country assistance strategies. This will increase attention paid in the Bank's dialogue with its borrowers to general as well as specific problems which arise across the entire portfolio of Bank loans to a country. It will involve more senior policy makers so that systemic issues can be identified and addressed expeditiously. If a country is having difficulty in carrying out existing projects, the Bank will concentrate on ways of helping the borrower to deal with the problems or, if necessary, help the borrower to restructure portfolios or redesign projects to increase their chances of succeeding.

123 AIDAB, ***Submission 15***, p 12

3.128 The Bank has also introduced simplified project designs, implementation plans and guidelines to focus project supervision assessments on progress toward the operation's goals. Internal changes to alter institutional behaviour and attitudes, particularly in the weight given to portfolio management in promotion policy have been introduced.[124]

3.129 There is also concern that the Bank, and to a large extent the Fund, are more interested in expanding their size and importance by rapidly increasing the quantity of the lending than the quality of the lending. At the level of individual officers at the Bank and Fund success is measured more by the successful negotiation of large loan agreements than the quality of the loans which is difficult to determine until much later.

3.130 ***Table 13*** demonstrates a serious difference between the Bank's estimate of project Economic Rates of Return (ERR) at appraisal stage and the real ERR upon project completion, whilst ***Table 14*** looks at the Bank's performance of evaluated operations by sector and region.

3.131 The deterioration in success rate may be due to a heavier focus on poverty alleviation projects which are focussed on the more difficult areas of agriculture and in Africa. This should not be used to justify reduced attention to poverty alleviation but should justify more attention to improving the quality of poverty alleviation projects.

3.132 The Bank and the Fund have paid little attention to the interaction of its policy conditionality under structural adjustment lending and the success of projects. In an economy which is experiencing rapid and deep structural change it is to be expected that many projects will fail. This is particularly true because the projects depend on substantial investments by the recipient government but these are often cut under structural adjustment lending conditionality.

124 World Bank, ***Getting Results : The World Bank's Agenda for Improving Development Effectiveness***, July 1993

Table 13

Appraised and re-estimated economic rates of return on operations, evaluated by year of evaluation (1974 - 1991)

Year	Number of Operations (No)	Average ERR/a Appraisal (%)	Completion (%)
1974	31	16	17
1975	22	18	17
1976	41	15	16
1977	70	18	18
1978	55	20	19
1979	84	20	18
1980	52	21	16
1981	69	19	14
1982	77	20	16
1983	98	22	14
1984	108	21	12
1985	110	25	17
1986	131	21	16
1987	98	29	15
1988	85	26	16
1989	108	21	15
1990	123	22	13
1991	119	25	17
Total	**1481**	**22%**	**16%**

/a Unweighted averaged based on projects for which both the appraisal and re-estimated economic rates of return are available. Excluded projects include DFCs, SALs, technical assistance, population health and nutrition, education, program loans and agricultural credit.

Source: World Bank data

Table 14

World Bank project success rates 1990

Performance of evaluation operations by sector and region

	Operations judged to be satisfactory	
	Number	**Percentage**
Sector		
Agriculture and rural development	59	52
Industry	3	21
DFCs	25	82
Transport	23	82
Tourism	2	67
Telecommunications	5	83
Energy	16	94
Power	24	80
Water supply and sanitation	9	56
Urban development	15	83
Education	19	66
Population, health, nutrition	5	63
Technical assistance	8	62
Program and policy	15	63
Region		
Africa	69	61
Asia	82	70
EMENA	38	66
LAC	39	55
Total	**228**	**64**

Source : World Bank *Annual Review of Evaluation Results 1990*

3.133 The 1980s have been for most developing countries a decade of deep economic depression which exceeds the Great Depression of the 1930s. Under these conditions it is quite understandable that many projects are now less successful. As conditions improve so should the success rate. Therefore it would be unwise to concentrate lending only in areas with current high economic rates of return. Long term social and physical infrastructure must remain an important part of the Bank's lending.

Recommendation 22

The Committee recommends that Australia urge the Bank and Fund to give greater priority to the implementation and supervision of projects and to evaluate the effectiveness of their loans.

3.134 In response to recent criticism from the Clinton administration and the US Congress over its environmental policies and lack of accountability, the Bank is considering setting up an independent in-house inspection panel. This panel would be recruited from outside the Bank and given the mandate to respond to complaints about adherence to the Bank's operating rules and procedures in relation to projects it supports. While welcoming the idea, critics have faulted the proposal saying that the panel's brief should be widened to include violations of Bank loan and credit agreements; funding should be at least $US10 million rather than the proposed $US1 million; and panel recommendations should be made public.[125]

Recommendation 23

The Committee recommends that Australia support the proposal to establish an independent inspection panel to investigate complaints about adherence to the Bank's operating rules and procedures in relation to projects it supports. The Committee further recommends that Australia should urge the Bank to make public panel recommendations.

[125] *The Guardian*, 5 July 1993, p 12

ADMINISTRATIVE EFFICIENCY

3.135 The internal efficiency of the Bank itself, including its employees, structure and operation, and the manner in which it is audited was raised as a further area of concern. A recommendation was made to the Committee by the United Nations Association of Australia that:

> The auditing practices of the Bank should be studied carefully by Australia, following allegations that these are not free from interference, especially as regards the selection of external auditors. Australia should press for a report of the internal auditors which the President has refused to release to the Board.[126]

3.136 AIDAB echoed this view, saying that:

> Its effectiveness review of the multilateral banks showed that in some measures the World Bank's administrative costs are higher than those of other banks...This aspect deserves to be followed up by Australia.[127]

3.137 AIDAB also recommended that Australia should encourage the Bank to develop standardised measures of administrative efficiency to enable comparison with other multilateral development banks.[128]

3.138 The Treasurer's 1992 report to the Parliament indicates that:

> There has been a general concern in the executive board, shared by Australia, that the Bank should do more to minimise its operating costs and overheads while maintaining its operational effectiveness. While the Bank's lending level in FY92 was well below that initially envisaged, costs remained at or above their FY92 Budget levels. The Bank's explanation is that costs associated with non-lending activities have risen in response to members' demands. However cost increases have been close to 40 per cent over the three years to FY92 and regarded by Australia as excessive.[129]

[126] United Nations Association of Australia, *Submission 16*, p 5

[127] AIDAB, *Submission 15*, p 13

[128] AIDAB, *Submission 15*, p 6

[129] The Hon John Dawkins, MP, Treasurer, *Australia and the World Bank 1991-92*, p 72

Table 15

World Bank budget by expense category and work program fiscal years 1990-93

(Millions of US dollars)

Term	1990	1991	1992	1993
Expense Category				
Staff costs	561.8	613.8	702.0	804.1
Consultants	69.2	78.0	89.2	101.6
Contractual services/representation	88.3	96.9	113.5	121.1
Overhead/contingency	138.2	149.6	162.4	194.3
Direct contributions to Special Grants Program	52.6	57.0	58.5	83.8
Reimbursements	(55.2)	(65.2)	(100.5)	(94.9)
Total	**887.1**	**963.6**	**1,074.0**	**1,250.9**
Work Program				
Operational	319.5	350.6	390.7	448.0
Financial	44.3	47.5	51.3	54.3
Policy, research & dissemination	86.9	90.2	94.9	98.4
Operations evaluation	6.5	7.0	7.9	8.3
Administrative support	57.7	64.1	68.7	70.0
Boards, corporate management & legal services	41.1	46.6	52.3	55.5
Total regular programs	**556.1**	**606.1**	**665.8**	**734.4**
Reimbursement programs	18.4	22.9	36.6	44.4
Special programs	60.9	65.0	65.7	93.6
Overhead/benefits	307.1	334.9	406.4	462.9
President's contingency				10.4
Reimbursements	(55.2)	(65.2)	(100.5)	(94.9)
Total	**887.1**	**963.7**	**1,074.0**	**1,250.9**
Total in millions of fiscal 1993 dollars	**1,053.3**	**1,085.9**	**1,121.2**	**1,250.9**

Source: World Bank *Annual Report 1992*, p 104

3.139 ***Table 15*** details the World Bank Budget by Expense Category and Work Program, for the fiscal years 1990 - 93. Treasury accepts that the large increase in administrative expenses reflects the costs associated with the expansion in Bank membership, it believes that it also raises questions about the pace of expansion for the Bank, as well as about the extent of operations in the former Soviet Republics. Australia therefore abstained from supporting the FY93 Budget, and our Executive Director:

- raised the difficulty of the Bank increasing its services by 12 per cent in real terms in a single year without a reduction in quality, and suggested that assistance to new members should be built up less rapidly;
- argued for a redeployment of resources so that there is no change in the real size of the Budget, except for the additional resources (at a reduced level) to new and reactivating members;
- noted that the increase in the staff benefits budget has exceeded that of the Budget overall, and stressed the need for increases in staff benefits to be balanced with increases in staff productivity;
- supported the increased share of lending going to the social sector, up from 21 per cent in FY 88-92 to 28 per cent over the period FY 93 - 95;
- supported increased attention and resources being directed to supervision and the Operations Evaluation Department. This being especially relevant with the shift in lending to the social sector and agricultural and rural development, difficult areas in which to sustain successful project results; and
- expressed concern whether sufficient attention was being given to the Asian region's existing, new and reactivating member countries.[130]

[130] The Hon John Dawkins, MP, *Australia and the World Bank 1991-92*, pp 74

3.140 The Committee supports the recommendation of AIDAB's effectiveness review of the MDBs which called on Australia's Executive Directors to continue to subject the budgets of the Bank and Fund to rigorous scrutiny and that the banks should be encouraged to develop standardised, soundly-based measures of administrative efficiency.[131]

Recommendation 24

The Committee recommends that Australia urge the Bank and Fund to make public their internal and external audits to enable effective scrutiny of their operations.

POLICY DOMINATION

3.141 Developing countries have expressed concern about the potential for the industrialised countries to influence GEF funding to suit their own environmental priorities. In their latest ***Human Development Report,*** UNDP also voiced their concern, saying that the inability of the Fund to exert any authority over the generation of surpluses or deficits by the rich industrial nations is the reason for its failure to maintain monetary stability with an equitable sharing of the burden of adjustment between surplus and deficit countries. Despite the introduction of Special Drawing Rights, UNDP notes that the Fund has not been in a position to create and supply the liquidity that developing countries needed during the debt crisis of the early 1980s.[132]

3.142 The exercise of power by the United States and other high profile donors was criticised in an article in ***The Economist*** which said:

> The Board's 22 members are divided into those from poor-country borrowers and those from rich-country donors. The latter have the most votes, and the power. But power has often been used for self-serving ends, [particularly] by the US and there is little cohesion. The board routinely rubber-stamps specific projects but rarely discusses broad policy.[133]

131 AIDAB, ***Australia and the Multilateral Development Banks,*** p 31

132 UNDP, ***Human Development Report 1992,*** p 75

133 ***The Economist,*** 12 May 1992, p 112. Since the article was published, the board has increased to 24 members.

3.143 Disquiet about the influence of the largest contributor, the United States, has long been felt about the Bank and Fund. Indeed the Fund's quota system was founded on the premise that:

> The Fund would function most efficiently and decisions would be made most responsibly by relating members' voting power directly to the amount of money they contribute to the institution through their quotas. Those who contribute most to the Fund are therefore given the strongest voice in determining its policies.[134]

3.144 At the April 1993 meeting of the Fund, Managing Director Mr Michel Camdessus, called for the resources of Fund members to be boosted through a new allocation of SDRs. The proposed allocation of SDR 36 billion would be divided between Fund members, in proportion to their quotes, as follows:

- industrial countries - SDR 22 billion
- developing countries - SDR 14 billion including FSU SDR 1.7 billion.

3.145 The new allocation was advocated because low-income countries, particularly in Eastern Europe and the former Soviet Union (FSU) are compensating for lack of international reserves by lowering imports, causing an undesirable brake on international trade. An increase in the reserves of these low income, balance of payments deficit countries would therefore enable the world to make better use of available, under-utilised productive capacity, without risking an inflationary impulse. A new issue of SDRs could make a significant difference to the capacity of these countries to import.

3.146 A new SDR allocation would require support from members controlling 85 per cent of the total voting power of the Fund. Although this proposal was supported by members of the developing world's Group of 24, the increase was vetoed by the United States (which alone holds more than 17 per cent) and Germany on the grounds that it would be inflationary. However the credibility of this criticism has been questioned because the proposed addition to global reserves would be so relatively small and average inflation rates are low.

134 Driscoll D, ***What is the International Monetary Fund,*** External Relations Department of the IMF, Washington, DC, 1992, p 6

3.147 Australia has not yet committed itself to support this proposal because Treasury believes that a major consideration is whether a new SDR allocation is necessary "to meet the long-term global need...to supplement existing reserve assets".While accepting that a new SDR allocation would be one way of assisting the FSU countries, Treasury feels that it is not well chosen for this particular purpose and that the recently introduced Systematic Transformation Facility is a more appropriate instrument to address external financing difficulties faced by FSU countries.[135]

3.148 The Committee was not convinced by Treasury's argument and believes that further consideration should be given to supporting the proposal.

Recommendation 25

The Committee recommends that Australia support the new issue of special drawing rights.

3.149 The Bank and Fund's failure to admit Vietnam as a member until the lifting of the United States' embargo on relations with that country is a further example of policy dominance. For over a decade Vietnam has been ineligible to receive financial assistance from the Fund as a direct result of its arrears. Because eligibility for Fund assistance is, in effect, a pre-condition for assistance from other international financial institutions, Vietnam has also been ineligible to receive loans from the World Bank and Asian Development Bank.

3.150 In March 1990 France launched an initiative to establish a "support group" for Vietnam which would provide the necessary financing to clear the arrears to the Fund. However activation of the Support Group for Vietnam has, until very recently, not been possible because of United States opposition based primarily on the approach by the Vietnamese authorities toward resolving cases of servicemen "missing in action".

3.151 Australia strongly supported the French initiative and will contribute $A 5 million to the Support Group.

[135] Treasury, *Submission 17F*, pp 4 - 5

3.152 The recent IDA10 replenishment was also delayed because of the United States' refusal to make any commitment prior to their recent presidential elections.

3.153 The Fund openly disputes the charge of policy domination, maintaining that whilst individual developing countries may not have the same weight as the United States because of the voting system, they "nonetheless have an importance voice". As a group they represent some forty per cent of total voting power which is the about the same as the combined share of the five largest shareholders. This is, the Fund contends, not only:

> Enough to influence the IMF's decision making in important ways, it is also sufficient to give them veto power over those major decisions that must be approved by an 85 per cent or a 70 per cent majority. Decisions that require such majorities--and over which developing countries can have a controlling influence--include those concerned with increasing the size of the IMF's resources, with selling its gold, and with determining charges on borrowings from the IMF.[136]

The Fund concedes however that on most issues, no formal voting occurs because decisions are generally arrived at by consensus.

3.154 The Committee found difficulty in accepting the Fund's argument that the developing countries have the power to influence decisions in their favour. Criticism concerning dominance by the United States remains unrefuted and the Committee was particularly concerned at the apparent "closed shop" approach by the Bank and Fund over voting patterns. The Committee was informed that the Bank does not publish details of voting, although individual countries are at liberty to do so.

3.155 The domination of the United States has, until now, led to the Bank and Fund prescribing strictly democratic free-market solutions such as liberalization and privatization to help nations develop. However in Singapore, Taiwan, South Korea, Japan, Malaysia and Thailand, free-market enterprise is highly regulated by government exercising strong central control over the economy. The East Asian model advocates directing credit to chosen industries with an eye to export growth, heavily protecting infant ones with trade barriers and subsidising technology. Key industries remain in public ownership.

[136] IMF, *Ten Common Misconceptions About the IMF*, p 17

3.156 In its 1991 ***World Development Report*** the Bank for the first time allowed the possibility of "market-friendly state intervention" and the Bank is undertaking two major studies on the concept.[137] The Bank has therefore recognised that it cannot ignore what is happening in the East Asian newly industrialised countries (NICs) but, for the time being, continues on with its existing policies.

3.157 The Bank and the Fund have been very successful in influencing the economic policies of most developing countries towards a liberal economic model. This model has opened their economies to foreign imports, foreign investment and reduced the economic role of government. In some developing countries, particularly in Asia, the adoption of this model has been associated with faster economic growth. However the majority of developing countries remain in deep economic depressions despite significant Bank and Fund supervised economic adjustment.

3.158 The Bank and the Fund have been far less successful in influencing the economic policies of wealthy industrial countries towards a liberal economic model particularly in the area of trade protection such as the Common Agricultural Policy of the EEC. The asymmetry of influence is of concern to the Committee.

3.159 The Bank and the Fund have been disappointing in their ability to fund the investments and balance of payments support needed by the developing countries. Because this assistance is provided as loans the net transfers to developing countries after principal and interest payments are taken out is quite small. The institutions are able to influence the direction of much commercial and bilateral resource transfers. This gives the Bank and Fund greater influence but does not provide additional assistance to the developing countries.

3.160 The Bank and the Fund have also been disappointing in their handling of environmental and poverty issues. Both institutions appear to give primacy to economic growth over the environment and poverty alleviation. The Committee recognises the importance of economic growth but believes that this should be in a form which also achieves environmental protection and poverty alleviation.

137 cited in article by M Hirsch, ***The Associated Press***, 9 November 1992.

3.161 The Committee believes that Australia should continue our membership of the Bank and the Fund. However the Committee notes that there is wide community, NGO and academic concern over the Bank and Fund's records on cross sectoral issues. The Committee strongly encourages the Bank and Fund to ensure these issues are carefully considered and acted on in all their lending and other activities.

3.162 The Committee has concluded that while the Bank's rhetoric has changed substantially in recent years the evidence suggests that actual policy implementation does not yet effectively reflect its increased preoccupation with economic and employment growth, poverty reduction, self-reliant development and the environment. Whilst commending the change of direction by the Bank, particularly in addressing issues of poverty and the environment, the Committee believes that the Bank should make rigorous assessments of projects to ensure that its loans reach the desired targets. The Committee will be looking for evidence in the future of the Bank and Fund's commitment to meeting these objectives.

CHAPTER 4
FUTURE DIRECTIONS FOR AUSTRALIA'S RELATIONSHIP WITH THE BANK AND FUND

4.1 The terms of reference for this inquiry charged this Committee with the task of examining Australia's relationship with the Bank and Fund and the opportunities for participation in Bank and Fund projects.

4.2 Evidence presented during the course of this inquiry indicated support from within the bureaucracy, NGOs and the business community for continued membership and highlighted several areas where the potential exists for Australia to make better use of the opportunities this provides.

4.3 The Committee believes that membership of the World Bank and International Monetary Fund has a five-fold benefit to Australia as it provides the opportunity:

- to participate as an active member of the international economic and financial system;
- to influence the policies of the MDBs to ensure that effective, equitable development policies are implemented;
- for Australian firms to participate in the procurement of goods and services for MDB projects, thereby increasing exports; and
- on the regional level, to enable Australia to encourage Bank and Fund involvement in South East Asia and the South Pacific, thereby enhancing our regional bilateral development programs; and
- to participate in the development debate in our region through the Bank's research into the economies of the South Pacific.

THE LONG TERM ECONOMIC AND TRADE BENEFITS OF MEMBERSHIP

4.4 During 1992 the Fund admitted the states of the former USSR to membership and also offered membership to those of the former Yugoslavia. A major part of the Fund's work during the year was devoted to helping the formerly centrally planned economies to develop market-based systems. This transition will require enormous inputs both from consultants and equipment suppliers. AUSTRADE assesses that Australian companies are somewhat disadvantaged by the close proximity of strong competitors from developed Western European countries and by the strong bilateral relations between Eastern and Central European developing economies and their neighbours. However they believe that there are niche possibilities for Australia - especially in the areas of privatisation (consultation and training), coal-fired power generation, agriculture and the environment.[138]

4.5 In addition to the potential new markets outlined above, avenues for commercial opportunities exist through direct and indirect procurement of Australian goods and services by countries utilising Bank loans, particularly in the Asian and Pacific regions. Further opportunities exist through co-financing arrangements between Australia and the Bank.

AREAS OF COMPARATIVE ADVANTAGE

4.6 In 1991, 95 per cent of Australia's disbursements from the Bank were in the commodities, agriculture, energy, transport, development finance, power and telecommunications sectors. Hassall and Associates believe that it is in these sectors where Australia's comparative advantage lies and where most multilateral procurement assistance should be focussed. ***Table 16*** provides a comparison of Australian goods purchased under Bank disbursements for the period 1989-91.

4.7 AUSTRADE also believes that the work now being done by the Bank to increase production in Africa by using simple low cost, low impact farming methods which take environmental issues into consideration offers opportunities because Bank staff consider that Australia has particular expertise through our State Departments of Agriculture.[139]

[138] Austrade, ***Submission 25***, p 6

[139] Austrade, ***Submission 25***, p 6

Table 16

World Bank: Australian Procurement by Sector 1989-91 in $US million

Category	1989	1990	1991
Non-Project/Other	15.9	25.2	70.1
Telecommunications	0.2	2.5	14.9
Agricultural & Rural	24.1	11.6	8.7
Energy/Other	75.1	8.2	7.2
DFC	1.1	3.1	4.2
Transport	3.6	2.5	4.1
Electric Power	20.4	5.9	3.2
Small Scale/Other	0.8	0.3	2.2
Education	1.2	2.0	1.7
Tech Assist/Other	0.3	0.9	1.4
Urban Dev/Other	4.0	0.4	0.9
Industry	6.4	1.4	0.8
Env Control	0.1	0.1	0.6
Population/Other	0.4	0.7	0.2
Totals	153.4	64.6	120.3

Source: ***Exhibit 81*** : Table 3.15

4.8 AUSTRADE is also currently undertaking a study to review the trends in the Bank's adjustment lending program from the commercial aspect and to see where opportunities for Australia will lie.

4.9 As can be seen from the outline in ***Box 18***, opportunities for procurement of goods and services occur at all stages of the project cycle. The Committee believes that the offices of Australia's Executive Director should better utilise the project cycle to enhance this comparative advantage by promoting the use of Australian goods and assisting Australian firms both to be aware of tender opportunities and to lodge competitive bids.

OPPORTUNITIES TO INFLUENCE BANK AND FUND POLICIES

4.10 During the inquiry the Committee received many recommendations that Australia should be doing more to influence Bank and Fund policies. There was a consensus amongst witnesses that the Australia was well placed to lobby Bank and Fund members with a view to influencing policy and project decisions.

Box 18

The World Bank Project Cycle

Borrowing countries can propose projects, however identification comes from the Bank, other United Nations agencies, particularly the UN Development Programme, or private sponsors from third countries. The ***identification*** stage is the most strategically important for prospective exporters because it provides an opportunity for formulation of a project based on local knowledge of available goods and services.

The ***preparation*** stage entails developing an idea into a detailed proposal that considers all aspects of the project - technical, economic, financial, social and institutional. It is often a lengthy process, and again is a strategically important stage for potential exporters, particularly for the sale of consulting services.

During this stage the Bank utilises consultant trust funds which are donated by developed members countries.

After project preparation has been completed, the Bank reviews the proposals and undertakes a full-scale project ***appraisal*** reviewing the technical, economic, financial and institutional aspects of the proposal. The specific types of goods and equipment that are going to be needed for the project are identified and the procurement procedures spelled out. The complete financing plan is examined and co-financing from either official or commercial sources finalised.

The Bank then produces a comprehensive Appraisal Report which discusses the project in great detail and is made available to potential Australian exporters through the Australia official representatives to the Bank and Austrade.

After the appraisal report is issued and reviewed by the Board of the Bank, formal loan ***negotiations*** begin between the Bank and borrower. Conditions are agreed to ensure the projects successful implementation, procurement arrangements are detailed, and schedules for implementation formulated. Following ***approval***, the loan agreement is signed by the borrower and the Bank and thus becomes a legally binding document.

The contract is awarded to the ***Lowest Evaluated Bidder***, which may not be the lowest priced bid. Other factors such as quality, durability, availability of after sales service, training or maintenance and operating costs of equipment may also be taken into account.

Upon completion of the project the Bank undertakes an independent ***evaluation*** and provides a report which is available to exporters seeking information on projects through Austrade.

Source: ***Submission 25***, pages 11 - 14)

4.11 Mr Ronald Dean found during his time as Executive Director at the Bank that:

> Australia was a group of one. We were not in the G7 and we were not in the developing countries grouping. Our Korean man was in the developing countries group and he could come back and tell me the ideas that were merging in the developing countries grouping. I had good contacts with people who were in the G7 group --the Canadians, the British, the Americans and the Germans and so on. Although we were not in any particular group, I think we had opportunity to talk and get our views across...Australia's standing gives us the opportunity to put forward our point of view and be taken as being genuine in the interests of development.[140]

4.12 Treasury supported this view, adding that the ability to play an active role in policy debates and exercise influence extending beyond the relatively small size of our shareholding is a reflection of our independent position on the Boards. The diversity of the membership of our constituencies is also a contributing factor.[141]

4.13 AIDAB voiced a similar opinion, saying that:

> Australia's voice is respected by both the management of the Bank and by the individual members of the Board, because we are seen as sitting somewhere between the developing country members and the very big donors....Australia can be quite influential in the committee structures of the Bank and in discussions with staff. Similarly we can have an influence in policy discussions which take place at the stage of IDA replenishments where they go quite closely into policy issues because that is donor money as opposed to money drawn from the private capital markets. [142]

4.14 Treasury said that Australia had been at the forefront of pressing the World Bank and the Asian Development Bank to develop a country strategy approach to their lending and for a geographic distribution of lending by the Bank which is more balanced in favour of Asia.[143]

---

140 Mr R Dean, ***Evidence 12 May 1992***, pp 90-91

141 Mr A Cole, Secretary, Department of the Treasury, ***Evidence 13 May 1992***, p 147

142 Mr M Casson, Assistant Director General, International Organisations and Public Affairs Branch, AIDAB, ***Evidence 12 May 1992***, p 115

143 Mr N Hyden, First Assistant Secretary, Department of the Treasury, ***Evidence 13 May 1992***, p 177

4.15 AIDAB also offered examples where they believed that Australia had been quite active on some of the issues under discussion, namely when the Bank was developing its approach to the environment and in the Indonesian transmigration programs about ten years ago.[144]

4.16 From their perspective however, AIDAB see the need for Australia to:

> Take a more pro-active role than it has had in the Bank. Australia has effectively used its membership in other multilateral organisations to influence to an extent, which is quite a long way beyond what you would expect of a country of our size in those institutions, and I think that we could play the same sort of role in the World Bank.[145]

4.17 Other witnesses also called for Australia to play a more proactive role in ensuring that greater attention was paid by the Bank and Fund to poverty and environmental issues and to influencing project procurement decisions in favour of Australian suppliers. NGOs also believe that membership provides the opportunity for Australia to assist in the development of specific regions, such as Africa and the Pacific Islands.

4.18 For example, ACFOA agrees that Australia is well-placed to influence Bank policy, saying:

> In Sub-Saharan Africa it is the World Bank and the IMF that are the key to solving the debt problems of that region of the world. Australia could argue the case legitimately because Australia has a good record in providing aid as grants rather than loans, and it has a good record of honouring commitments to IDA and the World Bank generally.[146]

---

144 Mr C Terrell, Deputy Director-General, Asia, Africa and Community Programs Division, AIDAB, ***Evidence 12 May 1992***, p 114

145 Mr C Terrell, Deputy Director-General, Asia, Africa and Community Programs Division, AIDAB, ***Evidence 12 May 1992***, p 114

146 Mr R Rollason, executive director, ACFOA, ***Evidence 4 August 1992***, pp 333-4

4.19 The United Nations Association of Australia believes that Australia's role could be enhanced through more active involvement by Australian representatives on the governing boards of these bodies and called on Australia to seek a stronger role in determining the Bank's programs. This would involve ensuring more appropriate programs to the regions of concern to Australia, notably the Asia Pacific region but more particularly the South Pacific.[147]

4.20 Bank lending to the Pacific Islands over the last decade has been on a relatively small scale, and in the 1990s only one project has been approved, an IBRD loan of $US15 million to Fiji for a road upgrading project. AIDAB and the Bank also co-sponsored a 1992 seminar on post-secondary education in the South Pacific.

4.21 The Bank reviewed its operations in the Pacific in FY92 and found that they had generally been unable to make an effective contribution to the development of the countries, mainly because of the absence of any long-term country strategy for the selection of projects.

4.22 The Treasurer's latest annual report to the Parliament indicates that Australia wishes to see both the World Bank and the Asian Development Bank involved in the Pacific region. The World Bank and the ADB currently are involved in co-financing arrangements but difficulties in the working arrangements have given rise to considerable concerns in these countries. At this stage the World Bank and Asian Development have not come to an agreement over a clear demarcation of responsibilities in the South Pacific. However cooperation has increased with the co-financing, in conjunction with Australia, of two projects in Papua Guinea: the Population and Family Planning Project and the Special Intervention Program.

4.23 The process of trying to influence Bank and Fund activities involves getting to know not only the other Executive Directors and top people in the Bank but also people at the operational level, both in Washington and in countries where programs were being planned or implemented. In this regard, our Executive Director reports that he relies very much on AIDAB and AUSTRADE officers who are located both in the Bank and at Australian trade offices. 93 Australians are also employed in higher level positions of the Bank out of a total of 4235 senior staff. There are also 18 Australian support staff, giving a total of 111 Australians out of a total Bank

---

147 Mr P na Champassak, Vice President, ACT Division of the United Nations Association of Australia, ***Evidence 13 May 1992***, p 203

staff of 6588.

4.24 Despite arguments to the contrary by Treasury, there is a strongly and widely held opinion that Australia has the potential to exercise more influence than it has done in the past. Suggestions were made that Australia could have had an "honest broker role" but had not chosen to do so. Because documentation on Australia's voting patterns is not publicly available, the Committee accepted the suggestion that in order to do so, Australian government officials must stop thinking about our Bank and Fund role as being separate from that of aid and trade development.

Recommendation 26

The Committee recommends that Australia take more initiative in the development of Bank and Fund policies so as to increase the effectiveness of the institutions in stimulating growth of employment, equity and environmental responsibility in all member countries.

CAPITAL RESOURCES

4.25 References was made in ***Chapter 1*** to the increased membership of the Bank and Fund following the disintegration of the old Soviet Union, Yugoslavia and Czechoslovakia. Considerable resources will be required to provide the necessary support to those states while maintaining existing programs to developing countries.

4.26 From an institutional point of view, the Bank has initiated a rapid build-up of the requisite staff and undertaken an internal redeployment which was designed to ensure the continued quality of other Bank programs. Four new Country Operations Divisions were also created in April 1992. In April 1992 the board of governors approved the increase in authorised capital of 77,159 shares ($9.3 billion) to accommodate the increased membership.[148]

4.27 The Committee remains concerned that the increased membership will place a drain on the resources of the Bank and Fund to the detriment of other countries that are equally in need. During evidence, Professor W Hogan, of the Department of Economics at Sydney University proposed a strategic shift in its funding base that would allow the Bank to raise funds in international capital markets not commensurate with its funded and contingent capital but as a multiple of that capital base. Professor Hogan believes that only in this way could the Bank secure

[148] World Bank, ***Annual Report 1992***, p 74

the required expansion of funding to meet claims for loans from existing client states as well as the new ones.[149]

4.28 This suggestion has been made before, but so far has not been taken up. When the Committee put Professor Hogan's proposal to Treasury, they indicated that whilst they would not oppose it, there are restrictions on the extent to which the Bank could break the link between the capital base and lending. Treasury also questioned whether or not the Bank was in a situation where there is a shortage of funds as a result of increased demands because in their opinion there does not seem to be any major constraint in meeting worthwhile projects.[150]

Recommendation 27

The Committee recommends that Australia's Executive Director open discussion within the Board that the Bank be permitted to raise funds in international capital markets beyond a limit set by its funded and contingent capital and as a multiple of that capital base.

LINKAGES WITHIN THE BANK

4.29 The recurring theme throughout evidence taken by the Committee is that there is a lack of linkages between the various parties involved in the procurement process.

4.30 At the Bank level, there are no linkages which allow a consultant who does a feasibility study to provide follow-through to the relevant industry. AUSTRADE believe that there would seem to be tremendous advantages in AIDAB funding feasibility studies of Bank projects and then appointing the same consultants to implement the project.

[149] Professor W Hogan, ***Submission 33***, p 9

[150] Mr E Waterman, Deputy Secretary, Department of the Treasury, ***Evidence 7 September 1992***, p 395

LIAISON BETWEEN THE EXECUTIVE DIRECTOR AND GOVERNMENT AGENCIES

4.31 Considerable problems also exist with the flow of information between the various departments responsible for the management of Australia's relationship with the World Bank. Although a portfolio task force was established within the Department of Foreign Affairs and Trade to examine MDB procurement this was disbanded in July 1993, although members agreed to maintain informal inter-agency contact. This task force was also restricted to officers within the Department of Foreign Affairs and Trade, and the Committee believes that a more formal and broader consultative arrangement encompassing all relevant departments is essential to increasing the flow of information to and from the Executive Director.

4.32 The Department of the Environment, Sport and Territories (DEST) have a significant interest in the operation of the GEF Program outlined in ***Chapter 3*** and are concerned to ensure that Bank funded projects are environmentally sound.

4.33 DEST commented that regular liaison meetings are held with AIDAB to discuss environment aspects of the development cooperation program and have identified mechanisms with which to strengthen the relationship. Also DEST, DFAT, AIDAB and Treasury are members of the International Environment Issues Inter-departmental Committee which coordinates and develops Australian policy on international issues.

4.34 DEST provided a list of projects that were referred to them for comment by AIDAB and Treasury which indicates that their advice is sought on a reasonable basis. (See ***Appendix 26***) DEST also contributed to a meeting held with Treasury, DFAT and AIDAB to prepare briefing for Australia's Executive Director on the environmental aspects of the Sardar Sarovar Dam project which is outlined in ***Appendix 20.***

4.35 The Committee commended AIDAB and DEST for their efforts to improve liaison and also noted that both AIDAB and AUSTRADE have officers located either in the Executive Director's or Trade Commissioner's office.

4.36 However, the Committee gained the impression that although there is considerable work within departments to examine the opportunities for improving Australia's participation in Bank and Fund projects, there is little coordination of effort. For example, AUSTRADE and AIDAB should work more closely together on providing follow through from consultant to manufacturer in the procurement process. The Committee believes therefore that there is a need for improved coordination and liaison between the Executive Director and relevant departments, both in terms of procurement opportunities and on issues of importance to Australia's development program.

4.37 The Committee was also concerned that discussions on issues of importance between the Executive Director and the relevant agency seem to be conducted on an ad-hoc basis and was not convinced that sufficient liaison takes place between the Executive Director and relevant departments.

LIAISON BETWEEN THE EXECUTIVE DIRECTOR AND NON GOVERNMENT AGENCIES

4.38 At the NGO and industry levels, there is no formal consultative process to provide information on Australia's activities in the Bank, although some informal contact does take place between Treasury and NGOs. (See ***Box 19***) Treasury advised that in accordance with established practice their officers met with representatives from the Australian Council for Overseas Aid (ACFOA) and other NGOs after the September 1992 annual meetings of the Fund and Bank again following the April 1993 Interim and Development Committee Meetings and the Global Environment Facility Participants' Meeting in May 1993.

Box 19

Treasury Liaison with NGOs

There is considerable contact between the Treasury and representatives of NGOs on the activities of the multilateral development banks and the IMF. Regular meetings a held with NGO representatives generally following the half yearly meetings of the IMF Interim and IMF/World Bank Development Committees. This enables discussions to also cover proceedings at the IMF/WB and ADB Annual Meetings and other related meetings. On occasions these meetings with NGOs have been attended by the Treasurer's Parliamentary Secretary when he has represented the Treasurer at IMF or MDB meetings. These meetings with NGOs provide opportunities for wide ranging exchanges of views on issues affecting the MDBs and the IMF.

Treasury informs Australia's executive director at each institution of the views of NGOs (this is in addition to the executive director's own contacts with NGOs).

Treasury's contact with and assistance for NGOs in relation to information on the MDBs and the IMF also include:

- responding to their inquiries (written and oral);
- arranging meetings in Washington between NGOs and Australia's Executive and Alternate Directors and staff of the institutions;
- arranging meetings in Australia between NGOs and Australian Executive and Alternate Directors and staff of the institutions when visiting Australia;
- providing lists of World Bank and ADB projects to be considered by the respective Boards;
- making available environmental assessment summaries on World Bank and ADB projects that are prepared for release by the relevant countries;
- arranging access to project appraisal documents for individual bank projects after they have been approved by the relevant Board; and
- providing copies of the major publications of the banks and Treasury publications relating to the banks and the IMF.

Source: Treasury, *Submission 17B*, Attachment C

4.39 Meetings were also held with NGOs prior to the September 1992 Bank and Fund annual meetings to discuss issues relating to the Sardar Sarovar projects in India. Meetings were also arranged during the year with several Bank officers who visited Australia and with Australia's Executive Director to the Bank during his annual consultations in March 1992. [151]

Recommendation 28

The Committee recommends that there be more public exposure and discussion of the operation of the Bank and Fund through the establishment of a permanent working group (IDC) to monitor Bank and Fund activities and to brief the relevant departments, non government organisations (NGOs) and the Parliament. This IDC should take the form of an Advisory Council on International Development comprising Treasury, DFAT, AIDAB, academics and NGOs.

4.40 During evidence Treasury officers indicated that they had been giving some thought to improving and widening public debate on MDBs, possibly through conferences.[152] Treasury later advised that they had discussed with our Executive Director at the Bank the possibility of holding a public seminar with senior Bank officials as part of AIDAB's public seminar series in 1994. [153]

4.41 Treasury is to be commended for recognising that existing mechanisms are insufficient and that much more must be done to broaden both the consultative process and Treasury's perspective.

4.42 The Committee reiterates earlier calls that there should be a public seminar involving the Bank, Fund, NGOs, academics and business people and stresses that officers from all relevant government departments and agencies also be involved.

151 Treasury, *Submission 17G*, p 16

152 Mr E Waterman, Deputy Secretary, Department of the Treasury, *Evidence 7 September 1992*, p 377

153 Treasury, *Submission 17G*, p 15

Recommendation 29

The Committee recommends that our Executive Director press for wider contact between the Bank, Fund, and Australian non government organisations and academics through regular information seminars.

4.43 A recent announcement by the Bank that the Executive Directors had approved a substantially more open information policy was welcomed by the Committee.[154] However the Committee felt that there should be greater availability of all Bank and Fund documents to Members of Parliament to enable proper Parliamentary scrutiny.

Recommendation 30

The Committee recommends that our Executive Director press for greater availability of Bank and Fund documentation to Members of Parliament.

PUBLIC SCRUTINY

4.44 The Committee received complaints that the existing report to the Parliament by the Treasurer does not provide sufficient information on Australia's performance in the World Bank and IMF and its plans and policies for the coming year. The report has the potential to provide a complete overview of all governmental activities involving the Bank and Fund. The 1991-92 report does provide noticeably more information than in previous years. However the Committee to agrees with NGOs that much more information is required.

4.45 One obvious omission in the report is the lack of information on Australia's voting patterns on decisions made by the executive boards of the Bank and Fund. Voting patterns are not issued publicly by the Bank or Fund, though Executive Directors are at liberty to issue those of their own country. Criticism has been made that Australia is little more than a stalking horse for the United States. Therefore the Committee believes that it is important for Australia's voting pattern to be open to public scrutiny.

[154] In January 1994 a new Bank Public Information Centre will be established, and will provide information on projects, environment assessments, project appraisal reports, summaries of evaluation reports, country economic and sector reports and sectoral policy papers. *World Bank Press Release No 94/S9*, 26 August 1993

Recommendation 31

The Committee recommends that information on Australia's voting patterns on Bank and Fund decisions be included in the Treasurer's annual report to the Parliament.

4.46 The Committee was pleased to note that the 1991-92 report included management issues, particularly Australia's concern over the Bank's operational costs. However insufficient evidence was provided to assess whether Australia's abstention from supporting the FY93 Budget was justified.[155]

PARLIAMENTARY SCRUTINY

4.47 There has been far too little public discussion about the policies and programs of the International Monetary Fund and the World Bank and their outcomes since the institutions were established. An approach which has been used to fill that gap for the European strategic and social institutions could appropriately be applied to the Fund and the Bank, that is monitoring and consultation with an inter-parliamentary assembly.

4.48 The Fund and the Bank are directly accountable to member governments who are in turn accountable to parliaments and the people who elect them in democratic countries. This long chain of communication often functions poorly, leaving those concerned about the institutions' policies without either adequate knowledge about them or the chance to comment. UNAA encouraged the Australian government to be involved in monitoring exactly the progress of these multilateral institutions.[156]

[155] The Hon J Dawkins, ***Australia and the World Bank 1991 - 92***, pp 73 - 74.

[156] Mr H Wilkinson, National President, United Nations Association of Australia, ***Evidence 13 May 1992*** p 208

4.49 In Australia although formal reports are tabled annually in Parliament by the Treasurer on their activities, these are not debated and there is no regular opportunity for parliamentarians to review or discuss their policies. The Treasurer or his representative who attends the biannual meetings of the Fund and the Bank does not automatically report on those meetings to Parliament. This Inquiry is the first by the Australian parliament into their activities for at least two decades. The same gaping omission occurs in most other countries despite the global influence of the Fund and Bank. The present situation prevents adequate democratic accountability of the Fund and Bank.

4.50 The excessive secrecy of the Fund hinders a proper oversight of the institution by the legislatures of the member countries, which are regularly asked to approve budgetary appropriations to support Fund activities. J.D. Sachs points out that under current arrangements, there is no way for Congress to obtain an objective assessment of the Fund's activities based on the full documentary evidence now held by the Fund itself.[157]

4.51 In Europe this "democratic deficit" has been addressed by the establishment of inter-parliamentary assemblies to monitor the European institutions. The Parliamentary Assembly of the Council of Europe prepares an annual report on the activities of the Organisation for Economic Co-operation and Development which is debated by the Committee on Economic Affairs and Development and by the Assembly as a whole. Also the President of the Parliamentary Assembly recently announced agreement between the Assembly and the European Bank for Reconstruction and Development to similarly monitor that Bank's activities. This is a significant breakthrough because it is the first time that formal procedures have been established to scrutinise one of the regional development banks. NATO has been monitored for forty years by the North Atlantic Assembly which has members from each of the parliaments who are members of NATO. So effective precedents exist for establishment of such a parliamentary monitoring organisation for the Fund and Bank.

157 J.D. Sachs, 'Strengthening IMF Programs in Highly Indebted Countries', in the Overseas Development Council, ***The International Monetary Fund in a Multipolar World: Pulling Together***, Washington, 1989, p 103

4.52 The Parliamentary Assembly of the Council of Europe has called for this form of monitoring to be established several times. In its most recent report on the activities of the OECD dated 1 October 1992 the comment is made that:

> The Parliamentary Assembly has on several occasions spoken in favour of equipping the World Bank and the International Monetary Fund with parliamentary observer institutions which can monitor their activities, and the Rapporteur feels sure that the future enlarged Assembly will maintain this request. It is particularly important to ensure that their policies (1) promote sustainable, socially just and environmentally sound development in the Third World, with particularly emphasis on human rights, democracy and reduced defence spending and (2) involve recipient countries, and in particular the populations concerned, at all stages in the planning and implementation of projects, thus ensuring their essential "human dimension.

4.53 During their visit to the Council of Europe in 1991, an Australian Parliamentary Delegation was able to participate in debate on a report of the OECD. The delegation was able to gain an appreciation of the advantages of inter-parliamentary scrutiny of multi-lateral world organisations, and recommended that:

> ...the multi-lateral aid organisations such as the IMF and the World Bank should also be subject to a similar type of scrutiny from parliamentarians.[158]

4.54 The Committee believes that it is time to take action on this proposal. Membership of the Fund and Bank currently stands at 177 and 174 respectively, and a conference of all member countries would be both costly and cumbersome. A feasible approach to selecting a more limited number of participants would be to send invitations to the parliaments of the countries which currently provide the Executive Directors of the Fund and the Bank. This would establish a preliminary planning conference of about 22 members (see *Appendices 7 and 8* for details of those countries who meet this criterion).

158 ***Report of the Australian Parliamentary Delegation to Ireland and the European Institutions***, September 1991, paragraph 4.15

4.55 Parliaments would be expected to each pay for their own participants. The Secretariat of the Interim and Development Committees of the Bank could be requested to provide secretarial support for the first meeting and the Fund and Bank would of course be invited to participate. The aims of the conference would be to consider the establishment of a regular annual inter-parliamentary meeting to monitor and discuss the activities of the Fund and the Bank and to begin that process.

Recommendation 32

The Committee recommends that the Speaker of the House of Representatives and the President of the Senate write to the Presiding Officers of the Parliaments of the countries which at present supply the Executive Directors of the International Monetary Fund and the World Bank inviting them to attend a preliminary meeting in Washington to establish an inter-parliamentary assembly to monitor the International Monetary Fund and the World Bank and that they invite the Secretariat of the Interim and Development Committees to provide the conference secretariat for that meeting.

4.56 The Committee, through the Chairman, will pursue this issue.

Senator Stephen Loosley
Chairman

QUALIFYING COMMENT

Qualifying comment by Senator Brian Harradine

A brief meeting of the Joint Standing Committee on Foreign Affairs, Defence and Trade approved of this Report of its Trade Sub-Committee on 1 September 1993.

As I am not a member of the Trade Sub-Committee I am loathe to reflect on the integrity of the Report. However it is appropriate that I make this qualifying comment on paragraphs 3.109 to 3.117 on pages 88 - 92.

Having read these paragraphs one might be tempted to conclude that the reference to population growth in the recommendation in para 3.117 implies that the Bank and Fund should require from developing countries the implementation of population programmes and policies as conditions for economic assistance.

Should anyone be so tempted a study of the submissions and Hansard transcripts of evidence to the Trade Sub-Committee is recommended. This analysis will reveal that no basis exists for such a conclusion.

Contrary to the impression a reader might get from paragraph 3.111 not one witness suggested that population issues be addressed through conditions attached to Bank and Fund loans.

The report makes no attempt to define the term "desirable" used at paragraph 3.112 in relation to the reduction of population growth rates and by whom and against what values and criteria this is to be made.

Nor was there any attempt to discuss the human rights implications of the Bank and Fund using economic blackmail to impose upon the people of a country, with or without the acquiescent of their rulers, targets of reductions in total fertility rates (TFRs) and population growth rates.

Examples abound of the tyranny of such targets which are used by authoritarian governments as instruments of torture against their subjects - particularly females. The Peoples Republic of China is but one example. In that country the disparities in sex ratios at birth have widened so alarmingly in recent years that its target driven family planning programme together with the growing availability of modern sex selection techniques and abortion and a predilection for female offspring is the cause of the ultimate discrimination against millions of females - their systematic destruction.

The main purpose of the World Bank and the Fund is to promote economic growth and well being. The suggestion that these institutions withhold loans for development programmes in order to pressure governments into population programmes implies that population control is a greater priority than development - indeed, that it should take precedence among the matters that the institutions deal with. But this would be to rewrite the charter of the Bank and Fund.

For a foreign organisation to insist, as a precondition for economic assistance, that certain human beings be subjected to policies designed to get them to behave in the manner as imperialistically determined by those outsiders and which violates their human rights especially in respect of their most intimate and personal marriage relationships would surely be reprehensible.

Of course the term "population growth" in the recommendation in paragraph 3.117 might legitimately have other meanings. For example it could refer to the crowding in some cities as result of massive drifts from rural areas in some "developing" countries - and indeed in some industrialised countries.

There are many causes for this drift including significantly, the concentration by ruling elites of services and finance into the cities to the detriment of rural development, decentralisation and the overall well being of the people in both rural and urban areas.

Clearly during loan negotiations it might well be desirable for the Bank and the Fund to strengthen advice on how to reverse the economic policies which contribute to this urban drift.

APPENDICES

APPENDIX 1

LIST OF PUBLIC HEARINGS AND WITNESSES

Canberra - 12 May 1992

Mr M R Casson
Assistant Director General
International Organisations and Public Affairs Branch
Australian International Development Assitance Bureau

Mr G Conroy
Assistant Secretary
Central, East Europe, Russia and Central Asia Branch
Department of Foreign Affairs and Trade

Mr B Coyne
Trade Commissioner
International Projects
Australian Trade Commission

Mr R H Dean
Private Citizen

Mr E Delofski
First Assistant Secretary
Economic and Trade Development Division
Department of Foreign Affairs and Trade

Mr P Henry
Executive Officer
United Nations Economic Section
Departion of Foreign Affairs and Trade

Mr R Hillman
Assistant Secretary
Trade Analysis Branch
Department of Foreign Affairs and Trade

Mr B G Hunt
Director
Papua New Guinea Section
Department of Foreign Affairs and Trade

Mr J E Lightfoot
General Manager
Projects and Engineering Group
Australian Trade Commission

Mr A McCredie
Director
OECD and International Financial Institutions Section
Department of Foreign Affairs and Trade

Dr R Rigby
Director
Indo-China Section
Department of Foreign Affairs and Trade

Mr D Shires
Manager
Government and Economic Affairs
Australian Trade Commission

Mr C E T Terrell
Deputy Director General
Asia, Africa and Community Programs Division
Australian International Development Assistance Bureau

Wednesday - 13 May 1992

Mr J Atkinson
Research Coordinator
Community Aid Abroad

Mr B W Brogan
Private Citizen

Mr A S Cole
Secretary
Department of the Treasury

Dr M Edmunds
Public Affairs Officer
Community Aid Abroad

Mr A M Hinton
Principal Adviser
Capital Markets Division
Department of Treasury

Mr N F Hyden
First Assistant Secretary
Department of the Treasury

Ms K Langdon
National Manager
RESULTS Australia

Mr P na Champassak
Vice President
ACT Division of the United Nations Association of Australia

Mr D L Purnell
National Administrator
United Nations Association of Australia

Mr M Rice
Member on Management Committee
RESULTS Australia

Mr K Waller
Assistant Secretary
Capital Markets Division
Department of the Treasury

Mr H F Wilkinson
National President
United Nations Association of Australia

Canberra - 4 August 1992

Mr G K Barrett
Consultant
Australian Council for Overseas Aid

Dr E Brouwer
Acting Director
Papua new Guinea Section
Australian International Development Assistance Bureau

Mr M Carney
Director
United Nations Economic and Trade Development Division
Department of Foreign Affairs and Trade

Mr M R Casson
Assistant Director-General
International Organisations and Public Affairs Branch
Australian International Development Assistance Bureau

Dr M Dalton
Director
Development Banks and Commonwealth Section
Australian International Development Assistance Bureau

Mr E F Delofski
First Assistant Secretary
Economic and Trade Development Division
Department of Foreign Affairs and Trade

Mr M W Fleeton
Director
Pacific Economic Policy Section
Australian International Development Assistance Bureau

Mr P S Henry
Executive Officer
Economic Organisations Branch
Department of Foreign Affairs and trade

Professor W P Hogan
Private Citizen

Mr R Irwin
Acting Deputy Director-General
Pacific and International Programs Division
Australian International Development Assistance Bureau

Mr P J Kilby
Program Adviser
Australian Freedom From Hunger Campaign

Ms P A Lee
Director
Research and Information
Australian Council for Overseas Aid

Mr J E Lightfoot
General Manager
Projects and Engineering Group
Australian Trade Commission

Mr R G Rollason
Executive Director
Australian Council for Overseas Aid

Mr D L Rooken-Smith
Director
Philippines and ASEAN Section
South East Asia Branch
Australian International Development Assistance Bureau

Dr B D Shaw
Director
International Division
Hassall and Associates

Professor L Stein
Consultant
Australian International Development Assistance Bureau

Canberra - 7 September 1992

Ms J M Lake
Senior Research Officer
Development Finance Section
Department of the Treasury

Mr Trevor James Lee
Director Development Finance Section
Department of the Treasury

Mr K Waller
Assistant Secretary
International and Development Finance Branch
Capital Markets Division
Department of the Treasury

Mr E L Waterman
Deputy Secretary
Department of the Treasury

Thursday, 15 July 1993

Mr A P Biggs
Director
Development Finance Section
Department of Treasury

Mr Sydney Blumer
Director
International Trade and Finance Section
Department of Treasury

Mr E A Evans
Secretary
Department of Treasury

Mr N F Hyden
Acting Deputy Secretary (Financial)
Department of Treasury

APPENDIX 2

LIST OF SUBMISSIONS

Submission No	From
01	Mr M T Skully Senior Lecturer in Finance School of Banking and Finance University Of New South Wales Kensington, New South Wales
02	Mr O Girvan Palmyra, Western Australia
03	Mr N English Nelson English Loxton & Andrews Elsternwick, Victoria
04	Mr I Komaravalli Auburn, New South Wales
05	Mr ACM Laing Bellbowrie, Queensland
06	Mr P R Waller Newstead, Tasmania
07	Mr S J Anjaria Director External Relations Department International Monetary Fund Washington, USA
08	Mr B Melville Secretary Rural Action Group Victoria Bendigo, Victoria
09	Mr A McCutchan Lawnton, Queensland
10	Mr A P Hewitt Research Adviser to the Group All Party Parliamentary Group On Overseas Development London, UK
11	Ms M Sweeney Victoria University of Technology Footscray, Victoria

12	Ms C Sherman Rainforest Information Centre Byron Bay, New South Wales
13	Ms P Adams Executive Director Probe International Toronto, Canada
14	Ms G Piper Newport, New South Wales
15	Mr R B Dun Director General Australian International Development Assistance Bureau Canberra, Australian Capital Territory
15A	Mr M Dalton Director Australian International Development Assistance Bureau Canberra, Australian Capital Territory (Supplementary Submission)
15B	Mr M Dalton Director Canberra, Australian Capital Territory Australian International Development Assistance Bureau (Supplementary Submission)
15C	Mr P Hodge Director United Nations and International Programs Section Australian International Development Assistance Bureau Canberra, Australian Capital Territory (Supplementary Submission)
16	Mr D Purnell National Administrator United Nations Association of Australia Higgins, Australian Capital Territory
16A	Mr P Na Champassak Vice President ACT Division United Nations Association of Australia Higgins, Australian Capital Territory (Supplementary Submission)
17	Mr A S Cole Secretary to the Treasury The Treasury Canberra, Australian Capital Territory

17A Mr A M Hinton
Principal Adviser
Capital Markets Division
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17B Mr N Hyden
First Assistant Secretary
Capital Markets Division
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17C Mr A M Hinton
Principal Adviser
Capital Markets Division
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17D Mr K Waller
Assistant Secretary
International and Development Finance Branch
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17E Mr K Waller
Assistant Secretary
International and Development Finance Branch
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17F Mr K Waller
Assistant Secretary
International and Development Finance Branch
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17G Mr K Waller
Assistant Secretary
International and Development Finance Branch
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

17H Mr K Waller
Assistant Secretary
International and Development Finance Branch
The Treasury
Canberra, Australian Capital Territory
(Supplementary Submission)

18 Ms K Langdon
National Manager
Results Australia
Canberra, Australian Capital Territory

18A Mr M Rice
Results Australia
Canberra, Australian Capital Territory
(Supplementary Submission)

19 Mr P Kilby
Program Adviser
Australian Freedom From Hunger Campaign
Watson, Australian Capital Territory

19A Mr P Kilby
Program Adviser
Australian Freedom From Hunger Campaign
Watson, Australian Capital Territory
(Supplementary Submission)

19B Mr P Kilby
Program Adviser
Australian Freedom From Hunger Campaign
Watson, Australian Capital Territory
(Supplementary Submission)

20 Professor D E Tribe
Parkville, Victoria

21 Mr T Cullen
Chief
Information & Public Affairs
World Bank
Washington, USA

22 Mr J Atkinson
Research Officer
Community Aid Abroad
Fitzroy, Victoria

22A Mr A Hewett
Director
Public Policy & Education
Community Aid Abroad
Fitzroy, Victoria
(Supplementary Submission)

22B Mr A Hewett
Director
Public Policy & Education
Community Aid Abroad
Fitzroy, Victoria
(Supplementary Submission)

23 Mr R Evans
Managing Director
AUSTRADE
Canberra, Australian Capital Territory

24 Ms S Landquist
President
United Nations Association (WA Division)
Perth, Western Australian

25 Ms J Drake-Brockman
Assistant Secretary
Economic Organisations Branch
Department of Foreign Affairs and Trade
Canberra, Australian Capital Territory

25B Ms J Drake-Brockman
Assistant Secretary
Economic Organisations Branch
Department of Foreign Affairs and Trade
Canberra, Australian Capital Territory

26 Mr B Brogan
Research School of Pacific Studies
National Centre for Development Studies
Canberra, Australian Capital Territory

27 Ms C McMurray
Graduate Program in Demography
National Centre for Development Studies
Australian National University
Canberra, Australian Capital Territory

28 Mr R Rollason
Executive Director
Australian Council for Overseas Aid
Deakin, Australian Capital Territory

28A Mr R Rollason
Executive Director
Australian Council for Overseas Aid
Deakin, Australian Capital Territory
(Supplementary Submission)

29 Mr L Purnell
Director
Trade & Commercial Services
Metal Trades Industry Association
Canberra, Australian Capital Territory

30 Mr K Badenoch
General Manager, Asia
Office of Trade and Investment
Victorian Dept of Manufacturing & Industry Development
East Melbourne, Victoria

31 Mr J Scott
Assistant General Manager
Development
Tasmanian Development Authority
Hobart, Tasmania

32 Mr R Field
Executive Director
Industry Services
Western Australia State Development
Perth, Western Australia

33 Professor W Hogan
University of Sydney
Sydney, New South Wales

34 Mr E Finger
Director-General
QLD Dept of the Premier,
Economic and Trade Development
North Quay, Queensland

35 Mr G Barrett
National Convenor
ALP Third World Forum
Canberra, Australian Capital Territory

36A Mr S V Leong
Director
International Financial Technologies
Sydney, New South Wales

36B Mr A Warby
Pacific BBA Limited
East Bentleigh, Victoria

36C Mr A Stewart
Manager
Business Development
Intrafin Systems
East Melbourne, Victoria

36D Mr J R Cox
General Manager
Engineering
Sydney Electricity
Sydney, New South Wales

36E Mr M Fay
Director
Insearch Language Centre
Sydney, New South Wales

36F Mr B Longmore
Sales Director
Callington Haven Pty Ltd
Rydalmere, New South Wales

36G Mr F Grasser
Project Development Manager
Electrical Engineering
Siemens
Richmond, Victoria

36H Mr D K Mitchell
Manager
International Project Development Commercial Unit
Hawthorn Institute of Education
Hawthorn, Victoria

36I Mr J D McKerlie
NSW Partner in Charge
Management Consulting
Deloitte Ross Tohmatsu
Sydney, New South Wales

36J Mr K M Bradley
Company Secretary
Philipp Holzmann Australia
Milsons Point, New South Wales

36K Mr R Macquarie
Macquarrie Corporation Pty Ltd
Campbellfield, Victoria

36L Mr J Meyers
Director
Sepa Waste Water Treatment Pty Ltd
Caringbah, New South Wales

36M Mr R Albon
Associate
Planning Workshop
Sydney, New South Wales

36N Mr F O'Brien
Managing Partner
Mallesons Stephen Jaques
Melbourne, Victoria

36O Mr P Deane
Manager
Project Management
Abigroup Limited
Pymble, New South Wales

36P Mr R McClean
Director
Dench McClean Associates
Kew, Victoria

36Q Mr P C Bohringer
Export Coordinator
Koppers Timber Preservation Pty Ltd
North Sydney, New South Wales

36R Mr J Hrdina
General Manager
Pacific Power International
Sydney, New South Wales

36S Mr P Boggs
International Marketing Manager
VTTC
North Sydney, New South Wales

36T Mr T Macpherson
Director
Asian Practice Unit
Blake Dawson Waldron
Sydney, New South Wales

37 Mr R J Pegler
Assistant Secretary
Environmental Policy Branch
Department of Arts, Sport, Environment & Territories
Canberra, Australian Capital Territory

APPENDIX 3

LIST OF EXHIBITS

Exhibit No	Description of Exhibit	Provided by
1	Stabilising Developing Economies : Challenging the IMF in PNG	J Lodewijks
2	What Every New Zealander Should Know About the IMF	W Rosenberg
3	Exchange Arrangements and Exchange Restrictions, Annual Report 1991	IMF
4	International Monetary Fund 1991 Annual Report	IMF
5	The Common Agricultural Policy of the EC	IMF
6	Issues and Developments in International Trade Policy	IMF
7	The Impact of the European Community's Internal Market on the EFTA	IMF
8	World Economic Outlook October 1991	IMF
9	Financial Organization and Operations of the IMF	IMF
10	Articles of Agreement	IMF
11	Australia and the Multilateral Development Banks	AIDAB
12	Operations of the IMF and World Bank 1990-91	The Treasury
13	Australia and the World Bank	The Treasury
14	Odious Debts	P Adams
15	World Bank/UNDP Seminars in Australia	World Bank
16	The World Bank and the Republics of the Former Soviet Union	World Bank
17	Procurement Success Rates FY 90-91	World Bank
18	Doing Well By Doing Good	D Tribe
19	World Bank Lending by Sector 1991	DFAT
20	Communiques of the Interim and Development Committees	The Treasury

21	Unity Magazine	United Nations Association of Australia
22	ACFOA Publication : Aid for a Change	ACFOA
23	Opportunities for Agro-Industrial Development Vietnam by R Arrivillaga	B. Brogan
24	The Crisis of the NICS by W. Bello & R Broad	B. Brogan
25	Making Dams Work for Displaced Populations by O Soemarwoto	B. Brogan
26	International Business Opportunities Service Summary	World Bank
27	Overseas Projects Intelligence Network Project Summary	World Bank
28	Development Business Number 338	World Bank
29	IPIN Brochure	World Bank
30	Human Development Report 1992 by UNDP	ACFOA
31	Life After Debt : Australia and the Global Debt Crisis	ACFOA
32	ACFOA Submission to Senate Inquiry on Environmental Impact of Development Assistance	ACFOA
33	World Bank and IMF Conditionality : An ACFOA Proposal by G Barrett	ACFOA
34	Prospects for a Debt Management Authority by G Barrett	ACFOA
35	Aid For a Change : Chapter on International Organisations	ACFOA
36	Tribal Families Made Homeless by World Bank Funded Dam by OXFAM	ACFOA
37	Declaration of the People's Forum 1991	ACFOA
38	IMF, World Bank Must Ease Burden On The Poor by G Bilney, Financial Review, 28-09-89	ACFOA
39	Position Paper of the NGO Working Group on the Bank by the NGO Working Group on the World Bank	ACFOA
40	Summary of Regional Panels of International NGO Forum on World Bank and IMF Lending by the Development Group for Alternative Policies	ACFOA
41	An NGO Perspective on the World Bank by the Development Group for Alternative Policies	ACFOA

42	A Critical Look at World Bank and IMF Policies	ACFOA
43	Consensus NGO Position of the Development Bank Assessment Network on the IDA 9 Replenishment	ACFOA
44	NGO Group on World Bank Issues Critique by the NGLS News, March 1991	ACFOA
45	The Pain of Economic Reform by M H Cooper	ACFOA
46	A World Bank Prescription for PNG by R Callick in Australian Society, October 1991	ACFOA
47	The Greening of the Development Banks by B M Rich in The Ecologist, Vol 19, no 2, 1989	ACFOA
48	The Emperor's New Clothes : The World Bank and Environmental Reform by B M Rich	ACFOA
49	Storming the Bank by B Stokes : National Journal, 31-12-88	ACFOA
50	Stabilising Developing Economies : Challenging the IMF in PNG by J Lodewijks	ACFOA
51	World or Wonderland Bank? in The Banker, V 141, October 1991	ACFOA
52	Sisters in the Wood in The Economist, V 321, 12/18 October 1991	ACFOA
53	An NGO Perspective on the IMF : The Need For Reform by the Environmental Policy Institute	ACFOA
54	Global Environment Facility (part 2) by the Third World Network	ACFOA
55	Why the World Bank Cannot be relied Upon to Promote Poverty Alleviation and Sustainable Development by the Third World Network	ACFOA
56	OXFAM Welcomes New Debt Proposals by OXFAM	ACFOA
57	A Proposal in Support of an Allocation of SDRS by the Institute of International Finance	ACFOA
58	Aid and Enterprise : The World Bank Needs to Change	ACFOA
59	IMF Conditionality : Coercion or Compromise? by K W Stiles	ACFOA
60	The Global Environment Facility : Why the World Bank Should Not Be Handling It by M Colchester	ACFOA
61	Third World Debt : An Australian View by the Joint Committee on Foreign Affairs, Defence and Trade	ACFOA

62	Human Development Report 1992 by UNDP	Australian Freedom From Hunger Campaign
63	Effectiveness Review of Multilateral Development Banks: MTIA Discussion Paper to ADAIB August 1991	MTIA
64	Structural Adjustment in Developing Countries by L Stein International Development Issues No 24	AIDAB
65	Getting Africa's Debt Crisis into Perspective by R Brown	Australian Freedom From Hunger Campaign
66	ODI Working Paper 46, the IMF in the 1990s : Forward to the Past or Back to the Future? by G Bird	Australian Freedom From Hunger Campaign
67	ODI Working Paper 47, What Can We Know About the Effect of IMF Programmes? by T Killick, M Malik, & M Manuel	Australian Freedom From Hunger Campaign
68	ODI Working Paper 48, Country Experiences with IMF Programmes in the 1980s by T Killick & M Malik	Australian Freedom From Hunger Campaign
69	UN Secretary-General Report : Economic Crisis in Africa	Australian Freedom From Hunger Campaign
70	World Bank President Acknowledges Problems in India Narmada Projects	Community Aid Abroad
71	Sardar Sarovar : Report of the Independent Review by G Gamble	Community Aid Abroad
72	A World Economy : Paradigms Lost and Found by R Wuliger	Community Aid Abroad
73	North-South Issues in the 1980s and 90s : Reflections on the Brandt Report by G Helleiner	Community Aid Abroad
74	The IMF, World Bank and Africa's Adjustment and External Debt Problems : An Unofficial View by G Helleiner	Community Aid Abroad
75	The Papua New Guinean Economy : Prospects for Recovery, Reform and Sustained Growth	AIDAB
76	The Papua New Guinean Economy : Prospects for Recovery, Reform and Sustained Growth : Summary	AIDAB
77	Speech by A. Cole to AIDAB's World Development Forum	The Treasury
78	The Third Report on Adjustment Lending : Private and Public Resources for Growth	AIDAB

79	World Bank Structural and Sectoral Adjustment Operations : Second OECD Overview	AIDAB
80	Aid and Power, Volume 2, Chapters 10 - 12 by P Mosley	Australian Freedom from Hunger Campaign
81	Report to Procurement Task Force, May 1992 by Hassall and Associates	DFAT
82	"Trade in Aid" Policy Speech by Gordon Hill, MLA	WA Department of State Development
83	Swallowing the Bitter Pill of Reform	A Lakhan
84	Food First Engages World Bank in Running Debate in Three Countries	Federal Bureau of Consumer Affairs
85	Donors and Deserts: the Political Ecology of Destructive Development in the Sahel by M Horowitz	Federal Bureau of Consumer Affairs
86	The Medicine That Kills in Third World Resurgence, No 17	Federal Bureau of Consumer Affairs
87	A Critical Look at World Bank and IMF Policies at the Time of the 1989 Annual Meetings	Federal Bureau of Consumer Affairs
88	The Solomon Islands Economy International Development Issues No 21	AIDAB
89	IDA9 Burden Sharing	AIDAB
90	IDA10 Burden Sharing	AIDAB
91	World Bank Annual Report 1992	The Treasury
92	Land Policies in the Philippines	AIDAB
93	Environmental Degradation in the Brazilian Amazon	AIDAB
94	World Bank Support for Land Distribution	AIDAB
95	World Bank Support for Land Distribution ; Philippines	AIDAB
96	Land Distribution	AIDAB
97	Land Distribution : Piaui Project	AIDAB
98	World Bank and Land Distribution	AIDAB
99	World Bank Population Projects and Conditionality	AIDAB
100	Comprehensive Agrarian Reform Program of the Philippines	AIDAB
101	World Bank response to Wapenhans Report : Portfolio Performance Management	Treasury

APPENDIX 4

EXCERPTS FROM THE ARTICLES OF AGREEMENT OF THE WORLD BANK GROUP

Purposes of the International Bank for Reconstruction and Development

i To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries;

ii To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources;

iii To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standing of living and conditions of labor in their territories;

iv To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first;

v To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

Purposes of the International Development Association

The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventionally loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development (hereinafter called 'the Bank') and supplementing its activities.

The Association shall be guided in all its decisions by the provisions of this Article.

Purposes of the International Finance Corporation

The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development (hereinafter called the Bank). In carrying out this purpose, the Corporation shall:

i in association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms;

ii seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and

iii seek to stimulate, and to help create conditions conducive to, the flow of private capital domestic and foreign, into productive investment in member countries.

The Corporation shall be guided in all its decisions by the provisions of this Article.

APPENDIX 5

EXCERPTS FROM THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND

Purposes of the International Monetary Fund

i To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;

ii To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;

iii To promote exchange stability, to maintain orderly exchange arrangements among members, and to a void competitive exchange depreciation;

iv To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade;

v To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity;

vi In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article of Agreement.

APPENDIX 6

FINANCIAL TRANSACTIONS BETWEEN AUSTRALIA AND THE FUND 1991 - 92

Maintenance of Value Payments

Under the Fund's Articles of Agreement, members are required to maintain the value of the Fund's holdings of their currency in terms of the SDR. To achieve this an annual adjustment, referred to as a maintenance of value payment, is made after the end of the Fund's financial year. If the value of a member's currency depreciates or appreciates against the SDR during the financial year, the member adjusts (up or down) at the end of the year the Fund's holdings of its currency to maintain the SDR value of those holdings.[1]

In Australia's case, the value of the Australian dollar in terms of the SDR fell from $A1=SDR 0.583008 on 30 April 1991 to $A1=SDR 0.554331 on 30 April 1992. This 4.9 per cent decline necessitated payment by Australia to the Fund on 17 July 1992 of $A121,913,371.03 to maintain the SDR value of the Fund's holdings of $A. Payment is made in the form of a promissory note split between Treasury ($111 million) and the Reserve Bank ($10 million).

Australia's Transactions in SDRs in 1991 - 92

Balance in SDR Account as at 30 June 1991		209,855,572
Interest on SDR Holdings:		
01/08/91	4,052,167	
01/11/91	3,812,725	
01/02/92	3,500,299	
01/05/92	3,229,688	
	14,594,879	
Charges on net cumulative allocations:		
01/08/91	-9,085,902	
01/11/91	-8,704,438	
01/02/92	-8,137,119	
01/05/92	-7,639,671	
	-33,567,130	
Remuneration:		
01/08/91	1,286,686	
01/11/91	1,194,923	
01/02/92	1,150,001	
01/05/92	1,132,970	
	4,764,580	
Annual Assessment:		
30/04/92	-90,011	
Balance in SDR Account as at 30 June 1992		195,557,890

Source: The Hon John Dawkins MP, Treasurer, *Operations of the IMF and World Bank 1991 - 92*, Annual Report to the Parliament under the International Monetary Agreements Act 1947, pp 14 - 15

1 The Fund's financial year operates from 1 May - 30 April.

APPENDIX 7

EXECUTIVE DIRECTORS OF THE IMF: THEIR CONSTITUENCIES AND VOTING POWER ON 30 APRIL 1993

Director	Casting Votes of	Votes by Country	Total Votes	Percent of Fund Total
APPOINTED				
T C Dawson II	United States	265,518	265,518	17.71
D Perez	United Kingdom	74,396	74,396	4.96
S Schonbert	Germany	82,665	82,665	5.51
J Landau	France	74,396	74,396	4.96
H Fukui	Japan	82,665	82,665	5.51
M Al-Jasser	Saudi Arabia	51,556	51,556	3.44
ELECTED				
J de Groot	Austria	12,133		
(Belguim)	Belguim	31,273		
	Czech Republic	6,146		
	Hungary	7,798		
	Belarus	3,054		
	Slovak Republic	2,824		
	Kazakhstan	2725		
	Luxemburg	1,605		
	Turkey	6,670	74,228	4.95
G Lanciotto	Greece	6,126		
(Italy)	Italy	46,157		
	Malta	925		
	Albania	603		
	San Marino	350	59,987	4.00
R Marino	Costa Rica	1,440		
(Mexico)	El Salvador	1,506		
	Guatemala	1,788		
	Honduras	1,200		
	Mexico	17,783		
	Nicaragua	1,211		
	Spain	19,604		
	Venezuela	19,763	64,295	4.29
G A Posthumus	Bulgaria	4,899		
(Netherlands)	Cyprus	1,250		
	Israel	6,912		
	Netherlands	34,692		
	Romania	7,791		

	Georgia	1,360		
	Cyprus	1,250		
	Moldova	1,150		
	Amenia	925	69,202	4.62
A Shalaan (Egypt)	Bahrain	1,078		
	Egypt	7,034		
	Iraq	8,898		
	Jordan	1,467		
	Kuwait	10,202		
	Lebanon	1,710		
	Libya	8,426		
	Maldives	305		
	Oman	1,444		
	Qatar	2,155		
	Syria	2,349		
	UAE	4,171		
	Yemen	2,015	39,276	4.13
D Smee (Canada)	Antigua and Barbuda	335		
	Bahamas, The	1,194		
	Barbados	739		
	Belize	385		
	Canada	43,453		
	Dominica	310		
	Grenada	335		
	Ireland	5,500		
	Jamaica	2,259		
	St Kitts and Nevis	315		
	St Lucia	360		
	St Vincent and the Grenadines	310	38,709	4.07
E L Waterman (Australia)	Australia	23,582		
	Kiribati	290		
	Korea	8,246		
	New Zealand	6,751		
	Papua New Guinea	1,203		
	Philippines	6,584		
	Seychelles	310		
	Marshall Is	275		
	Mongolia	621		
	Solomon Islands	325		
	Vanuatu	375		
	Western Samoa	335	48,897	3.26
I Fridriksson (Iceland)	Denmark	10,949		
	Finland	8,868		
	Iceland	1,103		
	Norway	11,296		
	Sweden	16,390		
	Latvia	1,165		
	Lithuania	1,285		
	Estonia	715	51,771	3.45
L J Mwananshiku	Angola	2,323		

(Zambia)	Botswana	616		
	Burundi	822		
	Ethiopia	1,233		
	Gambia, The	479		
	Kenya	2,244		
	Lesotho	489		
	Liberia	1,212		
	Malawi	759		
	Mozambique	1,090		
	Namibia	1,246		
	Nigeria	13,066		
	Sierra Leone	1,022		
	Sudan	2,581		
	Swaziland	615		
	Tanzania	1,719		
	Uganda	1,589		
	Zambia	3,885		
	Zimbabwe	2,863	39,853	2.66
G K Arora (India)	Bangladesh	4,175		
	Bhutan	295		
	India	30,805		
	Sri Lanka	3,286	38,561	2.57
A Kafka (Brazil)	Brazil	21,958		
	Colombia	5,863		
	Dominican Republic	1,838		
	Ecuador	2,442		
	Guyana	922		
	Haiti	857		
	Panama	1,746		
	Suriname	926		
	Trinidad and Tobago	2,718	39,270	2.62
J E Ismael (Indonesia)	Fiji	761		
	Indonesia	15,226		
	Lao	641		
	Malaysia	8,577		
	Myanmar	2,099		
	Nepal	770		
	Singapore	3,826		
	Thailand	5,989		
	Tonga	300		
	Viet Nam	2,666	40,855	2.73
CHE Peiqin	China	24,159	34,102	2.27
A Zoccali (Argentina)	Argentina	15,621		
	Bolivia	1,512		
	Chile	6,467		
	Paraguay	971		
	Peru	4,911		
	Uruguay	2,503	31,985	2.13
A Mirakhor (Iran)	Afghanistan	1,454		
	Algeria	9,394		
	Ghana	2,990		
	Iran	11,035		
	Morocco	4,527		
	Pakistan	7,832		
	Tunisia	2,310	39,542	2.64

C B Santos (Cape Verde)	Benin	703		
	Burkina Faso	692		
	Cameroon	1,601		
	Cape Verde	320		
	Central African Republic	662		
	Chad	663		
	Comoros	315		
	Congo	829		
	Cote d'Ivoire	2,632		
	Djibouti	365		
	Equatorial Guinea	493		
	Gabon	1,353		
	Guinea	1,037		
	Guinea-Bissau	355		
	Madagascar	1,154		
	Mali	939		
	Mauritius	983		
	Niger	733		
	Rwanda	845		
	Sao Tome & Principe	305		
	Senegal	1,439		
	Togo	793		
	Zaire	4,198	23,409	1.56
Not presented	South Africa	13,904		
	Croatia	2,866		
	Slovenia	1,755		
	Somalia	859		
	Macedonia	746		
	Cambodia	500		

Source: Treasury, ***Submission 17F, Attachment 2***

APPENDIX 8

EXECUTIVE DIRECTORS OF THE WORLD BANK: THEIR CONSTITUENCIES AND VOTING POWER ON 30 JUNE 1993

		IBRD		IDA	
Executive Director	**Casting Votes of**	**Total Votes**	**% of total**	**Total Votes**	**% of Total**
Appointed					
E P Coady	United States	243,359	17.46	1,339,194	16.43
Y Kawahara	Japan	94,020	6.74	823,431	10.10
F Fischer	Germany	72,649	5.21	567,447	6.96
J Landau	France	69,647	5.00	328,072	4.03
D Perez	United Kingdom	69,647	5.00	445,093	5.46
Elected					
B Snoy (Belguim)	Austria, Belarus, Belguim Czech Republic, Hungary Luxemburg, Slovak Republic Turkey	61,785	4.90	338,074	4.15
Grilli (Italy)	Albania, Italy, Malta, Portugal	54,354	3.90	463,476	5.69
F Potter (Canada)	Antigua & Barbuda, The Bahamas, Barbados, Belize Canada, Dominica, Grenada Guyana, Ireland, Jamaica St Kitts & Nevis, St Lucia St Vincent, the Grenadines	61,134	4.39	347,024	4.26
Jalan (India)	Bangladesh, Bhutan, India, Sri Lanka	54,519	3.91	351,910	4.32
Torres (Spain)	Costa Rica, El Salvador Guatemala, Honduras Mexico, Nicaragua, Panama Spain, Venezuela	50,597	3.63	233,903	2.87
E Herfkens (Netherlands)	Armenia, Bulgaria, Cyprus, Georgia, Israel, Moldova, Netherlands, Romania, Ukraine	68.189	4.89	265,669	3.26
Fedorov	Russian Federation	25,390	1.82		
Maehlum (Norway)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania Norway, Sweden	42,166	3.50	395,764	4.86
Malan (Brazil)	Brazil, Colombia, Dominican Republic, Haiti				

	Ecuador, Philippines, Suriname, Trinidad, Tobago	42,374	3.04	241,124	2.96
J Cosgrove (Australia)	Australia, Kiribati Korea, Marshall Islands, Mongolia, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu Western Samoa	42,971	3.08	209,523	2.57
Wahg	China	45,049	3.23	165,488	2.03
Gerber (Switzerland)	Azerbaijan, Kyrgyzstan Poland, Switzerland, Turkmenistan, Uzbekistan	37,698	2.70		
Aris (Malaysia)	Fiji, Indonesia, Lao People's Republic, Malaysia, Myanmar, Nepal Singapore, Thailand, Tonga, Viet Nam	36,616	2.63	235,113	2.89
M Benhocine (Algeria)	Afghanistan, Algeria Ghana, Iran, Morocco, Pakistan, Tunisia	43,314	3.14	114,457	1.40
Al-Khalet (Kuwait)	Bahrain, Egypt, Jordan Lebanon, Kuwait, Libya, Maldives, Oman, Qatar, Syrian Arab Republic United Arab Emirates, Yemen, Republic of	41,357	2.97	282,369	3.46
Matambo (Botswana)	Angola, Botswana, Burundi Ethiopia, The Gambia Guinea, Kenya, Lesotho, Liberia, Malawi, Mozambique Namibia, Nigeria, Seychelles Sierra Leone, Sudan, Swaziland Tanzania, Uganda, Zambia Zimbabwe	30,563	2.19	329,710	4.05
I A Al-Assaf	Saudi Arabia	45,045	3.23	278,621	3.42
Flano (Chile)	Argentina, Bolivia, Chile Paraguay, Peru, Uruguay	24,745	1.78	143.701	1.76
J Le Bouder (Central African Republic)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritus Niger, Rwanda, Sao Tome and Principe, Senegal, Somalia Togo, Zaire	22,913	1.64	250.083	3.07

Source: Treasury, ***Submission Number 17F, Attachment 1***

APPENDIX 9

PROCUREMENT OF GOODS BY BORROWERS UTILISING WORLD BANK FUNDS

Various tender procedures are utilised:

- **International Competitive Bidding (ICB)**
  60 days prior to advertisement the borrower must send a general procurement notice to the Bank outlining, in general terms, the goods or services to be procured. This is published in Development Business published by the UN (and to which 86 Australian firms subscribe, mainly consultants). Firms then write to the implementing agency for details and return a bid. If the project is large or complex, they normally outline their experience and background for **prequalification** (ie shortlisting). After the closing date, sealed bids are publicly opened (firms' representatives can attend) and the amount of each firm's bid announced. The bids are then examined to ensure compliance and the lowest compliant bid is awarded the tender.

- **Limited International Bidding (LIB)**

  This is similar to ICB and the same procedures apply, but without advertisement. Selected firms, usually from different countries, are invited to bid. LIB is limited to:
  - small amounts of procurement;
  - where there are only limited suppliers of the product;
  - other exceptional reasons (normally requires Bank approval)

- **Local Competitive Bidding (LCB)**

  Bid advertisements are only published within the borrower country. This is used where goods are available locally at internationally competitive prices or where, for some reason, international firms are unlikely to be interested.

- **International Shopping**

  Where a product is highly standardised and generally available "off the shelf" (and the bid value is small) there may be no formal bidding advertised but selected known firms are invited to supply their prices.

- **Local Shopping**

  Same as international shopping but only local firms are invited.

- **Direct Contracting or Purchase**

  Where a firm has an existing contract satisfactory to the borrowing country, this may be extended. Where spare parts, training or maintenance come only from the manufacturer, this is used. Otherwise direct contracting is only used in exceptional cases.

- **Force Account**

  In certain construction projects it may be more advantageous and economical to use the borrower's own labour force and equipment.

Source : ***Exhibit 81*** pages 2.2 and ***Submission 23***, page 16

APPENDIX 10

GUIDELINES FOR PROCUREMENT UNDER IBRD LOANS AND IDA CREDITS

Introduction

1.1 The purpose of these Guidelines is to inform those carrying out a project that is financed in part by the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA) of the arrangements to be made for procuring the goods and works (including related services) required for the project. The Loan Agreement governs the legal relationships between the Borrower and the Bank, and the Guidelines are made applicable to procurement of goods and works for the project, to the extent provided in the agreement. The rights and obligations of the Borrower and the providers of goods and works for the project are governed by the bidding documents, and by the contracts signed by the borrower with the providers of the goods and works, and not by these Guidelines or the Loan Agreements. No Party other than the parties to the Loan Agreement shall derive any rights therefrom or have any claim to loan proceeds.

General Considerations

The responsibility for the execution of the project, and therefore for the award and administration of contracts under the project, rests with the Borrower. The Bank for its part is required by its Articles of Agreement to "ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to consideration of economy and efficiency and without regard to political or other non-economic influences or considerations," and has established detailed procedures to be followed in the execution of a project depend on the circumstances of the particular case, three considerations generally guide the Bank's requirements.

(a) The need for economy and efficiency in the execution of the project, including the procurement of the goods and works involved.

(b) The Bank's interest, as a cooperative institution, in giving all eligible bidders from developed and developing countries, and opportunity to compete in providing goods and works financed by the Bank: and

(c) The Bank's interest, as a development institution in encouraging the development of local contractors and manufacturers in the borrowing country.

1.3 The Bank has found that in most cases, these needs and interests can best be realised through international competitive bidding, properly administered, and with suitable allowance for preferences for local or regional manufacturers of goods and, where appropriate, for local contractors for works under prescribed conditions. In such cases, therefore, the Bank requires its Borrowers to obtain goods and works through international competitive bidding open to eligible suppliers and contractors. On the other hand, there are cases where international competitive bidding is clearly not the most economic and efficient method of procurement , and, in these cases, other methods of procurement are prescribed in the loan documents. The particular methods to be followed for the procurement of goods and works for a given project are specified in the loan documents for such project.

1.4 Generally the Bank finances only a part of the cost of the project. The procedures outlines in these guidelines apply to all procurement of goods and works financed wholly or in part by the loan proceeds. For the procurement of those goods and works not financed out of the proceeds of the loan, the Borrower may adopt other procedures. In such cases the Bank should be satisfied that the procedures to be used will fulfil the Borrowers's obligations to cause the project to be carried out diligently and efficiently, and that the goods and works to be procured:

(a) are of satisfactory quality and are compatible with the balance of the project;

(b) will be delivered or completed in timely fashion; and

(c) are priced so as not to affect adversely the economic and financial viability of the project.

Eligibility

1.5 Funds from Bank loans may be disbursed only on account of expenditures for goods and services provided by nationals of, and produced in or supplied from, Bank member countries and Switzerland. Under this policy, nationals of other countries should be disqualified from bidding for contracts intended to be financed wholly or in part from Bank loans.

1.6 Transportation of goods is not financed by the Bank if the services are rendered by enterprises from ineligible sources, except where pooling arrangements in shipping conferences in which shipping lines from eligible sources hold the major share make the nationality of the carrier immaterial, or where other means of transportation are not available or would cause excessive costs or delays. Insurance services connected with Bank-financed contracts are eligible for financing out of the proceeds of Bank loans only when rendered by insurers from eligible sources.

1.7 In connection with any contract to be financed by the Bank, the Bank does not permit a Borrower to deny prequalification, if required, to a firm for reasons unrelated to its capacity to supply the goods and works in question; nor does it permit a Borrower to disqualify any bidder for such reasons. As an exception to the foregoing, firms of a member country or goods manufactured in a member country may be excluded if, as a matter of law or official regulation, the Borrower's country prohibits commercial relations with that country, provided that the Bank is satisfied that such exclusion does not preclude effective competition for the supply of goods or works required.

Advance Contracting and Retroactive Financing

1.8 In certain circumstances, advance contracting, whereby the Borrower signs a contract before the signing of the related Bank loan, by be acceptable in the interests of more rapid and efficient execution of the project. The procurement procedures including advertising should be in accordance with the Guidelines in order for advance contracts to be eligible for Bank financing, and the normal review process by the Bank should be followed. A Borrower undertakes advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation or proposal for award does not commit the Bank to make a loan for the project in question. The reimbursement by the Bank of any payments made by the Borrower under the contract prior to loan signing is referred to as retroactive financing and is only permitted within the limits specified in the Loan Agreement.

Joint Ventures

1.9 Manufactures and contractors in the Borrower's country are encouraged to participate in the procurement process since the Bank seeks, through its procurement procedures, to encourage the development of local industry. Manufacturers and contractors in the Borrowers country may bid independently or in joint venture with foreign manufacturers or contractors, but the Bank does not approve conditions of bidding which require mandatory joint venture or other forms of association between local and foreign firms.

Bank Review

1.10 The Bank reviews the Borrower's procurement procedures, documents, bid evaluations and contract awards to ensure that the procurement process is properly carried out. These review procedures are described in Appendix 1. The Loan Agreement will specify the extent to which these review procedures will apply in respect of the different categories of goods and works to be financed out of the proceeds of the loan.

Source: World Bank

APPENDIX 11

GUIDELINES FOR THE USE OF CONSULTANTS BY WORLD BANK BORROWERS AND BY THE WORLD BANK AS EXECUTING AGENCY

Introduction

1.01 These Guidelines cover policies and procedures concerning the use of consultants by Bank borrowers and by the Bank as executing agency for the United Nations Development Program (UNDP). Parts I to IV deal with the services of consulting firms and Part V deals with those of individual consultants.

1.02 Both individual consultants and consulting firms are employed by Bank borrowers. The services required may take many forms, ranging from, but not restricted to, engineering and architecture to economics, finance and management. Consultants eligible for Bank-financed services must be from a Bank member country or Switzerland.

1.03 These Guidelines cover services of consultants:

(i) where consultants are retained by borrowers in connection with Bank-financed projects; and
(ii) where consultants are retained by the Bank as executing agency for studies financed by UNDP.

1.04 The Bank's borrowers employ consultants in the normal course of their work in connection with Bank-financed projects to carry out activities for which their own resources are inadequate. Contracts of consultants so employed are directly with the borrower, or with an agency designated by the borrower, and not with the Bank. These cases constitute by far the largest proportion (over 90 per cent) of consultants' services in which the Bank has an interest. The services may be financed by the borrower or from the proceeds of a loan or from an advance from the Bank's Project Preparation Facility. Policies and procedures that apply to such contracts with consulting firms are discussed in Part II and those which apply to contracts with individual consultants employed by the borrowers in Part V.

1.05 The Bank may require the services of consultants in connection with technical assistance, pre-investment and other studies financed by the UNDP, when the Bank is acting as executing agency. In these cases, the consultant's contract is directly with the Bank. Policies and procedures that apply specifically to these contracts are discussed in Part III.

Part I Consulting Services

Types of Assignments

1.06 Services of consulting firms used by borrowers and the Bank can be grouped broadly into four categories:

(a) Preinvestment studies, which comprise the investigations which normally precede decisions to go forward with specific projects. These studies may have as their objectives:
(i) the establishment of investment priorities and sector policies
(ii) the determination of the basic features and the feasibility of individual projects; or
(iii) the identification and definition of changes and improvements in governmental policies, operations and institutions necessary for the successful implementation or functioning of development programs.

(b) Preparation services, which comprise the technical, economic, or other work required to fully define a project and prepare it for implementation. These services normally include the preparation of detailed capital and operating cost estimates, detailed engineering, performance specifications for turnkey contracts, and tender documents required for invitation of bids for construction work and equipment. They also often include services in connection with the preparation of procurement document, the determination of insurance requirements, the prequalifications of licensors and contractors, and the analysis of bids and recommendations thereon.

(c) Implementation services, which comprise construction supervision and project management, including inspection and expediting, certification of invoices submitted by contractors and suppliers, and technical services connected with the interpretation of contract documents. Implementation services can include assistance in procurement and the coordination of inputs by various contractors and suppliers engaged on a single project, and the start up of facilities and their operation for an initial period.

(d) Technical assistance, which comprises a wide range of advisory and borrower support services, such as development and sector planning and institution-building, including organisation and management studies, staffing requirement and training studies, and assistance in implementation of study recommendations.

Types of Consulting Firms

1.07 The services outlined above are provided by various types of organisations which, for purposes of these Guidelines, are considered to be "consulting firms." These organisations include (inter alia); consulting partnerships, private companies, public companies or corporations, government-assisted firms, government enterprises, private non-profit organisations, international organisation and universities.

1.08 Some consulting firms are part of or otherwise affiliated with other commercial activities or concerns including construction firms or manufacturers. These firms are acceptable to the Bank if their qualifications and experience are suitable for the work in question. However, to ensure professional impartiality, they must agree to limit their role to that of consulting services and to disqualify themselves and their associates for work in any other capacity on the same project.

1.09 This policy also applies to "engineering firms," discussed in Part IV, which accept major responsibility for bringing a complete facility into operation, from design to start-up, and which provide process licenses and performance guarantees. However, for some types of projects, firms are required to enter into a single contract to provide not only the services referred to above but, in addition, to supply the equipment and construct the work. Selection of firms for such "turnkey contracts" under Bank-financed projects is governed by the "Guidelines for Procurement Under World Bank Loans and IDA Credits."

1.10 Consulting organisations that are partly or totally owned or sponsored by governments, including those of the borrower, are eligible for Bank-financed projects provided:

(a) their qualifications and experience are suitable for the work in question: and
(b) their structure and legal status are such that they can enter into a legally-binding agreement with the borrower's implementing agency (or the Bank).

The Role of Domestic Consulting Firms

1.11 It is the Bank's policy to encourages borrowers to employ domestic consulting firms in connection with Bank-financed projects where such firms are qualified to perform the work either alone or in combination with foreign firms.

1.12 When a domestic firm is capable of providing part, but not all, of the services required, a variety of possible arrangements may be considered. In some cases, the assignment may be suitably divided, with domestic firms entering into contracts for the appropriate parts of the assignment, but performing under the general direction of a foreign consultant responsible for managing the activity as a whole. Under clearly defined contractual arrangements with the borrower, the managing consultant would normally be responsible for developing the standards, design parameters and technical specifications and, on behalf of the borrower, for reviewing and approving the domestic firms' work program and other critical steps.

1.13 If expertise is required that is not available locally, then either the domestic firm may engage foreign individuals to bring it up to a level of expertise capable of undertaking the assignment or a joint venture may be considered. In a joint venture, the consulting firms agree to associate to perform certain services. All firms are usually named in the contract with the borrower, and they usually have a private cost and profit sharing agreement between them. Responsibility is a major issue on a joint venture, and the contractual arrangements should clearly define the responsibility of each firm. The Bank prefers that one firm assume contractual responsibility (and liability) for satisfactory execution of the assignment. If a contract calls for all firms to be jointly and severally liable, then the Bank should be satisfied that at least one firm in the joint venture is financially capable of meeting the contract requirements and potential liabilities on its own.

1.14 In determining the most appropriate joint venture arrangement, the following considerations should be borne in mind:

(i) The contribution of the local firm should be the maximum of which is capable.

(ii) The contractual arrangement should define clearly the responsibilities and the services to be provided by each firm.

(iii) Joint ventures are more likely to develop local capabilities if they provide for suitable training.

(iv) The Bank prefers voluntary joint venture arrangements and will accept mandatory joint ventures only if:
  (a) there are sufficient number of capable domestic firms available to allow reasonable freedom of choice for the invited foreign firms;

  (b) the desirable contribution by either firm will not be contained by any prescribed manner or extent of participation; and

  (c) association with specific named firms selected by the borrower is not required.

Other Developing Country Firms

1.15 Consideration should also be given to the use of qualified consultants from other developing countries which may offer some of the advantages of local firms - for example, experience with similar problems, familiarity with climatic or physical conditions and design practices, cultural affinities, or lower costs.

Information concerning Consulting Firms

1.16 To enable the Bank to judge the acceptability of firms proposed by borrowers (para 2.13), it maintains information concerning the capabilities and experience of a large number of consulting firms. This information is also used when the Bank prepares lists of suggested consulting firms for borrowers (para 2.61) or selects consulting firms for studies financed by the UNDP. Key information contained in the Banks file on consulting firms is entered in a Data on Consulting Firms (DACON) system which is shared by the Bank and some other international financing agencies.

1.17 The Bank's general files on consulting firms, including DACRON, are available to representatives of Bank borrowers and member governments. However, the information available on any one firm may be limited or, in some cases, non-existent, and it may be necessary for the Bank or the borrower to request additional information from a particular firm in order to form a judgement on its qualifications to carry out a specific assignment.

1.18 The fact that the Bank has been supplied with information about a firm does not indicate that the Bank has verified the accuracy of the information provided, that it is endorsed the firm's qualifications in general, or that it will approve the firm's appointment for any specific project. The Bank has no list of "approved" consulting firms, nor does it require registration as a condition of employment.

Information for Consulting Firms

1.19 A twice-monthly publication of the United Nations entitled Development Forum Business Edition carries in alternate issues "Monthly Operational Summaries" from the World Bank and from the Inter-American Development Bank. Useful information for consulting firms is contained in these summaries which give the status of projects under preparation from the identification stage until the loan agreement is signed.

Evaluation of a Consulting Firm's Performance

1.20 The Bank evaluates and records the performance of consulting firms on both Bank-financed contracts and UNDP-financed contracts where the Bank is executing agency. The Bank's procedures are designed to ensure that performance evaluation is handled fairly and confidentially.

Short List of Firms

2.1 To ensure that only consulting firms considered capable of undertaking the assignment are invited to submit proposals, the Bank reviews and approves the short list prepared by the borrower.

2.2 The short list is normally prepared from a longer list obtained by advertising, from embassies and professional associations, from the borrowers own knowledge or, under exceptional circumstances (para 2.61), from the Bank.

2.3 The short list should normally comprise a wide geographic spread of firms with, preferably, not more than two firms of any one nationality on the list and with consideration being given to including at least one firm from another developing country. While borrowers are encouraged to include local firms on the list, the advantages of receiving proposals from consultants of other nationalities or of encouraging joint ventures between local and foreign firms (para 1.13) should also be considered for major assignments.

Part III, Consulting Firms Retained by the Bank as Executing Agency

3.01 The Bank also contracts directly with consulting firms for assignments for which the Bank is the executing agency for the UNDP. The selection procedures followed by the Bank in these cases are essentially the same as described in Part II for consulting firms retained by borrowers. The terms of reference for the assignment and the short list of firms are prepared by the Bank staff in consultation with the government agencies concerned, and their final version agreed with the government. As most assignments for which the Bank is executing agency are of the type for which it is not appropriate to use price as a factor in selection, the Bank normally requests unpriced proposals. Following the evaluation by the Bank, an authorised representative of the recipient government normally participates in the negotiations with the selected firm with a view to arriving at a thorough understanding by all parties regarding the assignment, including agreement on the "in kind services and facilities which the government will provide.

3.02 The Bank is responsible for supervising the consulting firms it retains as executing agency. However, the Bank and the government often agree that the government will monitor the consultant's field work. Invoice for the field services performed by the consultant are also usually reviewed by the government before being submitted to the Bank.

APPENDIX 12

WORLD BANK FOREIGN PROCUREMENT: AUSTRALIA AND OTHER COUNTRIES

	1987		1988		1989		1990		1991		1992	
AUSTRALIA	72.0	0.8	111.2	1.2	159.0	1.7	64.0	0.7	120.0	1.4	93.0	1.0
BELGIUM	152.0	1.6	149.6	1.6	167.0	1.8	147.0	1.5	195.0	2.2	180.0	1.0
CANADA	257.4	2.7	229.5	2.5	242.0	2.6	205.0	2.1	173.0	2.0	167.0	1.8
FRANCE	701.5	7.5	636.9	6.9	636.0	6.9	716.0	7.4	766.0	8.7	760.0	8.1
GERMANY	954.3	10.1	883.1	9.5	858.0	9.3	776.0	8.0	1,019.0	11.5	874.0	9.6
ITALY	380.9	4.0	414.2	4.5	384.0	4.1	374.0	3.8	462.0	5.2	385.0	4.2
JAPAN	1.322.0	14.1	1,269.4	13.7	1,321.0	14.3	877.0	9.0	826.0	9.3	860.0	9.5
NETHERLANDS	170.1	1.8	158.9	1.7	170.0	1.8	184.0	1.9	226.0	2.6	217.0	2.4
SWEDEN	92.2	1.0	107.2	1.2	110.0	1.2	109.0	1.1	97.0	1.1	72.0	0.8
SWITZERLAND	355.2	3.8	356.8	3.8	386.0	4.2	359.0	3.7	254.0	2.9	345.0	3.8
UK	894.8	9.5	709.9	7.6	935.0	10.1	875.0	9.0	789.0	8.9	697.0	7.7
USA	1,809.9	19.2	1,388.2	15.0	1,408.0	15.2	1,696.0	17.5	1,315.0	14.9	1,324.0	14.6
ARGENTINA			36.8	0.4	217.0	2.3	74.0	0.8	51.0	0.6	98.0	1.0
BRAZIL			224.6	2.4	217.0	2.3	176.0	1.8	207.0	2.3	266.0	2.9
CHINA			107.8	1.2	174.0	1.9	143.0	1.5	163.0	1.8	215.0	2.3
INDIA			136.4	1.5	67.0	0.7	80.0	0.8	98.0	1.1	66.0	0.7
INDONESIA			27.2	0.3	62.0	0.7	42.0	0.4	23.0	0.3	14.0	0.1
KOREA			82.5	0.9	169.0	1.8	167.0	1.7	149.0	1.7	127.0	1.4
SINGAPORE			108.4	1.2	192.0	2.1	160.0	1.6	161.0	1.8	143.0	1.5
SPAIN			127.8	1.4	76.0	0.8	100.0	1.0	82.0	0.9	108.0	0.0
YUGOSLAVIA			86.4	0.9	111.0	1.2		0.0	51.0	0.6	81.0	0.9
OTHERS	2,242.70	23.8	2,865.8	30.9	2,494.0	26.9	3,337.0	34.3	2,596.0	29.4	1,118	24.7
TOTAL	9,504.0	100.0	9,280.7	100.0	9,270.0	100.0	9,719.0	100.0	8,838.0	100.0	8,838.0	100.0

Source: World Bank Annual Reports 1991-2

APPENDIX 13

WORLD BANK FOREIGN PROCUREMENT RELATED TO COUNTRY GDP

Country	Average Procurement 1988 - 1991							
	Goods $USm	%	Services $USm	%	Total $USm	%	1988 GDP $USb	Procurement index[1]
Singapore	85.3	0.99	3.0	0.48	88.3	0.95	23.9	3.70
Switzerland	320.7	3.71	18.3	2.91	339.0	3.65	184.9	1.83
United Kingdom	717.0	8.29	110.3	17.56	827.2	88.92	702.4	1.18
Belgium	146.9	1.70	17.8	2.83	164.7	1.77	153.8	1.07
Argentina	65.0	0.75	2.0	0.32	67.0	0.72	79.4	0.84
Netherlands	164.7	1.90	20.0	3.18	184.7	1.99	228.3	0.81
Germany	833.3	9.63	50.8	8.08	884.0	9.53	1201.8	0.74
France	589.0	6.81	99.8	15.88	688.7	7.42	949.4	0.73
Sweden	101.6	1.17	4.3	0.68	105.8	1.14	159.9	0.66
Italy	393.1	4.54	15.5	2.47	408.6	4.40	828.9	0.49
Canada	161.9	1.87	50.5	8.04	212.4	2.29	435.9	0.49
Korea	78.0	0.90	1.5	0.24	79.5	0.86	171.3	0.46
Australia	*102.0*	*1.18*	*11.6*	*1.84*	*113.6*	*1.22*	*246.0*	*0.46*
Japan	1056.1	12.21	17.3	2.75	1073.4	11.57	2843.7	0.38
Brazil	105.3	1.22	0.8	0.12	106.0	1.14	323.6	0.33
USA	1335.6	15.44	116.3	18.51	1451.8	15.65	4847.3	0.30
Indonesia	20.8	0.24	0.5	0.08	21.3	0.23	83.2	0.26
China	83.8	0.97	0.5	0.08	84.3	0.91	372.3	0.23
India	37.3	0.43	4.0	0.64	41.3	0.44	237.9	0.17
Spain	39.0	0.45	0.5	0.08	39.5	0.43	340.3	0.12

[1] The Procurement Index is the millions of dollars worth of WB procurement per billion dollars of GNP GDP data from World Development Report 1988

Australia's World Bank procurement is about the average in relation to country economic size. It is noticeable that some of the smaller countries dominate the upper ranges of the index. Very broadly the results suggest tha country size is no barrier to large amounts of procurement, but that the volume of trade is probably a bette indicator of performance than mere economic size.

APPENDIX 14

COUNTRY RANKING

WORLD BANK RANKING

Major countries (above $US500m/year)	Middle Group ($US100-500m/year)	Lower Group ($US20-100m/year)
USA	Switzerland	India
Germany	Netherlands	Spain
Japan	Brazil	Argentina
UK	Belgium	Yugoslavia
France	Canada	Iraq
Italy	China	Indonesia
	Singapore	
	Australia	
	Sweden	

ASIAN DEVELOPMENT BANK RANKING

Major Countries (above $US100m/year)	Middle Group ($US50-100m/year)	Lower Group ($US10-50m/year)
Japan	India	Australia
USA	Switzerland	Italy
Korea	Germany	Belgium
Singapore	UK	Canada
Indonesia		
France		
China		

Source: *Exhibit 81*, page 3.10

APPENDIX 15

MULTILATERAL DEVELOPMENT BANK: DIRECT PROCUREMENT AND CONTRIBUTIONS

The following table provides details for 1987 to 1991 of Australia's financial contributions to the World Bank, Asian Development Bank and the European Bank for Reconstruction and Development and the direct procurement firms in Australia have obtained from activities funded by these three banks.

Australia's direct procurement has been consistently greater than its contributions to the World Bank. In the case of the ADB, Australia's direct procurement has also been, overall, greater than its contributions.

Contributions to the soft loan arms of the World Bank and ADB (International Development Association and the Asian Development Fund) are generally greater than direct procurement. This is partly because donor contributions are not leveraged by either IDA or ADF.

Australia's contributions to and Direct Procurement from Activities Funded by Mulilateral Development Banks

	$A Million									
	FY87		FY87		FY87		FY87		FY87	
	Contribution	Procurement	Contribution	Procurement	Contribution	Procurement	Contribution	Procurement	Contribution	Procurement
World Bank										
IBRD	2.8	90.6	16.5	118.4	4.4	154.4	4.4	68.9	6.9	133.0
IDA	65.6	17.9	70.6	34.2	126.8	40.4	43.0	13.0	108.6	17.89
Total	68.4	108.5	87.1	152.5	131.2	194.9	47.4	81.8	115.5	152.8
Asian Development Bank										
ADB	6	11.3	2.4	8.8	7.1	29.9	0	66.0	3.5	30.6
ADF	21.6	10.7	11.7	4.3	52.5	8/0	21.3	29.3	70	25.4
TA(b)	-	6.6	-	4.6	-	6.9	-	5.1	-	3.1
Total	27.6	28.5	14.1	17.7	59.6	44.9	21.3	100.4	73.5	69.1
EBRD	-	-	-	-	-	-	-	-	9.0	-

APPENDIX 16

SPECIAL FACILITIES OF THE BANK FOR DEVELOPING COUNTRIES

Project Lending

In its first decades, Bank lending was largely directed towards the creation of basic infrastructure, on the basis of the prevailing view of development, which held that once infrastructure was in place, development of productive activities would follow naturally.

Experience demonstrated however that while infrastructure was necessary to development, it was not a sufficient condition. This led to a shift in emphasis towards project investments that made natural resources and physical infrastructure more productive. As a consequence, in 1973 the Bank embarked on a rural development lending program and more recently has targeted projects that also addressed poverty reduction, education, health and population issues.

Policy-Based Lending

In the 1980s the Bank reduced its emphasis on project lending and increased its participation in the process of economic reform in developing countries through policy advising and policy-based lending. The scope for economic policy dialogue with member countries increased markedly as a result of the rapid growth of structural adjustment lending which was introduced by in 1979 to assist countries with balance of payments problems in the wake of the second oil shock, and extended with the onset of the debt crisis in the early 1980s and with the Baker Plan in 1985.

Most adjustment loans provide foreign exchange to finance general imports of goods and services and certain items, such as luxury goods, military supplies, environmentally hazardous materials and nuclear reactors are prohibited.

Project Preparation Facility (PPF)

The PPF was created in 1975 by the Bank to help overcome weaknesses in borrowers' capacity to complete project preparation and to support the entities responsible for preparing or carrying out the projects. Under the facility, the Bank can advance up to $1.5 million per project either to meet gaps in project preparation or to assist in institutional strengthening so that project implementation can begin before the loan or credit becomes effective.

Social-action Programs

Social-action programs and social funds consist of multisectoral operations that mobilise several sources of financing to fund special interventions and targeted projects seeking to alleviate the social costs of adjustment, as well as poverty in general. The project components that typically get financed include public works, severance payments, retaining, and schemes innutrition, primary health and primary education. While the objectives and project content of social-action programs and social funds are similar, they differ in their institutional set-up. Social funds finance small, demand-driven sub projects and often bypass existing bureaucratic systems and procedures; funding commitments are often based on the evaluation of project proposals prepared according to predetermined selection criteria. Social-action program sub projects are typically appraised by the World Bank. Whereas social funds are most often parastatal quasi-financial institutions, social-action programs generally cover a broader array of institutional arrangements, such as quasi-autonomous project units or integration into sectoral ministries.

Social Dimensions of Adjustment (SDA) Program

This program, launched in 1987 as a joint undertaking of the World Bank, the African Development Bank, and the United Nations Development Program, has the objective of helping African governments incorporate social concerns into their economic-reform programs and long-term development plans. The SDA program provides assistance at both regional and country levels in four areas: improving management of macroeconomic and sectoral policy, formulating social-action programs for poor and vulnerable groups, strengthening national statistical services for better policy and program design, and building up institutional capacity. Thirty African countries are now taking part in the program.

Special Program of Assistance (SPA)

Country eligibility in the Special Program of Assistance (SPA) is determined on the basis of poverty (countries cannot be eligible for IBRD loans), indebtedness (countries have to have projected debt-service ratios of 30 percent or more in the Special Program of Assistance (SPA)), and efforts to adjust (countries have to be currently implementing a policy-reform program that is endorsed and normally supported by the Bank and the International Monetary Fund, and agreement has to be reached on a policy-framework paper).

Source: World Bank, ***Annual Report 1992***, pp 11 - 14 and Treasury, ***Submission 17***, p 15

APPENDIX 17

FUND FACILITIES AND POLICIES

The facilities and policies through which the Fund provides financial support to its members differ, depending on the nature of the macro-economic and structural problems they seek to address and the degree of conditionality attached to them.

The prime determinants of access to the Fund's resources are members' quotas and their balance of payments need. While uniform access to the Fund's resources is assured under these determinants, the Fund has devleoped certain special faiclities that are available for use by low-income member countries only.

REGULAR FACILITIES

Credit Tranche Policies

When a member uses Fund resources it usually involves that member using its own currency to purchase convertible currency from the Fund. This purchase is a drawing on Fund resources and is also referred to as a borrowing. A member may borrow from the Fund through four credit tranches, each equivalent to 25 per cent of its quota. Access to the first tranche is readily available. The next three 'purchases' or loans are referred to as upper credit tranche purchases. A request for use of resources beyond the first tranche requires substantial grounds for expecting that the member's balance of payments difficulties will be resolved within a reasonable period. Upper credit tranche purchases are almost always made under stand-by or extended arrangements.

Stand-By Arrangements

Stand-by arrangements reflect a decision of the Fund to allow members to purchase convertible currencies from the General Resources Account (GRA) for a specified period. While members now tend to draw upon stand-by facilities soon after receiving access to the, their original purpose was to be available to members if and when the need arose. The duration of a stand-by arrangement ranges from 1 to 2 years, and 3 to 4 years for an extended arrangement. The terms and conditions involve economic performance criteria and reviews of progress in meeting those criteria. The performance criteria are negotiated between the Fund and the member and typically include:

- budgetary and credit ceilings;
- appropriate exchange and interest rate policies;
- avoidance of restrictions on current account transactions;
- limits on the amount and maturity of new short-and medium-term debt; and
- the maintenance of minimum levels of net foreign exchange reserves.

Extended Fund Facility (EFF)

The EFF was established to provide members with assistance in addressing balance of payments deficits over longer periods and in amounts larger relative to quota than available under the credit tranche policies. In 1988, the Executive Board lengthened the during of the EFF from 3 to 4 years and permitted the purchase of ordinary resources from the Fund's General Resource Account of up to 140 per cent of quota.

The combined limit on access by a member country to ordinary resources under stand-by and extended arrangements combined is 165 per cent of quota.

Enlarged Access Policy (EAP)

When a member requires financing from the Fund which exceeds the amount available to it in the four credit tranches or under the EFF, and when its economic difficulties require a still relatively longer period of adjustment, it can have access to Fund resources under the EAP. The EAP is partly funded by the Fund's borrowed resources. Under the EAP the period of stand-by arrangement is 3 years, and 4 years under an extended arrangement.

Emergency Assistance Related to Natural Disasters

Emergency assistance related to natural disasters is limited generally to 25 per cent of quota - in exceptional circumstances, larger amounts are available. The amount of an emergency assistance payment by the Fund is taken into account in determining the size of any additional Fund resources which are made available to members.

Special Facilities

Assistance to members under the Fund's special facilities is additional to the assistance available to them under other facilities, however, members are unable to receive multiple financing of the name balance of payments need.

Compensatory and Contingency Financing Facility (CCFF)

The CCFF has two main elements: the compensatory financing element and the contingency financing element. The compensatory element assists members, particularly primary commodity exporting countries, that are experiencing balance of payments difficulties resulting from shortfalls in export earnings. Such shortfalls must be temporary and largely attributable to circumstances beyond the member's control in order to receive financing. The contingency element aims to improve the prospects that adjustment programs can be kept on track when adverse exogenous developments occur. Contingency mechanisms are therefore usually arranged in conjunction with existing Fund facilities which are entered into, and are provided to cover part of the net effect on members' external accounts of unanticipated changes in key external variables.

Buffer Stock Financing Facility (BSFF)

Because the Fund provides financial assistance to compensate members for balance of payments difficulties caused by shortfalls in the proceeds of the export of primary commodities, it was a logical development to provide assistance for preventative action against such shortfalls. The BSFF does this by assisting members to make contributions to international commodity price stabilisation schemes.

FACILITIES FOR LOW-INCOME MEMBERS

Structural Adjustment Facility (SAF)

The SAF provides concessional assistance to low-income member countries facing protracted balance of payments problems. SAF resources are intended to support medium term macroeconomic and structural adjustment programs.

Eligibility for SAF arrangement is based on per capita income, with 62 of the Fund's poorer members being eligible for assistance. The amount potentially available to each member is 70 per cent of quota (in three annual instalments).

Enhanced Structural Adjustment Facility (ESAF)

ESAF is an extension of the SAF and provides additional assistance to low-income countries undertaking a structural adjustment program. Eligibility for ESAF is the same as for SAF. Generally, ESAF access increases with the size of the adjustment effort being pursued. Total access under a three year arrangement is 250 per cent of quota with provision for this limit to be exceeded under exceptional circumstances, up to a maximum of 350 per cent of quota.

Repurchases

The term 'repurchases' refers to repayments by members of the Fund's resources. It, therefore, is the counterpart to a previous pruchase or drawing. It involves the member using convertible currency to buy back its own currency from the Fund.

The periods and instalments of repurchase can vary depending on the different policies and facilities involved. When the Fund makes financial resources available to member countries, it uses the currencies of members in a strong balance of payments and reserve positions. Timely repayments when members payments and reserves position improve are important for protecting the revolving nature of the Fund's resources.

Source : Treasury, *Submission 17*, pp 34 - 37

APPENDIX 18

STRATEGIES OF THE INTERNATIONAL MONETARY FUND

Surveillance

The Fund is mandated to "exercise firm surveillance over the exchange rate policies of its members", which forms the basis of its oversight of the international monetary system. The Fund fulfils this mandate with the active participation of its members--through ongoing analysis of economic and financial conditions in members countries and through collaboration among all of its members on international monetary issues.

Fund surveillance, or supervision, of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates. At the individual county level, it is designed to help members identify the policy adjustments that may be needed to correct their balance of payments problems and thereby lay the foundation for sustained, noninflationary economic growth.

The Fund carries out its surveillance of the economies of its members in two principal ways:

- Article IV Consultations are held with each member country to ensure that members' domestic macroeconomic and structural policies--which have an important bearing on exchange rates--are conducive to sustained economic growth and price stability; and

- Multilateral surveillance is conducted through Executive Board discussions of the world economic outlook twice a year.

In addition, the Board periodically discusses exchange rate development and financial market conditions in the major industrial countries and assesses their impact on the world economy. The Fund's Managing Director also takes part in policy coordination discussions of the Group of Seven industrial countries.

Apart from its surveillance function, the Fund extends financing to its members through a variety of mechanisms to make it easier to undertake corrective economic policies. It also provides technical assistance to members in a wide range of areas affecting the conduct of macroeconomic policy--such as public finance, central banking, exchange rate regimes, and statistics; such assistance is provided through advisory visits, training courses, and as part of periodic consultations.

The Fund's surveillance role imposes the following obligations on members:

- to inform each other of how precisely they determine their currencies' value in exchange for foreign currencies;

- to keep the Fund informed of changes they contemplate in their economic and financial policies, particularly those affecting other members; and

- to the extent possible, to modify their policies on the advice of the Fund to accommodate the needs of the entire membership.

Source: International Monetary Fund, ***Annual Report 1992***, p 13

APPENDIX 19

WORLD BANK POVERTY ASSESSMENTS

	Scheduled		
Completed	**Fiscal 1993**	**Fiscal 1994**	**Fiscal 1995**
Bangladesh	Argentina	Albania	Angola
Bolivia	Benin	Algeria	Burundi
Chile	Brazil	Bulgaria	Congo
China	Burkina Faso	Cameroon	Equatorial Guinea
Costa Rica	Central African Republic	Chad	Gabon
Ecuador	Colombia	Cot d'Ivoire	Lao People's
Egypt	El Salvador	Dominican Republic	Democratic Republic
India	Guatemala	Ethiopia	
Indonesia	Guinea	The Gambia	
Korea	Guyana	Ghana	
Malawi	Honduras	Guinea-Bissau	
Malaysia	Jamaica	Haiti	
Mexico	Kenya	Hungary	
Mozambique	Mali	Iran	
Nepal	Mauritania	Jordan	
Pakistan	Morocco	Madagascar	
Paraguay	Niger	Mauritius	
Peru	Poland	Mongolia	
Philippines	Romania	Nicaragua	
Venezuala	Senagal	Nigeria	
	Sri Lanka	Panama	
	Tanzania	Papua New Guinea	
	Thialand	Rwanda	
	Togo	Sierra Leone	
	Turkey	Trinidad & Tobago	
	Uganda	Tunisia	
		Uruguay	
		Yemen	
		Zambia	
		Zimbabwe	

a. Excludes inactive countries (Botswana, Cambodia, Liberia, Myanmar, Namibia, Somalia, Sudan, Viet Nam, and Zaire) and countries with few than 1 million people (Belize, Cape Verde, Comoros, Djibouti, Fiji, Grenada, Kiribati, Maldives, Sao Tome and Principe, Seychelles, Solomon Islands, Suriname, Swaziland, Tonga and Vanuatu)

APPENDIX 20

INDIA'S NARMADA VALLEY PROJECT

At the end of June 1992 India accounted for 10% of the World Bank's total portfolio of loans. Almost all of this lending has taken the form of project loans in which the Bank has provided finance for specific investments in development activities. Over the five year period from the beginning of 1987 to the end of 1991 the Bank devoted 27% of its lending to power generation projects while about 5% of lending was devoted to irrigation projects. The World Bank's subsidiary,the International Development Association (IDA) , has also been extensively involved in providing financial assistance to India. At the end of June 1992 India accounted for 25% of the IDA's total portfolio of development credits. Overall, India has figured very prominently in the development assistance activities of the World Bank Group and has been the subject of substantial Bank research and discussion.

From the Indian perspective, the World Bank Group has been a very important source of external finance; by the end of 1991 loans and credits from the Bank and the IDA accounted for 34% of India's medium and long term external debt.

The Sardar Sarovar Projects (SSP) are the first of a series of projects in a long term plan to develop the water resources of India's Narmada River - the "Narmada River Project" - and will, if completed, comprise some 30 major and many medium and minor water projects. The time span for the overall project is some 50 years. Indian national and state governments have been the driving force behind the scheme but the World Bank Group became involved in 1985 when a loan and two development credits (for a total of US$450 million,about 15% of the total cost) were approved for the support of SSP. Now, it might be noted here that SSP itself consists of a dam and power generation project and a companion water delivery and drainage project. To this point in time more than half of these funds have been disbursed for usage. The foundations of the dam have been completed and work on tha dam wall is well under way; construction of the main canal is also well under way. The relocation of people living behind the dam wall has also begun.

The proponents of SSP and the Narmada Project have stressed the enormous potential benefits for economic development which might flow from its operation. For example,it has been claimed that SSP has the potential to feed as many as 20 million people,provide domestic and industrial water for 30 million, employ about 1 million and provide valuable peak electric power in an area which has high unmet power demand. On the other hand, opponents have stressed the significant social and environmental costs which will be incurred if current planning for SSP goes ahead. The social costs of the relocation and resettlement of those living in affected areas have been particularly highlighted,both within India and by a range of interested organisations outside of India. It has been claimed that far too little provision has been made for these mandatory human movements and that justice demands that a much larger effort be made to ease the adjustment burden of such movements.

Regarding environmental issues, opponents of SSP have argued that the lack of any detailed environmental impact assessment must cast a large question mark over the alleged economic benefits of the project. It has been alleged that incompatibility between SSP and its underlying environmental systems means that forecasts for water and power generation from SSP are grossly inaccurate - that is, they are far too large.

The controversy over SSP has become something of a test case for the World Bank's new direction in giving far greater emphasis to environmental and social issues in its decisionmaking on project funding. Opposition to SSP has been building for a number of years within India; large demonstrations against the project have been held near the construction site and there have been allegations of human rights violations against those participating in the demonstrations. SSP has even

been the subject of hearings before the United States Congress where allegations were made that official World Bank standards on environmental and social issues were being profoundly infringed on the project. This gathering opposition to the scheme led the World Bank to commission an independent review of the social and environmental impact of SSP and the Bank's role in the project.

The report of the independent review, the Morse Report, was published in June 1992. Regarding resettlement and rehabilitation of those living in affected areas, the Report was highly critical of the Bank and Indian national and state governments in underestimating the scale of the problem and the assistance needed to deal with it.It found that the Bank's overarching principle espoused in the 1985 loan and development credit agreements, that those people to be moved should improve their standard of living or at least regain their previous standard as quickly as possible, had not been fully incorporated into the operational plans of SSP and that this entailed substantial hardship for those affected. Regarding environmental issues, the Report confirmed that performance projections for SSP were far too optimistic because of inadequate analysis of its underlying environmental supports. It also highlighted a number of types of environmental damage which had been previously neglected and called for a comprehensive examination of environmental effects of SSP. The Report noted that the Bank's 1985 agreements required the development of an environmental workplan by the Indian authorities and that this was still not available in mid 1992.

The most controversial section of the Report recommended that construction of, and World Bank support for, SSP should cease until the necessary social and environmental studies were carried out to determine what project reforms were needed, or indeed whether the project should proceed further at all. Regarding the Bank itself, the Report argued that environmental and social priorities had not yet been given sufficient attention in the Bank's ex-ante project planning and assessment and that there was a clear need to ensure that economic and engineering perspectives no longer dominated social and environmental concerns in its regular operations. It concluded that the problems and misplaced priorities found in the case of SSP were likely to be typical of many development projects around the world and that there was a clear need to make general reforms so that truly balanced and sustainable development could take place.

The initial response of the Bank to the Report was a positive but cautious agreement that reforms were needed to deal with the problems which had been highlighted. The Bank is still formulating its course of action but it does seem that it is moving away from support for any shutdown of SSP construction while the research studies are undertaken. However, it has supported the Report's call that these research studies be urgently undertaken; some of these studies are now being implemented and their results will form the basis for new performance benchmarks which the Bank will impose for future funding of the project. In this way the Bank will hope to influence the development of SSP to take forms which give much greater priority to social and environmental concerns.It has been clear for some time that India would proceed with SSP even without further help from the Bank; thus, the option of complete Bank withdrawal from the project in the event of Indian recalcitrance or highly adverse findings from the social and environmental studies, will not be attractive to those seeking to reduce the social and environmental dangers of the project.

The Morse Report has been warmly supported by a range of non-governmental organisations (NGOs) around the world as a vindication of their campaign against what they see as the social and environmental dangers of current operational planning for the SSP and the World Bank's approach to development planning in general. These NGOs have supported the call for the suspension of SSP pending relevant research reports and results. Within India the Report is likely to fuel intensifying political controversy over the future of SSP and the Narmada Project in general, since the Indian NGOs will use it to further their own campaign against the current form of the project. Australian NGOs have supported the call for the suspension of SSP, and in regard to the World Bank some of them have proposed permanent reforms to Bank decisionmaking processes to ensure that the mistakes of SSP are not repeated. For example, it has been proposed that the type of review seen in the Morse Report be given institutional form through a Permanent Independent Review Body which would seek to ensure that social and environmental concerns were at the forefront in World Bank decisionmaking on development projects. It seems likely that the Bank would resist such an external encroachment on its decisionmaking, especially since it has made a significant effort in recent years to strengthen its internal resources for social and environmental assessment.

Source: Parliamentary Research Service, Phil Hanratty

APPENDIX 21

THE WORLD BANK, THE IMF AND INDONESIA

As at the end of June 1992 Indonesia was in receipt of $15.8 billion in loans from the World Bank which accounted for 10.2% of the Bank's total portfolio of loans, and was also in receipt of $820 million in development credits from the IDA which accounted for only 1.1% of the IDA's total portfolio. Indonesia has not received any new IDA credits since 1980 ; Bank loans are now the principal type of assistance from the World Bank Group although IFC activities have expanded considerably in the last few years. From the perspective of Indonesia the World Bank Group has been an important source of external finance for many years; at the end of 1991 loans and credits from the World Bank and the IDA accounted for 19% of Indonesia's long term external debt. On the other hand, Indonesia's resort to IMF credits has been substantially reduced in recent years; these have fallen from $716 million at the end of 1987 to $166 million at the end of 1991.

After nearly a decade of rapid growth, Indonesia suffered some severe economic shocks in 1982 and 1983 which were primarily due to the weakening of oil and other commodity prices. The current account position deteriorated rapidly and it was in this context that Indonesia sought financial assistance from the IMF to cope with this external imbalance. In 1983 (and again in 1986) the IMF provided substantial funds through its Compensatory Financing Facility in order to help Indonesia cope with this situation. The IMF sought a number of policy changes, many of which the Government of Indonesia was already in the process of implementing as a means of responding to this economic crisis. Budget deficits were reduced through cutbacks in the very large public investment programmes which had been planned, as well as in a range of subsidies for private expenditures. The nominal exchange rate was devalued and a strong programme to reduce and contain inflation was put in place. Financial sector reform was begun through policy changes such as the removal of some interest rate controls, the removal of existing credit ceilings for banks and the introduction of new monetary policy instruments to improve monetary management.

Indonesia has been in receipt of four Sectoral Adjustment Loans (SECALS) from the World Bank since 1987 which have been sufficiently broad in scope as to make them equivalent to the Bank's structural adjustment lending to other recipient countries. These SECAL programmes have had attached to them a range of macroeconomic and structural reform conditions which the Bank would like to see implemented in Indonesia. Two Trade Policy Adjustment loans were followed by two Private Sector Development loans but all four loans have been tied together through a set of common elements. These elements have focused upon prudent monetary and fiscal policy to restrain inflation and current account deficits, the maintenance of a competitive exchange rate so that non-oil exports can be encouraged, the restructuring of public enterprises and the reform of regulatory policy to encourage economic efficiency through more competitive market structures and processes. In contrast to a number of other recipient countries, the SECAL programmes have been oriented towards encouraging economic policy trends in Indonesia which already have strong domestic momentum and support,particularly amongst influential economists close to the centre of political power. The goal of the programmes has been to provide financial incentives to bolster this momentum and expand the capacity of Indonesia to fully implement the policy reforms. Successful experience in regard to preceding IMF loan programmes, which were noted above, helped to create such momentum and support. Decisions on policy reforms already taken have been supported through the SECAL packages and ongoing policy change has thus been encouraged.

This orientation towards supporting existing policy trends can be seen in all of the SECAL packages. In its first Trade Policy Loan in 1987 the Bank sought to encourage and strengthen Indonesia's policy decisions in 1986. In response to new current account problems the Indonesian Government had moved towards contractionary monetary and fiscal policy and had devalued the nominal exchange rate by 31%. During the course of 1986 the Indonesian Government also began a major shift in trade policy. Previous trade policy had been inward-looking and highly protectionist but this was begun to be reversed. The Government sought to provide internationally priced inputs for exporters through system of exemptions from import duties. Some quantitative import restrictions were lifted and tariff rates scaled down for a number of items while restrictions on foreign investment were also relaxed. The Government also promised policy reform in the areas of relaxing restrictive licensing arrangements on domestic trade and industry in order to complement the international trade reforms, as well as reform in the conduct and performance of public enterprises in Indonesia. This general policy direction was continued in the following years; in particular, trade restrictions were further reduced, further non-tariff barriers were converted into tariff barriers and a general review programme to reduce tariff protection was announced, while restrictions on domestic trade and industry were relaxed. These further policy moves were supported in the World Bank's Second Trade Policy Loan of 1988.

This process continued with Bank approval for the first Private Sector Development Loan in 1989. The Bank again sought to encourage policy directions of which it approved, and which the Indonesian Government had promised to extend and deepen. The Bank was especially pleased that the primary balance on the Indonesian budget had achieved a surplus through efforts to increase non-tax revenues and further cuts in public investment spending. In the area of trade policy , the removal of quantitative restrictions on items such as plastics,fertilisers and some agricultural products was achieved, so that the coverage of non-tariff barriers was reduced from 38% to 29% of domestic production. Barriers to foreign investment were reduced and licensing restrictions on domestic trade and industry were also further relaxed and the licensing process was made more transparent and less discretionary. In the area of maritime transport a package of deregulatory policy changes was implemented to move the industry towards a more open and competitive structure. In the financial sector, barriers to entry were reduced and new prudential controls were put in place to ensure financial stability. The Government also promised to begin the reform of the public enterprise system on the basis of the findings of a review which had recently been completed. The Second Private Sector Development Loan was approved in 1990 and again sought to encourage appropriate policy directions. The Government of Indonesia had continued its prudent macroeconomic policy and further pursued its trade policy reforms ; the reforms of May 1990 had reduced the number of items subject to quantitative import restrictions by 21% and their coverage had fallen to 25% of domestic production, while the general reduction in tariff rates was also continued. Export restrictions were also removed to encourage non-oil exports. The liberalisation of domestic licensing laws continued and the Government committed itself to reviewing land and labour laws in order to encourage private sector development. Financial sector reform was also pursued with the aim of assisting private sector activity. The rationalisation of the public enterprise system was begun with the aim of liquidating or privatising a range of enterprises and increasing the efficiency and profitability of those to be retained in the public sector.

Overall, the IMF and the World Bank have been influential in assisting Indonesia to undertake economic reforms through their condition-constrained lending policies although clear strong domestic support had built up for these reforms by the time that the World Bank began its SECAL policies. Persistent and consistent sets of recommendations from the multilateral agencies have been influential in Indonesia's policymaking circles. On the other hand, these agencies have been careful not to appear to intervene directly in policy decisionmaking. They have exerted their influence largely through their extensive economic analyses of Indonesia which have highlighted the economic costs of previous policy directions. Indonesia has clearly moved substantially towards the Bank/IMF model of a market-dominant economic system in which the role of government is to provide a stable framework within which competitive market forces can operate most efficiently. These trends will undoubtedly continue in the near future.

Source: Parliamentary Research Service, Phil Hanratty

APPENDIX 22

THE WORLD BANK, THE IMF AND PAPUA NEW GUINEA

As at the end of June 1992 Papua New Guinea was in receipt of $400 million in loans from the World Bank which accounted for only 0.3% of the Bank's total portfolio of loans, and was also in receipt of $113 million in development credits from the IDA which accounted for only 0.15% of the IDA's total portfolio. Papua New Guinea has not received any new IDA credits since 1983 because of the relatively high per capita income levels and its ready access to concessionary funding from other sources. On the other hand, the Bank's role in Papua New Guinea has expanded considerably since the late 1980's.

From the perspective of Papua New Guinea the World Bank Group has been an important source of external finance for many years; by the end of 1991 loans and credits from the World Bank and the IDA accounted for 14.5% of Papua New Guinea's long term external debt. Papua New Guinea has also expanded its resort to IMF credits in recent years; these have increased from a mere $3 million in 1989 to $61 million at the end of 1991.

The most important recent expansion in the World Bank's role in Papua New Guinea came in June 1990 when the Bank approved its first structural adjustment loan (SAL) for this developing country. Papua New Guinea had gone through some severe economic shocks in 1989 which saw the closure of the Bougainville Copper and Gold Mine (which had contributed about 35% of export earnings) and a significant fall in PNG's terms of trade over the period 1989-1990. Overall, these shocks amounted to a loss equivalent to over 12% of PNG's gross domestic product but were partly offset by increases in production from other mining projects;the aggregate effect meant substantial increases in unemployment,budget deficits and external imbalances. The PNG Government initially reacted with some moderate fiscal tightening but was then forced into more drastic action when the full extent of the economic difficulties confronting the nation became apparent. The Government sought assistance from the World Bank and the IMF in the establishment of a program which would both cope with the adjustment to the immediate shocks and would also put in train the longer term structural change needed to diversify the economy and strengthen the non-mining sector.

The main objectives of the SAL program were to 1) preserve external and internal financial stability in the face of the large shortfall in export income, 2) undertake structural reforms aimed at promoting faster growth in the non-mining economy and 3) minimise the social costs of adjustment. Four policy principles were then enunciated to give effect to these objectives: 1) achieve the necessary reduction of domestic demand for stabilisation purposes primarily through cuts in public spending in order to minimise the impact of adjustment on private sector growth, 2) concentrate the reduction in public spending on consumption expenditures, while protecting essential social services, in order to maintain funding of priority public investments, 3) focus structural reform on two policy areas central to the development of the non-mining economy, namely public resource management and the environment for private investment, and 4) improve the competitiveness of the non-mining economy as the key means of promoting private investment and economic diversification.

In regard to fiscal policy these principles were translated into targets for substantial budgetary tightening. The PNG Government committed itself to achieving a virtual balance in the overall budget for 1990 and 1991, as compared to deficits of 4% and 3% of GDP respectively which would have occurred in these years without any fiscal adjustment. For the 1990 budget the SAL program envisaged a 14% reduction in real levels of recurrent public spending while reductions in public investment were projected to be much smaller. The Government also committed itself to a medium term expenditure plan,to be updated annually with each budget, which would provide the institutional basis for the stringent control of public expenditure in the future. The reduction in the public sector's demand for credit was envisaged to be sufficiently large as to allow a significant increase in private sector credit while still achieving a substantial reduction in total credit growth. Such monetary firmness would underpin a gradual reduction in the rate of inflation. In regard to taxation, the Government committed itself to broadening the tax base and strengthening the efficiency of the collection process. In the area of direct taxation the goal was to broaden the income tax base to more fully reach business incomes through expanding withholding taxes and increasing reliance upon presumptive taxation. In the area of indirect taxation the priority was to shift towards a broad-based consumption tax.

The SAL program sought to encourage the non-mining sector through a number of diverse policy changes. One principal focus was upon the coordinated use of wages policy and exchange rate policy in order to increase the degree of real wage flexibility (especially in the ability to reduce real wages) as a basis for allowing exchange rate flexibility to be more effective as a macroeconomic policy instrument. Privatisation of several public corporations, reductions in trade barriers and relaxation in policy barriers to foreign direct investment were also promised. Finally,the social costs of the adjustment program were to be minimised through the protection of services and amenities aimed at the poorest sectors of society, the retraining of retrenched public sector workers for jobs in the private sector, and expanded social spending on new projects aimed to help the poor.

Compliance with these conditions of the loan were generally high although there was some slippage in areas such as fiscal policy and the budget deficit. Taxation policy was reformed ,especially in respect of broadening the base of the indirect tax system, but much less success was achieved in the control of recurrent expenditure than was envisaged under the original SAL program. These factors combined with an economic downturn which was deeper than expected to generate substantial ongoing budget deficits which the Government is still trying to bring under control. Heightened real wage flexibility was achieved, especially in the public sector, but the Bank has recently called for much more extensive labour market deregulation in order to further increase flexibility in wage and employment patterns. Barriers to foreign direct investment have been liberalised, import protection has been rationalised and reduced and a program of privatisation has begun to be implemented.

The IMF also imposed a number of conditions in the two Stand-by loan programs which have been approved for Papua New Guinea since April 1990. These conditions have demonstrated a considerable degree of coordination with World Bank programs in the sense that they share a large number of common elements; in contrast to a number of other recipient countries this IMF/World Bank coordination has ensured that loan assistance has been provided in the context of an integrated macroeconomic and structural policy framework which,in the view of the two multilateral agencies, is an essential basis for successful assistance. IMF priorities have stressed the need to reduce external imbalances, reduce inflation and to safeguard the gains in international competitiveness which Papua New Guinea had achieved since the late 1980s. Policy conditions focused considerably upon monetary restraint as a means of achieving these goals,although substantial attention was also given to World Bank concerns about the need to reduce recurrent public spending and budget deficits as a key stabilisation policy tool, as well as the value of flexible labour markets and real wage responsiveness.

Overall, the coordinated loan programs of the World Bank and the IMF have been effective in assisting Papua New Guinea to undertake fundamental policy reforms through their condition-constrained assistance policies. Expanded financial programs and persistent and consistent sets of recommendations for reform have proved influential in PNG's policymaking circles. As with a number of other recipient countries trying to cope with economic shocks, Papua New Guinea has moved towards the Bank/IMF model of a much more market-dominant economic system in which the role of government is to provide a stable framework within which competitive market forces can operate most efficiently. These trends will no doubt continue in the near future.

Source: Parliamentary Research Service, Phil Hanratty

APPENDIX 23

THE WORLD BANK, THE IMF AND THE PHILIPPINES

As at the end of June 1992 the Philippines was in receipt of $6.1 billion in loans from the World Bank which accounted for 4% of the Bank's total portfolio of loans, and was also in receipt of $208 million in development credits from the International Development Association (IDA) which accounted for only 0.3% of the IDA's total portfolio. Lending by the Bank and IDA has increased significantly since 1986 and has been around $700 million per annum during the last three years. Overall, the Philippines has been a moderately important focus for Bank and IDA development assistance activities. From the Philippines perspective, the World Bank Group has been an increasingly important source of external finance; by the end of 1991 loans and credits from the World Bank and IDA accounted for 17% of the Philippines' long term external debt. The Bank estimates that this ratio will fall gradually over the next few years. The Philippines has also had significant resort to IMF credits in the last several years; total IMF credits to the Philippines have fallen gradually since 1987 but at the end of 1991 they still amounted to more than $1 billion.

A major component of Bank and IMF activity in the Philippines in recent years has been centred on their jointly sponsored Economic Recovery Program (ERP) which was formulated in collaboration with the Philippines Government after the establishment of the Aquino regime. This became a central vehicle for the structural adjustment programmes of both agencies in regard to the Philippines. The main objectives of ERP were to 1) alleviate poverty and enhance social justice, 2) accelerate economic growth and increase economic efficiency, and 3) reduce the Government's involvement in the economy in order to give greater emphasis to private sector initiatives. ERP promised action in specific areas such as 1) reform of the taxation system involving rationalisation of income taxes, the substitution of a value-added tax for the sales tax and improvements in tax administration, 2) trade policy reform involving implementation of import liberalisation measures which had been promised under previous agreements for structural adjustment loans; this entailed further elimination of quantitative restrictions and official scheduling for reductions in the size and variability of tariff protection, 3) increased public investment in infrastructure and social amenities and 4) reform of government financial institutions and rationalisation of the banking system to reduce the Government's direct role so that private operators would be encouraged. Substantial Bank and IMF lending was to be provided as the incentive for compliance with this comprehensive set of requests and conditions. Co-financing arrangements were also put in place from official Japanese sources. The ERP represented a consolidated and expanded form of earlier Bank and IMF policies which were designed to facilitate the general process of economic and policy reform in the Philippines.

Compliance with the elements of ERP was generally quite high although there were some items in the package which proved to be impossible to implement because of domestic political opposition. Part of this opposition arose from anti-American forces within the Philippines who viewed the Bank and IMF as agencies dominated by the United States. Plans to increase public spending on infrastructure and social amenities were largely thwarted by pressures to expand spending in other areas although some spending increases were achieved. Severe infrastructure bottlenecks continued to hamper economic growth. Progress was made in implementing some of the trade policy provisions of ERP,particularly in terms of the dismantlement of quantitative restrictions. Less progress was made on the issue of reform in tariff protection because of strong opposition from business groups and within the national Congress. Excellent compliance was achieved in the area of the financial system as government-owned banks were restructured and a process of privatisation was begun. In the area of taxation the conversion to a value-added tax was achieved and the income tax was streamlined; however little progress was made in improving the administrative efficiency of the tax system. In regard to the macroeconomic goals and policies of the ERP, it was generally concluded that an excessively loose policy framework had the effect of undermining a number of the more specific provisions of the ERP and that much closer coordination between macroeconomic and structural policies was needed to ensure that development assistance had its most beneficial effect. In turn, this required greater coordination between the policies of the Bank and the IMF.

Recent experience of implementing further phases of the ERP have been characterised by stronger coordination of Bank/IMF policies. The goal has been to achieve a better balance of macroeconomic and structural outcomes so as to heighten the impact of assistance. Credit advances under the IMF Stand-by facility have had attached to them much stricter conditions on macroeconomic policies and outcomes in order to provide,from the view of both the Fund and the Bank, the most effective broad framework for economic development. Under the current Stand-by agreement The Philippines Government has had to meet a stringent set of conditions on their macroeconomic policy settings and outcomes as part of their national stabilisation programme. The principal objectives of the programme for 1992 were to 1) reduce the annual rate of inflation to 7% by the end of the year , 2) to maintain the current account deficit at less than 3% of GNP, 3) to maintain gross international reserves at a level equivalent to at least three months of imports, and 4) to support a gradual recovery in GNP growth to the range of 2-3%. These objectives were to be achieved through agreement on the settings of key policy instruments. The consolidated public sector deficit was to be set at about 2.7% of GNP after a decline from 5.5% in 1990.This was to be achieved through continued expenditure restraint and ongoing reform to the taxation system which involves five point plan to enhance tax administration. In regard to monetary policy, a set of agreed targets for a range of monetary aggregates were to be achieved in order to support the goal of lower inflation and inflation expectations. Further liberalisation of regulations on capital flows were implemented during the year. The Philippines' Government has also committed itself to the replacement of most quantitative import restrictions with tariffs in the near future and the phasing down of tariff protection over a four year period. Overall, the strict provisions of the agreement have encouraged a much tighter macroeconomic discipline on the Philippines.

The increased resort to extensive lists of conditions in the provision of concessional loan assistance can also be seen in recent World Bank activity in sectoral adjustment loans to the Philippines. One very important example is the Industrial Restructuring Loan programme in which the Bank provided $175 million in loan funds in return for an action plan designed to improve efficiency in selected industrial sectors through deregulation of prices, removal of barriers to entry in markets and streamlining of tariffs for inputs and outputs. Designated firms would receive loans to expand their productive capacity. Industrial sectors were to be chosen according to the criteria of absence of high levels of policy-induced distortions in rates of return and resource allocation between industries. No loan assistance was to be provided to industrial sectors having effective rates of import protection above 80%,for example. In this way the Bank hopes to build a manufacturing sector in the Philippines which is internationally competitive and can flourish without permanent support from governmental interventions.

Overall, the IMF and the Bank seem to have been increasingly effective in using condition-constrained lending policies to assist the Philippines Government to undertake fundamental reforms to both its economic policy practices and to the economic structure of the country. As in other recipient nations, these agencies have had to be careful not to be seen to be directly intervening in domestic policy decisionmaking; sentiments of national sovereignty have had to be considered. Despite this,their influence has been substantial. Persistent and consistent recommendations for reform and greater coordination between the Bank and the IMF in regard to action programmes and loan agreements have been able to achieve considerable movement towards the Bank/IMF model of an efficient market-dominant Philippines economy in which competitive market forces can largely determine the detailed pattern of economic activity while the government provides a stable and predictable economic framework within which markets can work. This model will be implemented even more fully in the years ahead.

Source: Parliamentary Research Service, Phil Hanratty

APPENDIX 24

DEVELOPMENT AND THE ENVIRONMENT: KEY MESSAGES OF THE WORLD DEVELOPMENT REPORT 1992

The coming generation presents unprecedented challenges and opportunities. Between 1990 and 2030, as the world's population grows by 3.7 billion, food production will need to double, and industrial output and energy use will probably triple worldwide and increase fivefold in developing countries. This growth brings with it the risk of appalling environmental damage. Alternatively, it could bring with it better environmental protection, cleaner air and water, and the virtual elimination of acute poverty. Policy choices will make the difference.

Priorities for action

Inadequate attention has been given to the environmental problems that damage the health and productivity of the largest number of people, especially the poor. Priority should be given to:

- The one-third of the world's population that has inadequate sanitation and the 1 billion without safe water
- The 1.3 billion people who are exposed to unsafe conditions caused by soot and smoke
- The 300 million to 700 million women and children who suffer from severe indoor air pollution from cooking fires
- The hundreds of millions of farmers, forest dwellers, and indigenous people who rely on the land and whose livelihoods depend on good environmental stewardship.

Addressing the environmental problems faced by these people will require better progress in reducing poverty and raising productivity. It is imperative that the current moment of opportunity be seized to bring about and acceleration of human and economic development that is sustained and equitable.

Policies for sustained development

Two types of policies are required: those that build on the positive links between development and environment, and those that break the negative links.

Building on the positive links

The scope for actions that promote income growth, poverty alleviation, and environmental improvement is very large, especially in developing countries. Such "win-win" policies include:

- Removing subsidies that encourage excessive use of fossil fuels, irrigation water, and pesticides and excessive logging
- Clarifying rights to manage and own land, forests and fisheries
- Accelerating provision of sanitation and clean water, education (especially for girls), family planning services, and agricultural extension, credit and research

- Taking measures to empower educated and involve farmers, local communities, indigenous people, and women so that they can make decisions and investments in their own long-term interests.

Targeted environmental policies

But these "win-win" policies will not be enough. Also essential are strong policies and institutions targeted at specific environmental problems. Lessons for effective policymaking include the following:

- Tradeoffs between income and environmental quality need to be carefully assessed, taking long-term, uncertain, and irreversible impacts into account. Carefully balancing costs and benefits is especially important for developing countries, where resources are scarce and where basic needs still must be met.

- Standards and policies need to be realistic and consistent with the monitoring and enforcement capacity and the administrative traditions of the country.

- Blunter and more self-enforcing policies are likely to be attractive in developing countries. Policies need to work with the grain of the market rather than against it, using incentives rather than regulations where possible.

- Governments need to build constituencies for change - to curb the power of vested interests, to hold institutions accountable, and to increase willingness to pay the costs of protection. Local participation in setting and implementing environmental policies and investments will yield high returns.

The costs of a better environment

The costs of protecting and improving the environment are high in absolute terms, but they are modest in comparison with their benefits and with the potential gains from economic growth. Improving the environment for development may make it necessary to raise investment rates in developing countries by 2-3 percent of GDP by the end of this decade. This would enable stabilisation of soil conditions, increased protection of forests and natural habitats, improved air and water quality, a doubling of family planning expenditures, sharply improved school enrolment rates for girls, and universal access to sanitation and clean water by 2030. The costs of addressing global atmospheric issues would be additional.

Partnership for solutions

Finding, implementing and financing solutions will require a partnership of effort among nations. Specifically:

- Improved know-how, new technologies, and increased investment are essential. Open trade and capital markets, the restoration of credit worthiness through policy reform and selective debt relief, and robust, environmentally responsible growth in the world economy will all be needed.

- The close link between poverty and environmental problems makes a compelling case for increasing assistance to reduce poverty and slow population growth and for addressing environmental damage that hurts the poor.

- High-income countries must play a major role in financing the protection of natural habitats in developing countries from which the whole world benefits. They must also assume the primary responsibility for addressing worldwide problems of which they are the primary cause (greenhouse warming and depletion of stratospheric ozone).

Source: World Bank

APPENDIX 25

LIST OF PROJECTS REFERRED BY WORLD BANK, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) AND AIDAB (AS AT 19/8/92)

Date Referred	Project	Referring Authority	Progress
26/09/90	Mekong River Bridge Project, Thialand/Laos	AIDAB	No assessment required under Act 10/10/90
05/12/90	Proposed overseas aid project: grain handling terminal, China	AIDAB	No assessment required under Act 05/12/90
05/12/90	Proposed overseas aid project: refrigerator compressor manufacturing plant, China	AIDAB	No assessment required under Act 05/12/90
10/07	Coal washery, India	AIDAB	No assessment required under Act 6/92
10/07/91	Lignite mine efficiency project, Mae Moh, Thailand	AIDAB	No assessment required under Act 6/92
10/07/91	Integrated brown coal mine and coal fired power station, Zhaotong, China	AIDAB	No assessmente required under Act 6/92
24/07/91	China-Australia mine waste management project, Zong Tiao Shan; Peoples Republic of China	AIDAB	No assessment required under Act 6/92
04/12/91	Proposed World Bank funding of Thai projects	AIDAB/treasury	No assessment required under Act 6/92
29/01/92	Bagesse Energy development project	World Bank	Environmental advice provided 12/02/92

	Mauritius		
29/01/92	Berke hydroelectric power station project, SE Turkey	World Bank	Environmental advice provided 12/02/92
29/01/92	Shuikou hydroelectric project part II, PR China	World Bank	Environmental advice provided 12/02/92
26/92/92	Zouxian thermal power project, PR China	IBRD	Environmental Advice provided 22/04/92
26/02/92	Regional cement industry project, PR China	IBRD	Environmental advice provided 22/04/92
03/92	Guandong provincial highway project, China	IBRD	Advice not yet provided
04/03/92	Seychelles infrastructure and environment project: Mahe integrated water supply program	IBRD	Environmental advice provided 6/92
11/03/92	China, Henan Highway project	IBRD	Advice not yet provided
29/04/92	Chile irrigation development project	IBRD	Environmental advice provided 13/05/92
06/05/92	Brazil water quality and pollution control project	IBRD	Environmental advice provided 15/05/92
13/05/92	Shanghai Port III project, PR China	IBRD	Environmental advice provided 03/06/92
13/05/92	Gabon forestry and environment project	IBRD	Environmental advice provided 15/05/92
10/06/92	Nusa Tengara Timor watershed planning project	AIDAB	No assessment required under Act 10/06/92
10/06/92	Argentina/Paraguay - Yacynat II hyrdroelectric project	IBRD	Environmental advice provided 15/07/92
24/06/92	India, Sardar Sarovar project to dam the Narmada River	World Bank	Environmental advice provided 05/08/92
01/07/92	Tianhuangping	IBRD	Environmental advice

	hydroelectric project China		provided 14/07/92
15/07/92	Jamaica - energy sector deregulation and privatisation project	IBRD	Environmental advice provided 15/07/92
22/07/92	Taihu Basin flood control project, China	IBRD	Advice not yet provided
22/07/92	Tanzania Power VI hydro power project	IBRD	Environmental advice provided 22/07/92
22/07/92	Philippines - Leyte A geothermal power project	IBRD	Environmental advice provided 22/07/92
29/07/92	Kiribati, outer island causeway development	AIDAB	Level of assessment not yet determined

Source: DEST, *Submission 37*

APPENDIX 26

Effective Implementation: Key to Development Impact (The Wapenhans Report)

In February 1992, World Bank President Lewis Preston established a high-level Task Force headed by Vice President Willi Wapenhans to make recommendations for improving the institutions' portfolio management and evaluation processes.

The Task Force's report, Effective Implementation: Key to Development Impact, was discussed by the Bank's Board of Executive Directors on December 1 and December 8. The Board will review proposed actions resulting from the report's recommendations over the coming months.

The attached document is an internal World Bank report which is being made available to the press and the public in response to the widespread interest it has provoked.

The report is largely self-explanatory, but the following questions and answers may be helpful (answers may be attributed to a "Bank spokesman"):

Why did the World Bank commission the report?

When Lewis Preston became President of the World Bank in September 1991, he reviewed the institution's basic policies and priorities and concluded that they were on the right track. These support the fundamental goal of poverty reduction with human resource development, environmentally sustainable development and private sector development being the broad areas of emphasis.

However, he wanted to make sure that policies which were good on paper were matched by quality on the ground - in other words, to ensure that loans actually produce the benefits for borrowers that are anticipated at the time of Board approval. The independent audits of the Bank's Operations Evaluation Department had shown a declining success rate for Bank and IDA projects.

With this in mind, Mr Preston asked Willi Wapenhans, a senior manager of the Bank with many years of operational experience, to lead a Task Force on Portfolio Management to examine the quality of the World Bank portfolio and make recommendations on what is needed to reverse the decline in the proportion of successful projects over the last decade.

Did the report paint a worse picture than had been expected?

No, the Task Force report's findings on failure rates are taken mainly from those of the Bank's Operations Evaluation Department (OED), whose annual summaries of completion reports are made public. Recent OED reviews of completed projects have judged roughly a third to be unsatisfactory. The OED audits are conducted continuously and the lessons learned are then applied to future projects.

Projects that have not lived up to the Bank's very rigorous standards which, may in many cases,

include the need to meet a minimum 10 percent economic rate of return, are rated unsatisfactory. However, many such projects have, nevertheless, been of considerable value to the borrowing countries through institution-building and other benefits, and may still have the rate of return of close to 10 percent. Furthermore, the economic rate of return is estimated, and the project is rated, at the time of physical completion; efforts to improve project performance continue thereafter.

The report cites 43 percent of projects in the portfolio for water supply and sanitation as having major problems. Isn't this an exceptionally high figure?

What is not always understood is that these are yet-to-be-completed projects, where the World Bank has identified problems which it is addressing. It is too early to call them failures. Moreover, problems during implementation or "failure" on completion in this sector may, for example, often be because the rates charged for water have not been increased sufficiently for cost recovery. It doesn't necessarily mean that the water is failing to reach the beneficiaries.

The report notes that the percentage of unsatisfactory results has doubled over the last decade. To what is this deterioration attributed?

Much of this can be attributed to an exceptionally hostile external economic environment during the last decade. Few people in the early 1980s could have predicted that the debt crisis, the global slowdown in growth and the extraordinary low level of commodity prices would be sustained for such a long period. So, many of the assumptions about the potential rate of return for projects proved to be unduly optimistic.

Judged against most yardsticks, the Bank's record of financing successful projects compares favourably with that of many other development agencies. And the Bank's rigorous approach to self-evaluation has been used as a model by others - who are also intensely interested in the lessons and recommendation of the Task Force report. Everyone involved recognises that investment in development is difficult and risky, that unpredictable factors are always likely to have an impact.

Nevertheless, there are many factors which the Bank can influence, where changes in the way it goes about its work can help reverse the downward trend. And the Task Force has provided a valuable road map - for improving the way the bank helps borrowers prepare projects, appraises them and follows through during implementation. The task force has helped strengthen the Bank's learning process.

What needs to be done?

To start with, the report argues that the culture of the Bank will have to change. The emphasis on achieving a significant flow of Bank financing must be supplemented with increased attention, at every level, to follow through to help ensure creation of the anticipated on-the-ground benefits. In the past, there has been a preoccupation shared by the Bank, the donor community, the borrowers, with generating increased resource flows through loan approvals rather than with ensuring that the operations financed were implemented successfully. Incentives must now shift towards implementation to achieve a better balance.

What else needs to change?

The report notes that the design of operations is sometimes too complex as individual projects have tended to become overloaded with multiple objectives and policy-related conditions. The result has sometimes been that the Bank's borrowers see the institution's priorities, as applied to individual operations, as being driven as much by its own priorities as by their realities. Although most of the Bank's borrowers share the institution's objectives of growth, poverty reduction and environmentally sustainable development, some feel that the Bank, in the design of operations it finances, tends to pay insufficient attention to different country circumstances and differing implementation capacity. Too many objectives and too much complexity in multi-dimensional projects can be self-defeating.

What will the Bank do to address these problems?

It would be premature to lay out the precise measures the Bank will take until further discussions have taken place with the Board of Executive Directors. However, some of the report's recommendations stand out and will help guide the Bank in determining where it goes from here.

- Implementation planning and risk and sensitivity analysis in advance of approval should receive more attention. Then, implementation problems must be viewed in an overall country-wide focus, as well as project-by-project, in order to highlight generic problems for attention.

- The Bank's strategy for assisting individual countries, including new lending, should be linked to how well existing operations are being implemented. For countries where implementation is weak, more focus should be placed on implementation assistance and support for local institution-building.

- Borrower commitment to, and "ownership" of, operations the Bank finances must be emphasised more-as must borrower and, as appropriate, beneficiary participation.

- The Bank's policy priorities, which are sound, must be applied more flexibly within agreed country-specific frameworks for the Bank's assistance. Simplicity and ease of implementation should then be pursued in the design of individual projects.

Does the World Bank envisage any difficulty in implementing the changes once they are agreed upon?

Mr Preston has been very encouraged that most of the Bank's operational staff and managers have welcomed the report. He believes they share his view that its implementation will help improve the quality of the services it delivers to its clients. The discussion so far with Executive Directors has also demonstrated that the Bank will have the broad support of its shareholders in implementing most of the recommendations.

Source: World Bank