Preventing Deadly Conflict
Does The World Bank Have A Role?

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Carnegie Corporation of New York established the Carnegie Commission on Preventing Deadly Conflict in May 1994 to address the looming threats to world peace of intergroup violence and to advance new ideas for the prevention and resolution of deadly conflict. The Commission is examining the principal causes of deadly ethnic, nationalist, and religious conflicts within and between states and the circumstances that foster or deter their outbreak. Taking a long-term, worldwide view of violent conflicts that are likely to emerge, the Commission seeks to determine the functional requirements of an effective system for preventing mass violence and to identify the ways in which such a system could be implemented. The Commission is also looking at the strengths and weaknesses of various international entities in conflict prevention and considering ways in which international organizations might contribute toward developing an effective international system of nonviolent problem solving. Commission publications fall into three categories: Reports of the Commission, Reports to the Commission, and Discussion Papers. Reports of the Commission have been endorsed by all Commissioners. Reports to the Commission are published as a service to scholars, practitioners, and the interested public. They have undergone peer review, but the views that they express are those of the author or authors, and Commission publication does not imply that those views are shared by the Commission as a whole or by individual Commissioners. Discussion papers are similar to Reports to the Commission but address issues that are more time-sensitive in nature.

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Executive Summary

Intrastate conflicts are today's deadliest political disasters. At the end of history's bloodiest century nearly all nations are at peace with each other, but many are at war with themselves. How to prevent the outbreak, escalation, and recurrence of civil strife bedevils governments and their multilateral institutions, including the World Bank.

Most wealthy nations do not yet perceive distant civil wars and the occasional complex humanitarian emergencies they cause as a serious threat to their own security, but these wars have become a moral concern, a political distraction, and a rising financial burden. Among developing countries and the newly independent states of the former Soviet bloc, these political disasters are causing enormous human hardship locally and are generating millions of refugees and various other social, economic, and political disruptions. These tear at the foundations of regional and international order. They also cause the destruction of billions of dollars worth of investments by the World Bank and other development agencies, and large amounts of scarce foreign assistance now must go for relief and reconstruction, rather than for more productive purposes.

In considering the World Bank's role in preventing deadly conflict, this report considers three questions: What is the nature of the challenge facing the international community, and how has it changed during the first 50 years of World Bank operations? What has the Bank done, and what is it now doing to address this challenge? How might the Bank improve its performance in the future?

Politics, of course, determines what the World Bank can do. For it is not really a bank but a multilateral organization, created and overseen jointly by governments to serve their changing national interests and values. Although the Bank must raise large amounts of private capital to underwrite its loans, it remains accountable to the governments that are its shareholders, whose concerns are always more political than commercial. Since the end of the Cold War, those governments with the greatest resources and influence, especially the United States, have become increasingly divided at home and among themselves over how to use the World Bank to advance their national and collective interests. Furthermore, during the last 50 years the Bank has acquired institutional interests of its own, with a huge bureaucracy to defend and promote them. It has internalized a mission -- poverty reduction and sustainable development -- that has institutional momentum, backed by priorities and procedures that are difficult to change in the absence of some new global catastrophe.

Simultaneously, the Bank must adapt to new post-Cold War national and international realities in a world that is increasingly pluralistic and vulnerable to volatile social, technological, and other forces. These forces tend to be nonlinear in their nature and consequences, hard to anticipate and difficult to comprehend. The Bank also faces growing financial constraints, and the United States and other rich countries are curtailing foreign assistance while expecting the international financial institutions to assume major new responsibilities: to help Russia and other former

Communist countries; to underwrite peace agreements in the Balkans, the Middle East, and elsewhere; and to contribute to bailing out troubled economies in Asia. Although the Bank is by far the world's largest single source of development capital, with annual lending exceeding $20 billion, this is tiny in comparison with the size of the world economy: less than 0.05 percent of gross world product, and barely 0.015 percent of daily global financial flows. Finally, the Bank's capacity to use its resources to influence national and regional conditions that could lead to deadly conflict is further constrained by the organization's mandate, which in principle prohibits political considerations from affecting lending or other assistance decisions.

Despite these constraints, attitudes within governments and among the Bank's managers and staff are changing regarding the link between development assistance and the prevention of deadly conflict. In May 1997 the major donor nations issued a policy statement, "Conflict, Peace, and Development Co-operation on the Threshold of the 21st Century," by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). This statement signaled a new determination to link development assistance to preventing deadly conflict. A month later the World Bank issued its annual *World Development Report*; subtitled *The State in a Changing World*, the report for the first time deals at length with issues of governance and the role and effectiveness of the state in development. Within the Bank there were several policy and institutional reforms in 1997. The most notable of these were the establishment of a new unit devoted to postconflict situations, and the creation of a small special fund to improve the speed and effectiveness with which the Bank responds to opportunities to help consolidate peace processes and thereby prevent the recurrence of conflict.

This report focuses primarily on World Bank operations that are directed at postconflict reconstruction and good governance. Bank operations are becoming more attuned to the need to promote good governance, which the Bank defines as the management of public resources on behalf of all citizens with fairness and openness. Finding politically acceptable and economically justifiable ways to assist states in developing the capacity to govern fairly and effectively, particularly during periods of rapid economic and technological change, will be vital for achieving sustainable international development *and* preventing deadly conflict in the 21st century. The Bank is also playing a vital, if less obvious, role in conflict prevention when it joins with other institutions in providing emergency assistance to help governments overcome financial crises, because these crises often have the potential to become major political disasters, as in Mexico in 1995 and in Indonesia, South Korea, and Thailand in 1997. These interventions show a new willingness by the donor community to take economic preventive action for the sake of maintaining global economic stability. They can, if the assistance provided is made subject to well-considered conditions, offer troubled governments in culturally diverse big emerging markets the incentives to develop still-fragile national political structures in ways that allow politics to triumph over force in resolving domestic issues.

The report is presented in the following sequence of five chapters:

Chapter 1, The Economic Dimensions of Preventing Deadly Conflict, recalls that over its five decades the World Bank has made significant -- if hard-to-measure -- contributions to the prevention of deadly conflict between states. This began with the hugely successful campaign after World War II to build capable partners in Europe and Japan. In that enterprise, simultaneous attention to economic and political development created conditions that have made deadly conflict within and between these nations finally unthinkable. In developing countries, however, Cold War imperatives caused Western donors to focus their political attention on behavior that could affect the East-West balance of power. Neither they nor the World Bank paid much attention to curtailing corruption and authoritarian government. In retrospect, had they done so they might have created a stronger foundation for sustainable development, good governance, and the prevention of deadly conflict.

Although Bank officers, under the terms of the organization's Articles of Agreement, are legally forbidden to allow political considerations to influence lending decisions, major shareholder governments can set priorities and terms for Bank lending that are often highly political in their intent and their effects. During the Cold War the politics of containment sometimes caused the Bank to bend its economic terms in order to influence a borrower's international alignment. Since 1990, curbing corruption and promoting good governance and respect for basic human rights -- actions that can also be construed as political interference -- have become more prominent concerns of Western donor nations, and these are being reflected in changing Bank lending policies and technical assistance. Chapter 1 notes the rising costs of civil strife, in terms of destroyed investments and huge needs for relief and reconstruction. It concludes by pointing to the longer-term dangers that proliferating deadly conflicts within states will pose for sustaining regional and global order and prosperity into the 21st century.

Chapter 2, Investing in Postconflict Reconstruction and Prevention, discusses the Bank's recent experiments in assisting reconstruction in postconflict situations. Prominent among these is the creation of a small postconflict reconstruction unit, which the Bank's board of directors approved in April 1997 and later augmented with a special fund of $8 million. While a conflict is still raging, the unit will spur planning of reconstruction contingencies, in cooperation with the relevant country and functional offices, and do what it can to advance the peace process by offering a vision of the material benefits that might result from a permanent settlement. The Bank has begun to experiment with lending for demilitarization, demining, social reintegration, and confidence-building programs, often in partnership with other organizations; these experiments could have far-reaching implications for other aspects of Bank operations in the decades ahead. The chapter points out some of the major impediments and inhibitions to mounting effective postconflict programs, especially in failed states where, unlike in postwar Europe, the political and social foundations for national reconstruction are lacking. This attention to the problems associated with mounting an adequate and sustained response to postconflict situations in troubled or failed states lends weight to the argument, made in chapter 3, that the Bank should take a more active role in promoting good governance as a way to help prevent mass violence from erupting in the first place.

Chapter 3, Investing in Good Governance for Conflict Prevention, assesses the imperative for the Bank to gear its operations more to preventing the outbreak of mass violence. The chapter also advocates greater attention to state building as a cost-effective and politically acceptable way to address the proximate causes of deadly conflict. In the 1990s sovereign leaders too often show more respect for each other than for their own citizens. Bad governance by weak states appears increasingly to be the cause, rather than the result, of ethnic and other deadly intrastate conflict that threatens economic development. The chapter highlights how the Bank during the

1990s has focused greater attention on the need for good governance and stretched its mandate to allow country programs and projects to address weaknesses in a state's capacity to manage a developing economy. These efforts could open the way for future assistance to be linked more closely to the objective of conflict prevention. However, they still pose difficult political, financial, and administrative dilemmas for the Bank's staff and the governments that hold them accountable.

Chapter 4, Partners in Prevention, highlights new dimensions of the Bank's relations with other actors -- notably the major Western donor countries, the rest of the UN system, the regional development banks, and nongovernmental organizations -- where these are relevant to conflict prevention. Special attention is given to the new policy guidelines in the OECD Development Assistance Committee's May 1997 policy statement mentioned above. Recent efforts to promote closer relations between the international financial institutions and the UN Secretariat and the UN's specialized agencies, at a time when the UN is struggling to reform and clarify its post-Cold War role, are also discussed. Despite positive signs of a growing international consensus in support of good governance and conflict prevention, progress toward a new division of labor among national and international actors to meet these challenges has been slow and erratic, often impeded by the failures of the United States to meet its multilateral obligations.

Chapter 5, Improving the World Bank's Capacity for Preventive Action, concludes the report by recommending ways in which conflict prevention might become a more integral part of the Bank's concerns and operations. These recommendations complement the concerns of *World Development Report 1997* on the role of the state and the process of the internal restructuring effort outlined in *The Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty*, adopted by the Bank in February 1997. They also point to the general need to broaden the expertise in the Bank's main lending operations to include more social scientists from disciplines other than economics, although specific recommendations in this regard are beyond the scope of this report.

At the broadest level of institutional reform, this report points to the need for subtle but important changes in the Bank's institutional culture, so that its programs both directly and indirectly help to modernize states at the same time that they modernize economies. Without politically capable states, economic development is unsustainable, and the deadly conflicts that are destroying the fruits of past investments become more difficult to prevent. The Bank must develop the capacity to assist state building in three broad ways:

- It should give greater weight to political factors, including the likely effects of its interventions on ethnic and other intergroup tensions, when designing country assistance strategies. At a minimum, the Bank must avoid becoming an instrument of those who seek either the domination or the disintegration of a state by force or the threat of force. This will require a strengthening of analytical capabilities in the social sciences and humanities within each country team, either by retraining present staff or by recruiting additional staff, to inform judgments about political risks and the capacity of states to govern effectively.
- It should build capacity to work more closely with other intergovernmental and nongovernmental organizations in diagnosing and responding to the warning

signs that a state may be at risk. Successful preventive action will require new divisions of labor among all who share a collective interest in seeing that rising intergroup tensions are resolved peacefully and by political means. If the Bank shared its concerns about rising corruption or ethnic discrimination in the allocation of economic benefits by states, if the UN commissioners for refugees and human rights shared their concerns about people at risk, and if the UN secretary-general could gather and focus these concerns and generate a balanced and comprehensive international response, the prospects for conflict prevention would greatly improve.

- It should further widen and legitimize efforts to promote good governance as an essential complement to economic reform and development. Without good governance, the most prevalent and destructive forms of deadly conflicts will be impossible to prevent, and their cumulative effects may corrode the very foundations of regional and international order that the Bank and the other multilateral institutions established after World War II have helped create and sustain.

There are at least six channels that could be widened within the Bank to bring into the mainstream of the institution's deliberations a broader awareness of political factors that could inform lending in ways that would improve the chances of economic success and contribute indirectly to the prevention of conflict. This could be done without additional resources and without distorting the Bank's primary mission to reduce poverty and promote development. These channels include:

- The Bank's Operations and Evaluation Department and the Economic Development Institute. Both entities, which have in recent years given greater attention to issues of good governance, should undertake a series of in-depth evaluations of the positive and negative political effects of Bank lending in developing countries, especially those that have experienced bouts of mass violence. The purpose of these assessments would be to develop evaluation techniques that would be more alert to the early warning signs of potential conflict, and training techniques that would better prepare those with operational responsibilities for country strategies to act preventively in conditioning Bank lending and in cooperating with other local and international actors.
- The president's new office for strategy. This office should become the nerve center for long-range exploratory forecasting as well as more problem-oriented forecasting. Such forecasting would give senior Bank management the tools to anticipate and respond to major contingencies, including through participation in concerted international efforts to prevent the failure of an important borrower (such as Nigeria), to reduce the risk of regional conflict (for example, in South or Central Asia), or to carry forward major reconstruction and reconciliation efforts (for example, in the Balkans, Central Africa, and the Middle East).
- The new postconflict unit. This small but potentially important new unit within the Bank's Social Development Department can draw together special interdisciplinary teams to assist the development, implementation, and evaluation of Bank programs for war-torn countries.

- The joint World Bank/International Monetary Fund Development Committee. This committee, on which sit 24 governments representing the full diversity of the Bank's membership, offers a unique forum for discussing and recommending changes in programs and priorities in ways that might make them more attuned to linking assistance for economic development to conflict prevention.
- The Bank's Department of External Affairs. This department and the various small offices that act as liaisons with other regional and multilateral organizations should be strengthened, to allow the Bank to work more closely with these institutions in developing early warning and response strategies for conflict prevention and deciding appropriate divisions of labor that protect and advance their core missions.
- The February 1997 Strategic Compact. The compact, which outlines the framework for reforming Bank operations, needs to be refined and implemented to give greater emphasis to the political and conflict prevention dimensions as an integral part of the new emphasis on "knowledge-based lending."

Without peace, development and international cooperation to solve a long list of regional and global economic, environmental, and social problems will be impossible. The international norms, political will, and institutional capacity that governments have been developing since the 17th century to prevent the threat or use of force among nations are insufficient to deal with most forms of violence within nations. Sovereign rights, not human rights, remain the essential basis for world order. At a time when the tolerance of diversity among states has never been greater, intolerance of diversity within them has rarely been more virulent. A defining dilemma for 21st-century statecraft looms: can the international community find ways to limit the abuse of power within states without triggering new abuses of the power of intervention and aggression in relations between states? The World Bank has an important supporting role to play in helping resolve this dilemma.

The Bank can only do what its member governments will approve. After World War II and during the Cold War, the international financial institutions provided the framework and resources for integrating scores of developing countries into a stable and increasingly prosperous global market economy. In the process of making "the world safe for diversity," in President John F. Kennedy's phrase, the World Bank helped promote widespread tolerance and cooperation between rich and poor countries. It did so by becoming deeply engaged in the internal economic affairs of borrowing countries. The issue that both the Bank's major shareholders and its many more borrowing members confront today is whether and how to strengthen Bank support for political development and conflict prevention, to help make the world safe for diversity within, as well as between, sovereign states.

1. The Economic Dimensions of Preventing Deadly Conflict

INVESTMENTS IN STRATEGIC PREVENTION

The World Bank was created at the Bretton Woods conference in 1945 as an element in a new grand strategy of conflict prevention. Thirty-eight states, led by the United States, decided, in light of the failure to secure peace after World War I, that consolidating the Allies' victory after

World War II required a major economic commitment.[1] For the first time, former enemies would not only be disarmed; they would also receive generous economic assistance and be encouraged to become capable partners in preserving world order. Beyond that, the World Bank and its sister institution, the International Monetary Fund (IMF), would help prevent conflict by promoting economic growth and stability on a global scale. This, it was hoped, would reduce the risk of another severe depression, which could spawn a resurgence of the authoritarianism and aggression that had led to World War II.

The founders of the World Bank sought to rehabilitate the prewar system of political and economic relations among nations, not supplant it. Although after the war the United States enjoyed unparalleled military and economic strength, it lacked the imperial ambitions of dominant powers in the past. It sought instead to re-create a stable multipolar balance of power in which it could play a leading role at a price that its increasingly inward-looking public would support. The Western nations that had cooperated closely in winning two world wars continued as allies. But none was interested in surrendering sovereignty to some higher international authority. The new institutions were therefore set up to be run by professional managers and economists yet remain accountable to the member states, which as the institutions' shareholders retained the power to set and change policy. And unless the members decided to override or amend the principles and policies of these institutions, it was the task of the professionals to operate in ways that upheld and advanced traditional norms of respect for sovereign equality and self-determination.

Despite its novel features, the 1945 approach to conflict prevention was only the latest variation in a series of diplomatic experiments over several centuries. These efforts can in fact be traced back to the emergence of the modern nation-state in 1648, when the Treaty of Westphalia ended 30 years of disastrous civil wars resulting from the gradual dissolution of the medieval unity of empire and church.[2] That treaty, in which several European states agreed to respect each other's sovereignty within its national territory, was a historic achievement. In theory, each state, regardless of its military might or economic power, became free to have whatever religion, cultural values, and system of government it wished so long as it respected these same rights for all other states. Conflicts would be settled through compromise. Military strength would no longer be an advantage in gaining territory or wealth, or in imposing a preferred set of values on others.

Successful conflict prevention under this new order, however, would require new commitments to tolerance and self-restraint -- or what would much later be called a "good neighbor policy." In reality, of course, states were not equal. Despite the efforts of diplomacy and international jurisprudence, powerful states continued to disregard these principles, forcefully intervening in the affairs of other states in pursuit of what they deemed a higher national interest.[3] Interludes of peace were nonetheless possible when major powers were able and willing to shift allegiances as necessary to maintain a credible deterrent against whichever of them appeared most threatening to the new order. Meanwhile, as nations industrialized and governments became more accountable to a diversity of domestic forces, sovereigns faced new constraints on their freedom to use military force as a policy tool in balance-of-power politics. And when the balance failed to hold, wars became successively more catastrophic. After each major conflict, diplomats would again gather -- in Utrecht in 1713, Vienna in 1814, Versailles in 1919, San Francisco in 1945 --

to try and formulate better ways to prevent deadly conflict without limiting their own sovereign independence.

With three centuries of failed efforts behind them, the victors of World War II took an unprecedented step. They created the United Nations, the first international organization empowered (under Chapter VII of its charter) to mandate joint military action to defend the collective security of its sovereign members. This power to act collectively to prevent or punish aggression was, however, strictly limited. It required the unanimous consent of the five major powers on the UN Security Council and therefore could never apply against any of them. And any intervention to prevent or punish the abuse of power *within* a state, unless requested by that state, would have to override Article 2.7 of the charter, which commits all members not to interfere in each other's internal affairs.

The efforts of the UN's founders to prevent future conflict were not, however, limited to political and military security. For the first time, economic security would also be addressed. The founders decided that the chances of preventing another world war, and of preventing the economic depressions that were sometimes the precursors of war, would improve if the defeated and war-torn powers were helped along a path of internal reconstruction, and if the nonindustrialized societies of the world were helped along the path of economic development. In contrast to the new security arrangements, this economic intervention did constitute an involvement in countries' domestic affairs, but would be undertaken only at the request of the sovereign power. Even so, intervention would not be unconditional or value free -- the sponsors of the World Bank wanted to promote capitalism and liberal democracy, to ensure that the states so helped would become their capable and nonthreatening partners. The victors of World War II were determined never again to allow Hitler's deadly mix: socialization of the nation, nationalization of economic resources, and the geographical extension of nationalism by military force. And within a few years their overriding concern would become the containment and eventual elimination of the threat of Communist expansion. Thus was born the International Bank for Reconstruction and Development, the core agency of what is today the World Bank Group, under circumstances that impelled the rich nations to help strengthen the economic and social underpinnings of nations in severe distress.[4] In short, the Bank was conceived not as a humanitarian instrument but as an integral element in a long-term strategy of conflict prevention and international security policy.

To ensure that the professionals who ran the Bank did not exceed the authority granted them by the Bank's government shareholders, Section 10 of Article IV of the Bank's Articles of Agreement includes the following prohibition:

> The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions . . . .[5]

From the beginning, however, this prohibition has not prevented the Bank's governing board from using the Bank for highly political purposes, although over time priorities have changed and the relative influence of key shareholders -- notably the United States -- has evolved.[6] As the membership of the Bank has grown nearly fivefold, new political pressures have also emerged to restrain the dominant influence of the major shareholders by reforming decision making to make it more consensual and closer to the practice in the UN. Although these demands remain largely rhetorical, the gradual weakening of U.S. domination, together with dissent among the other shareholders, has created greater room for the Bank's managers and professional staff to shape policy. These debates have become sharper in the wake of the Cold War, as donor countries have used the institution to press borrowing countries not only to reform their macroeconomic structures and policies but also to abide by standards of good governance.[7]

During the Cold War the global military balance remained bipolar and fairly static, but beneath the bipolar umbrella the Bank became deeply involved in a host of positive developments that can be reasonably described as structural conflict prevention. The most notable achievements in building a postwar world order in which none of the major powers threaten international peace and security were the stunningly successful transformations of Germany and Japan into major industrial democracies and members of the Western alliance. In 1964, for example, Japan was still the World Bank's second-largest borrower (after India), but by 1989 it was the Bank's second-largest shareholder (after the United States) and the world's leading provider of official development assistance. The Bank also assisted the peaceful withdrawal of colonial rule from vast regions of Africa and Asia and the integration of the new states thereby created into the global economy. Although the vast majority of these countries remained politically nonaligned, the Bank helped ensure that their economic values were increasingly market-oriented, opposed to state socialism or Communism, and that they were restrained in the use of force against weaker neighbors. It is also plausible that the economic success of Japan, Western Europe, and a growing number of developing countries helped persuade the leaders of the Soviet Union to abandon Communism *and* to do so in a manner likely to elicit World Bank and other external assistance in their economic transformation.

Analysts will long debate what roles the World Bank, the UN, and the U.S.-Soviet rivalry played in restraining aggressive tendencies in interstate relations around the world. Yet it is a fact that the period since World War II has seen remarkably few cases of successful aggression across national borders. Between 1945 and 1995 only a handful of military conquests have gone unreversed: notably, India's annexation of Goa in 1961, Israel's occupation of the West Bank and Gaza in 1967, and Indonesia's seizure of East Timor in 1975. There have been only two successful wars of secession: those of Bangladesh and Eritrea.[8] And only a handful of unilateral armed interventions have met with success, all of them in response to serious assaults on human rights and other abuses of power by the target state: these interventions include those of India in Bangladesh, Tanzania in Uganda, Vietnam in Cambodia, and the United States in Grenada and Panama.[9] None of these incidents had any significant impact on the prevailing world order.

It is now safe to conclude that the age of imperialism has finally passed. Never before has so large and diverse a constellation of sovereign states, covering all of the world's habitable territory, coexisted so peacefully. If current trends hold, historians may one day mark the second half of the 20th century as the beginning of the end for significant interstate wars, fulfilling the dream of statesmen since the Treaty of Westphalia.

Once established, the World Bank quickly became a major player in the most ambitious and successful campaign of international conflict prevention in modern history. Since 1945 the World Bank has helped former enemies to become close allies and some 140 developing and post-Communist countries to integrate into the world capitalist economy. World Bank President James D. Wolfensohn has noted, with a hint of institutional pride, that 70 percent of growth in global GDP and half of all growth in world trade are generated by developing countries.[10] In the last 20 years the proportion of the world's workers living in countries linked to the global economy has jumped from about a third to perhaps 90 percent or more.[11] Whether these shifts have helped to prevent conflict between states can only be surmised; we do know that they did not prevent the deaths of millions of victims in some 200 local and regional conflicts, many of them exacerbated by the Cold War. Rising international economic interdependence and prosperity and the declining number of interstate conflicts, however, are widely assumed to be mutually reinforcing trends, which helped facilitate the peaceful dissolution of the Soviet bloc and bring an end to the Cold War.

The founding mandate of the World Bank is "to assist the reconstruction and development" of its more needy members.[12] The initial beneficiaries were primarily the war-torn nations of Europe and Japan. By the 1960s the Bank's purpose had been broadened to include fighting world poverty, although in each succeeding decade Bank operations emphasized different dimensions of this challenge: development planning in the 1960s, the fulfillment of basic human needs in the 1970s, structural adjustment in the 1980s, and good governance in the 1990s.[13] Today this antipoverty campaign reflects the collective national interests of 180 countries, whose governments agree that the "one central purpose" of the World Bank is "to promote economic and social progress in developing nations by helping raise productivity so that their people may live a better and fuller life."[14] The strategic value of the Bank for the United States and other major contributors, however, remains the same: by helping economically weak countries to become capable and willing partners of the economically strong, ever-expanding global prosperity will reinforce the prevailing world order and prevent deadly conflict.

Membership in the International Monetary Fund and the World Bank, both of which are formally components of the UN system, is open to all states regardless of size, location, cultural traditions, racial and religious composition, or domestic politics. To qualify for the economic benefits that these international financial institutions offer, however, a state must not only pledge adherence to the peaceful purposes of the UN, but must take whatever steps these institutions deem necessary to align its domestic and foreign economic policies with the basic rules and standards of world capitalism. The Bank is an intergovernmental organization that legally may only support programs and projects with the consent of the host government, and with the approval of its own executive directors (each of whom casts votes for one or more member countries) acting on instructions from their governments. Yet the Bank has been deeply enmeshed in the economic, social, and political life of borrowing countries since its founding.

During the Cold War the Soviet Union and the United States frequently interfered in other countries' internal affairs of state as they competed for influence, primarily among the newly independent and fragile states of the developing world.[15] With the Cold War over, most states -- including so-called microstates, those with populations of less than 1 million -- have little to fear from their larger neighbors or from intervention by the major powers. When confronted by conventional acts of cross-border aggression, such as Iraq's 1990 invasion of Kuwait, the UN has shown the will and capacity to restrain the aggressor.

The military fears that motivated the United States and other early supporters of the Bank have been largely overcome. War among the nations that within this century waged history's two bloodiest wars is at last a contingency that lacks credibility. This peace was further consolidated by the sudden collapse of the Soviet Union in 1991 -- the most significant peaceful change in the distribution of world power in history. Traditional strategic concerns are now far less pressing for the United States and its allies than during the Cold War, when the Bank was seen as a vital instrument of containment, providing financial and other incentives to developing countries to reject Communism and participate in global capitalism. Today, membership in the Bank, the IMF, and the UN is practically universal, and virtually all members of these organizations are at peace with each other. The willingness of new states, whether postcolonial or post-Communist, to accept highly intrusive and politically sensitive Bank terms and oversight of their domestic and foreign economic policies, in order to gain limited financial support -- and, more important, the institutions' seal of approval -- has been vital to the emergence of the rule-based global economy. And the emergence of that global economy has become an essential element in peaceful relations between states.

The extent to which the Bank has fulfilled the vision of its founders by creating a web of international economic relations that helped prevent a third world war is impossible to prove logically. First there is the problem of the counterfactual: when wars erupt, prevention obviously has failed, but when peace reigns one can always argue that factors other than preventive action were responsible. Second, huge areas of the world remained aloof from World Bank membership and did not participate significantly in the global market economy until the 1990s -- peace in these countries cannot easily be ascribed to the influence of the World Bank. Finally, the prevention and management of conflict are traditionally the domain of political and military leaders, not economic policymakers, although the Bank was occasionally pressed by its major shareholders to forsake strict economic analysis and use its funds to punish or reward a government for actions deemed pertinent to advancing the geostrategic interests of containment. Major loans to Indonesia to support the consolidation of the Suharto government after Sukarno's overthrow, a long series of loans to help insulate Tito's Yugoslavia from Soviet domination, and a frequent willingness to overlook bad economic policies in Zaire to help keep Mobutu Sese Seko in power are just three examples. On balance, however, future historians are likely to conclude that the international financial institutions contributed significantly to creating an increasingly complex web of rule-based global economic relations, and that the resulting prosperity became a powerful attraction to reformers in the Soviet Union, helping open the way for a peaceful end to the Cold War.

With the passage of the Cold War most of the debate, including that among the large donor countries, about the value of the World Bank largely ignores strategic considerations and focuses on narrower, quantifiable economic measures of project performance. But the original vision of the founders of the Bretton Woods institutions should not be forgotten. Never until 1945 had there been an intergovernmental organization available to help countries deal with their internal needs, so that they would then be more willing and able to cooperate internationally, and thereby contribute to international peace and security. Keeping this original purpose of the Bank in mind will be important as the institution broadens its role in borrowing countries to include good governance as an essential element for sustainable development at home and for making these countries more capable international partners.

The prospect of enduring peace among the world's major powers, and of their sharing a broad commitment to expand world trade and economic cooperation, offers a historic opportunity for the Bank -- in partnership with other international actors -- to explore ways to use its resources more effectively to ensure that tolerable peace also prevails *within* states. During the Cold War the sensitivities of the Bank's nonaligned members to perceived intrusions on their sovereignty and, more important, the interests of major Western donors in using the Bank as an instrument of containment, largely precluded addressing problems of governance as obstacles to sustainable economic development. Today, however, the theme of good governance may provide an opening for the Bank to do much more to promote policies and investments within countries under stress that could contribute to preventing deadly conflict.

THE COSTS OF FAILING TO PREVENT MASS VIOLENCE

In contrast to traditional preventive diplomacy, which depends primarily on the skillful use of political and military instruments to maintain the balance of power, the Bank's contributions to conflict prevention have come from below, from efforts to build the domestic economic foundations for peaceful international relations. And most deadly conflicts in the 1990s occur within states, where the Bank -- more than any multilateral organization in history -- is deeply engaged. Yet despite its involvement in national and local affairs, the Bank does not appear to have sought to use its economic influence to moderate local tensions and to help create the secure environment conducive to sustainable political and economic development. In some cases, highlighted in later chapters of this report, the Bank's prescriptions for economic reform may rather have contributed to local tensions and even deadly conflict, even though the Bank's net contribution to global economic growth and peaceful cooperation has undoubtedly been positive.

Although today peace prevails *between* nearly all states, deadly conflict is rampant *within* many of them. In 1995 nearly one-quarter of the World Bank's members were roiled by 35 domestic conflicts.[16] Since 1945 approximately 200 internal conflicts have produced an estimated 45 million deaths, 90 percent of them among civilians.[17] The resulting scale of human suffering has been such that historians may one day regard the 1990s as the "decade of state suicide." Beyond the loss of life and property, these conflicts are devouring scarce foreign assistance resources and adding to the rolls of the world's poor. The World Bank estimates that 1.3 billion people worldwide must survive on less than one dollar per day, and similar numbers lack access to safe water, electric power, or adequate shelter. In the absence of peace, poverty is certain to spread.

In the view of Steven Holtzman, the World Bank official charged with developing the policy framework on conflict prevention discussed in chapter 2, the link between poverty and conflict is clear:

> Fifteen of the 20 poorest countries in the world have experienced significant periods of conflict during the past decade. About half of all the low income countries in the world are either currently embroiled in conflict or are in the process of moving through the transition to peace . . . . Conflict has become more the rule than the exception to the extent that almost every low income country in the entire world has either recently been in conflict itself or borders on one or more countries in conflict . . . . Over 70 million people worldwide have experienced extended periods of conflict-related displacement over the past 15 years. Conflicts have gone on for two and even three generations. Whole societies have become militarized. The nature of warfare has changed . . . . During World War I 10 percent of casualties were civilian and 90 percent were military, whereas in current conflicts the reverse case has developed where over 90 percent of casualties occur to those normally considered noncombatants.[18]

In a similar vein Holtzman told another audience:

> In the past 15 years at least 50 countries have been affected by violent civil conflict . . . [which] is particularly apparent in Africa where about one-third of . . . countries have produced significant refugee flows over the past decade. . . . In nine African countries, over 20 percent of the population is displaced, and in Liberia alone, a staggering two-thirds of the population is displaced.[19]

The international agency that has felt the greatest impact of these political disasters has been the United Nations High Commissioner for Refugees (UNHCR). That agency's budget has grown 16-fold in the past 20 years, to over $1.1 billion, and now exceeds that of the United Nations Development Programme.[20] During 1985-89 an average of five man-made humanitarian emergencies raged each year; that number jumped to 20 in 1990 and peaked at 26 in 1994.[21] In 1995 the UNHCR served around 14.5 million refugees. The U.S. Committee for Refugees put the number of people dependent on international humanitarian assistance at 41.5 million in 1995, some 22 million to 24 million of whom had not yet crossed an international border, and hence were technically not refugees but instead categorized as "internally displaced persons."[22] According to the same source, 39 countries had generated refugee populations in excess of 20,000 persons, and some 30 countries had over 100,000 internally displaced persons; the greatest numbers were in Africa, the Caucasus, and Central Asia.

The costs to the UNHCR of meeting the growing needs of complex emergencies are a small portion of the total bill, although no one can ever know the full cost. One of the least successful of the agency's relief operations, that in Somalia, alone cost upward of $3 billion.[23] Peacekeeping and peace enforcement cost billions more. The total bill for Bosnia will likewise probably never be known but must already have reached $15 billion. In addition to these direct costs, opportunity costs accrue for countries in distress and for international donors, who might have used relief and peacekeeping funds for more productive purposes had the conflict been prevented. And for many large donor countries, humanitarian disaster and relief budgets are skyrocketing while those for development assistance are declining or stagnating. These funds are not mutually exclusive, but there does seem to be a growing concern internationally that emergency funds are crowding out development funds. For example, by mid-1996 the United States had spent $750 million on Rwandan relief -- an amount equal to its annual bilateral development assistance budget for the entire African continent.[24]

In Nicaragua the cost of the physical destruction suffered during the conflict between the Sandinista government and the U.S.-supported Contras has been calculated at $5 billion.[25] The civil war in Angola led to abandonment of 80 percent of that country's agricultural land; manufacturing output there is a third less than in 1973. Civil strife in Mozambique has left only 5 percent of arable land under cultivation, and industry operates at 20 to 40 percent of full capacity.[26] More-affluent countries have also suffered. As a World Bank report observed bleakly, Lebanon's real per capita income in 1990 was barely a third of what it had been in 1975, and incomes in Bosnia by 1996 were about one-fourth of 1990 incomes in dollar terms.[27]

The rising economic and humanitarian costs of internal conflicts is straining donor-country budgets, yet donor governments thus far have lacked the motivation or the means to undertake early and effective preventive action, either unilaterally or through multilateral organizations. Although no one of these conflicts may threaten a vital interest of any major power, if a compelling case can be made that together they pose a systemic threat to international order, and that cost-effective means are available for dealing with them, the political will to act might at last coalesce. Then UN Secretary-General Boutros Boutros-Ghali sought to put the problem of internal conflicts in a strategic context in 1992, when he was asked at the first-ever summit meeting of Security Council members to prepare a report on the future of the UN. In *An Agenda for Peace* Boutros-Ghali drew attention to the vital links between domestic and world political order:

> If every ethnic, religious or linguistic group claimed statehood there would be no limit to fragmentation, and peace, security and economic well-being for all would become more difficult to achieve.[28]

Echoing the views of the UN's founders, this amounts to another call to reform the interstate system, not replace it. The end of the nation-state has been a popular theme among liberal internationalists and students of global interdependence for more than 20 years.[29] But the concern expressed by Boutros-Ghali and a growing number of UN members is how to strengthen international capacity to help states help themselves to avoid fragmentation. Aid to repressive governments, a technique often used by both sides in the Cold War to maintain the status quo in states whose allegiance was perceived to be of strategic value, is no longer practical or desirable.

Sustaining into the twenty-first century a world order of at least 185 sovereign states will require governments that are capable of negotiating and abiding by a variety of new and vital international agreements relating to international trade and finance, new technologies in communication and information, the proliferation and sale of weapons, climate change, water scarcity, air quality, demographic shifts, the spread of disease, crime, terrorism, and a host of other shared problems. This will not be possible if more small states fail and larger ones become increasingly ungovernable. Should fragmentation occur along ethnic lines, millions more refugees and displaced persons will stream across borders, and new security threats will be created, further imperiling the chances of regional and international cooperation. To appreciate how differently such problems are resolved in embittered sectarian states than in nonsectarian pluralistic societies, one need only compare the regional politics of Western Europe with those of the Middle East or the Balkans.

The secretary-general's warning to attend to the internal political health of states under stress recalls the concerns expressed in 1945 about the domestic economic and political recovery of the vanquished and war-torn states of Europe and Japan, although Boutros-Ghali's reference was to countries at risk, not those already damaged by war. His concern was also directed at the dangers of domestic rather than international aggression. But the threats he identified ring the world. Governments in virtually every region are struggling to overcome deficiencies in their capacity to deal with culturally diverse populations, often while undergoing difficult transitions from authoritarian rule, and in all cases having to adapt to the volatile forces of economic globalization. Ironically, at the very moment when the salutary fiction of sovereign equality finally commands virtually universal respect, at least with regard to military intervention by the strong against the weak, wide disparities in the capabilities of governments to manage their domestic affairs are increasingly and painfully apparent.

As already noted, severe problems in the domestic economic health and development of states have been recognized as a legitimate international concern ever since the World Bank was founded. The political health and development of states is another matter. Boutros-Ghali's readiness to acknowledge that problems of governance are also a general and legitimate concern of the UN marked a significant departure for an intergovernmental organization. The nature and policy implications of this challenge for the UN and other international institutions -- including the World Bank -- will be difficult to delineate and address. And there are, alas, no theories of civil war for outsiders to consult when trying to decide whether, how, and with whom to intervene in an effort to prevent further violence or escalation.[30]

During the 1990s the most extreme cases of ethnic violence -- from the genocide of the Tutsi in Rwanda, to Muslim persecution of non-Muslims in southern Sudan, to Serbian expulsion of Muslims in Bosnia -- have been dramatic, but also diverse. Each seems to have its own unique causes, symptoms, and pathology. Scholars are, however, beginning to see similarities and patterns in intergroup violence, which one major study of comparative ethnic conflict characterizes as "collective fears of the future, rooted in the past."[31] As one expert explains with a pessimistic metaphor, "ethnic conflict may be less like the common cold and more like AIDS -- difficult to catch, but devastating once infected."[32] Whether and how ethnic conflict spreads between countries is debatable. If there is a "demonstration effect," it may be that the horrors of Bosnia and Rwanda and other disasters have dampened the temptation of leaders in other countries to exploit ethnic differences for political advantage. In any event, these internal wars have not escalated into wider regional or international conflicts, although the spreading violence across the Great Lakes region of Central Africa may be the first ominous exception.

The potential for violent domestic political combustion in multiethnic states is enormous and should give pause to policy planners everywhere, including at the World Bank. By one recent estimate over 900 million people belong to 233 increasingly assertive minority groups in countries around the world.[33] As more and more governments have difficulty adjusting to the impact of global economic trends, the loss of a Cold War protector, and the pressures of resource scarcity and population growth, ethnic chauvinism and fears tend to increase.[34] Situations can become especially tense where ethnic diversity and economic inequality converge, and where unrepresentative and repressive governments are unwilling or unable to allow sufficient political space to accommodate fears and grievances.[35]

If demands for greater self-determination by national minorities are repressed or advanced by force, the likelihood is that the specter of failing states will spread. Several of the world's largest and most economically dynamic states are also the most culturally diverse, with political structures still narrowly based and of uncertain strength and resilience. One need only look to the ten "big emerging markets" that contain nearly half the world's population: Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey.[36] This list, adopted by the Clinton administration in 1993 to promote trade and investment, is somewhat arbitrary and could change, depending on the success of other countries (such as Vietnam) or severe economic reversals such as occurred in East Asia during the fall of 1997. The ten countries listed are expected to account for 44 percent of non-U.S. growth in world imports between now and 2010, at a time when governments in the advanced industrial countries increasingly look to international markets to sustain high wages and high employment. The big emerging markets are also important economic engines in their regions, and how well they manage their political transitions will affect not only their own economic prospects but the economic growth and political stability of their neighbors. Political developments in these few countries appear to hold the keys to global economic growth and stability in the decades ahead.

Continued prosperity may help hold countries together during lengthy transitions from authoritarian to more participatory government. But success has proved far easier in ministates like Singapore than in the also ethnically homogeneous but bigger state of South Korea, and easier than it is likely to be for more culturally diverse big emerging markets such as Indonesia. In the large states economic globalization appears to bring disproportionate benefits to local elites, exacerbating disparities of wealth, at least initially.[37] Whether this in fact occurs will require further study. Recent World Bank analyses are calling into question the widely accepted theory, developed by Simon Kuznets, that rising growth in poor countries leads automatically to rising inequality; the relationship also seems to depend on the capacity and willingness of governments to pursue sound policies.[38] When government policies are weak or repressive, economic growth may deepen disparities, which could lead to conflict.

Assessing the risks of the large multiethnic, autocratic states among the big emerging markets is difficult but looms as a huge post-Cold War prevention challenge. Asked to name the greatest challenge that the world will face in the coming century, the political philosopher Sir Isaiah Berlin declared not long before his death, "Cultural self-determination without a political framework is precisely the issue . . . . Unless there is a minimum of shared values that can preserve the peace, no decent societies can survive."[39] The dangers of mass violence in large multiethnic, autocratic states that are not big emerging markets are much greater, as suggested by a U.S. intelligence global survey that placed Nigeria at the top of a shortlist of possible new humanitarian emergencies.[40]

The rash of deadly intrastate conflicts since 1990 may be only an early warning sign. If so, the costs, local and global, of internal disorders will be incalculable. Self-determination achieved through the barrel of a gun in societies divided along ethnic, religious, and other sectarian and fundamentalist lines -- as happened in the former Yugoslavia or Central Africa -- is a threat to the spread of human rights and democratic values. This would not be the global "clash of civilizations" envisioned by the American political scientist Samuel Huntington, but rather "molecular civil war" among dissimilar neighbors as described by the German poet Hans Magnus Enzenberger.[41]

The World Bank lacks the institutional capacity, the financial resources, and the mandate to intervene in actual conflict situations, and as will be discussed later in this report, there is much disagreement among the member governments about the proper nature and extent of Bank commitments to promote good governance and postconflict reconstruction and to engage in other politically sensitive activities. Another important issue is whether existing Bank programs, particularly structural adjustment lending, actually contribute to the risk of deadly conflict. This, too, will be discussed, particularly with regard to the former Yugoslavia. Technically, the Bank is only interested in political conflict to the extent that it might require the Bank's withdrawal from the country. Such action is taken only under the following conditions:

- When the Bank must respect binding decisions of the UN Security Council not to lend to a particular country for reasons of international peace and security
- When international sanctions affect the economic prospects of a potential borrowing country
- When an escalation of armed conflict affects the viability of Bank projects and the safety of its personnel
- Where it can be unequivocally demonstrated that political phenomena have demonstrably adverse economic consequences[42]

It is in postconflict situations that the Bank has recently tried to help troubled states develop the capacity to govern peacefully and fairly. This role of the Bank will be assessed in the next chapter. The legitimacy of postconflict engagement recalls the Bank's original mission to assist those countries in Europe and Asia that requested help after World War II to rebuild capacity to participate in the world economy. What remains unclear today, however, is how far donor governments are willing to allow the Bank to go in gearing its programs more toward helping borrowers target funds in ways that build confidence between antagonistic domestic groups, with the aim of preventing outbreaks of mass violence.

Deadly conflicts in failed and failing states are, by definition, extreme examples of inadequate state building, the absence of the groups and institutions that comprise even a minimal civil society, and bad governance. The central premise of this report is that the sooner the World Bank and other international organizations are able and willing to work effectively with national authorities to develop state and nongovernmental institutions capable of providing good governance and ensuring the rule of law and greater accountability, the better the chances that deadly conflict can be prevented. The Bank appears to be on the verge of a major shift in outlook that would give much greater attention to the importance of state building and good governance in post-Cold War development strategy. This could also have important positive implications for conflict prevention.

THE NEED FOR CAPABLE STATES

A sign of the Bank's growing interest in the role of the state is that in 1997, for the first time, the Bank's flagship annual publication, *World Development Report*, was devoted to this very topic.[43]

The purpose of *World Development Report* is not to announce changes in Bank operations, but one of its purposes is to signal to the world a major concern of the institution that, over time, usually does have an impact on lending criteria and priorities. *World Development Report* 1997 (WDR97) appears to signal an important turning point in the Bank's outlook. As the overview states:

> Today's intense focus on the state's role is reminiscent of an earlier era, when the world was emerging from the ravages of World War II, and much of the developing world was just gaining its independence. Then development seemed a more easily surmountable -- and largely technical -- challenge. Good advisers and technical experts would formulate good policies, which good governments would then implement for the good of society. . . . In a few countries things have indeed worked out more or less as the technocrats expected. But in many countries outcomes were very different . . . . Powerful rulers acted arbitrarily. Corruption became endemic. Development faltered, and poverty endured . . . . At the limit, as in Afghanistan, Liberia, and Somalia, the state sometimes has crumbled entirely, leaving individuals and international agencies trying desperately to pick up the pieces . . . .[44]

WDR97 outlines a broad two-part strategy for governments and international donors to follow, a path that could lead the Bank to play a supporting role in conflict prevention within states that, over the next 50 years, could be as legitimate and constructive as the role it has played at the interstate level during the past 50 years. The two-part strategy consists of:

- Matching the state's role to its capability. Where state capability is weak, how the state intervenes -- and where -- should be carefully assessed. Many states try to do too much with few resources and little capability, and often do more harm than good. A sharper focus on the fundamentals would improve effectiveness. . . .
- Rais[ing] state capability by reinvigorating public institutions. This means designing effective rules and restraints, to check arbitrary state actions and combat entrenched corruption. It means subjecting state institutions to greater competition, to increase their efficiency. It means increasing the performance of state institutions, improving pay and incentives. And it means making the state more responsive to people's needs, bringing government closer to the people through broader participation and decentralization.[45]

From the perspective of conflict prevention, the most relevant elements of the strategy are likely to be found in the second part, where any checks on arbitrary state action are likely to improve the prospects for peaceful change. The concerns expressed in WDR97 are directed at member governments, but they also apply to the Bank itself. In a world increasingly ravaged by internal conflict, the report sends an important positive signal about the Bank's own evolving institutional outlook, noting that "Where poverty and economic marginalization stem from ethnic and social differences, policies must be carefully crafted to manage these differences, as Malaysia and Mauritius have done."[46]

The greater concern for conflict prevention advocated in the present report would not entail a fundamental change in the Bank's original core mission, internal organization, or current operations. Rather it suggests the need for greater political and cultural awareness in deciding where, when, and how to carry out Bank lending. The Bank's lending criteria, its willingness to work with other international actors, and its long-term development goals would, however, become more attentive to state building and good governance -- the management of public resources on behalf of all citizens with fairness and openness -- as vital for preventing the conflicts that destroy the prospects for development and for sustaining progress on the economic front.

The success of borrowing governments in dealing with ethnic and other intergroup tensions should be an important factor in the Bank's risk assessments. Rewarding demonstrations of good governance, and withholding support when government policies exacerbate intergroup tensions in the current world environment, is both smart investing and sound preventive action. Such interactions between the Bank and its borrowers should become part of a much broader effort to help governments develop the means for coping with the growing and volatile pressures that result from an inadequate sharing of power and the external pressures of economic globalization. These two powerful cross-currents are placing enormous strains on governments everywhere and, in varying ways, are presumably contributing to the breakdown in governance and outbreaks of mass violence.

Improvements in the Bank's staff, to acquire knowledge and analytical capabilities in the areas of good governance and state building, will also be necessary, and the insights so gained must inform the Bank's operational decisions. This extends to such politically sensitive issues as the treatment of minorities and the likely effects of Bank lending on intergroup relations. In the future, the capacity of a state to fulfill its political, public administration, legal, policing, and military functions will have to be factored into the Bank's country assistance strategies so as to promote sustainable development. More-effective engagement on these issues could help reduce domestic tensions and prevent the deadly conflict that is destroying the results of decades of Bank investments in many countries. The success of conflict prevention may be impossible to prove, but this underlying concern was embedded in the vision of the Bank's founders and is just as important a strategic justification for expanding the Bank's role today. The costs of failing to prevent deadly domestic conflicts, after all, continue to rise.

In theory, everyone would gain if the World Bank could somehow help to prevent deadly and costly intrastate conflicts. But the Bank still lacks a firm legal basis to guide it in such undertakings. Meanwhile demands to assist countries recovering from conflict continue to proliferate and escalate, requiring long-term commitments to sustain the peace through the difficult transitions of reconstruction, reconciliation, and resumption of development. The Bank's largest shareholders worry that such commitments could lead to "mission creep," with the Bank taking on the heavy and nonproductive obligations of humanitarian relief. But the Bank can hardly ignore specific demands (for example, to help in Bosnia or on the West Bank).

The incentives and opportunities for the World Bank to concern itself with the quality of governance of its borrowers have changed substantially with the end of the Cold War and the growing international consensus regarding the universality of the basic principles of respect for human rights, political pluralism, and market economics.[47] There is, however, no consensus on how to put these principles into practice. As discussed below, the Bank significantly broadened its interest in governance during the early 1980s when major imbalances in the global economy, and within the local economies of many of its major borrowers, prompted a new emphasis on structural adjustment lending. And although the Bank is still trying to digest the lessons of that difficult and complex experience, the unrelenting forces of economic globalization continue to raise difficult policy issues regarding the appropriate scope and nature of the Bank's role in support of improved governance. This pressure could increase if intergroup tensions within borrowing countries intensify and spread, placing more and more Bank investments at risk.

The real governance problems that threaten the viability of Bank programs go well beyond the technical shortcomings of public administration. They are a function of the early stages of state making throughout most of the developing world. Political deficits -- the lack of state capability to fulfill basic functions -- today pose a greater threat to world order than economic deficits. Thus far the international community has been willing to invest heavily to encourage weak economies to become capable partners, but there are no comparable efforts to encourage weak states to become capable partners. As noted earlier, the efforts at political and economic reconstruction that followed World War II were a notable and successful exception. The attempts by Cold War rivals to shore up states loyal to each camp proved largely illusory. After the collapse of colonialism and Soviet hegemony, the economic weaknesses of the new states have been universally acknowledged, but their severe political underdevelopment has been shrouded by the protection of sovereign equality that diplomatic recognition and UN membership confer. Cold War caution and the politics of collective nonalignment helped perpetuate the illusion that state-nations were real nation-states.

State making in much of the Third World is still in its infancy. In analyzing this deficiency, Mohammed Ayoob rightly points to the lessons of European state building.[48] It took the European peoples four centuries, from 1500 to 1900, to forcibly consolidate themselves from 500 political entities into the roughly two dozen that exist today, most of which rank among the world's most viable modern states. Thankfully, conquest and annexation are no longer permissible, but this new reality does little to alleviate the increasingly violence-prone experiments in early state making that now afflict so many of the World Bank's borrowing members. The potent triple appeal of self-determination, ethnicity, and group rights has unleashed strong political forces, which far too many new states are either unable or unwilling to moderate. And it is this deficit in good governance that is acquiring strategic significance for the post-Cold War world order. How far the major powers will push the UN and other multilateral institutions to address this deficit, or the humanitarian and economic consequences that result from deadly conflict, remains uncertain.

Capable governments are the only conceivable balancing wheels of world order. They must gain and retain sufficient authority and legitimacy over those they govern to forge the necessary domestic and international political will to conclude, and then abide by, agreements with other states, including provisions for dispute resolution. A "new world order" is not needed to meet these challenges. But the "old world order" needs to be politically revitalized and rehabilitated. International organizations and governments will have to help each other adapt. Until recently, the World Bank has kept to the sidelines of the debate about how to build or rebuild capable countries, especially in the unstable regions of Africa and the newly independent states of the former Soviet Union. In the last two years it has begun to engage itself more deeply in the work of reconstructing war-torn countries, to help secure the peace and ignite the economic development that is essential if the recurrence of conflict is to be prevented. Chapter 2 will assess the Bank's expanding commitments to reconstruction, in terms of their immediate contributions to conflict prevention but also as a learning experience for the Bank, which could open the way for future efforts to prevent the outbreak and escalation of deadly domestic conflict.

2. Investing in Postconflict Reconstruction and Prevention

Since the Cold War ended, peace accords have been reached in several strife-torn regions of special interest to the United States and/or other Western donors, who have pressed the World Bank to provide technical and financial assistance for reconstruction in an effort to consolidate these peace processes and prevent further deadly conflict. In response, James D. Wolfensohn declared shortly after becoming president of the Bank in June 1995 that "to help in postconflict situations" would be one of his highest priorities. Accordingly, on October 1, 1996, he reported to the Bank's board of governors:

> We have organized ourselves for post-conflict work, and we have made great strides in our programs. In Bosnia-Hercegovina, 14 projects are being implemented, with Bank Group financing of over $325 million. In Gaza and the West Bank, our joint efforts are yielding results and have contributed to the creation of 22,000 new jobs. In Haiti, we are working with a coalition of donors to help sustain peace and build economic opportunity for the poor. We are also working in Angola and Lebanon to assist with employment and reconstruction. More broadly, we will soon be presenting to the board a policy paper aimed at strengthening our post-conflict recovery support.[49]

A NEW POLICY FRAMEWORK

The policy paper to which Wolfensohn referred, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, was prepared by Steven Holtzman in the office of the Bank's Vice-President for Environmentally Sustainable Development and was formally adopted on April 25, 1997.[50] It recognized two overall objectives for the Bank's efforts in this area:

- . . . to facilitate the transition to sustainable peace . . . and to support economic and social development . . . [with] an integrated package of reconstruction assistance:
    - Jump-start the economy through investment in key productive sectors; create the conditions for resumption of trade, savings, and domestic and foreign investment; promote macroeconomic stabilization, rehabilitation of financial institutions, and restoration of appropriate legal and regulatory frameworks.
    - Reestablish the framework of governance: strengthen government institutions, restore law and order, and enable the civil society to work effectively.
    - Repair important physical infrastructure including key transport, communications, and utility networks.

- Rebuild and maintain key social infrastructure; i.e., financing education and health, including recurrent costs.
- Target assistance to the war-affected: i.e., reintegration of displaced populations; demobilization and reintegration of ex-combatants; revitalization of local communities most disrupted by conflict (through credit lines to subsistence and micro-enterprises, etc.), and support to vulnerable groups (e.g., female headed households).
- Support land mine action programs, where relevant, including mine survey, demining of key infrastructure as part of comprehensive development strategies for supporting a return to normal life of populations living in mine polluted areas.
- Normalize financial borrowing arrangements: planning a workout of arrears, rescheduling of debt, and the longer term path to financial normalization.[51]

The extra management and related costs that were proposed to implement the new policy for postconflict situations are modest. The framework would be implemented almost entirely by existing staff and bureaucratic structures at the country and the regional levels. A "watching brief," which would keep track of developments in a conflict-torn country, for example, is projected to take only 0.5 to 1.0 staff person-year, with the cost of assessment and planning for a reconstruction program estimated at $750,000. To create a "focal point for postconflict reconstruction within the Bank," which would handle contacts with other institutions, advise and brief senior management, collect information, and draw on experience from throughout the Bank to "accelerate the institutional learning process and disseminate information," a small unit of fewer than six people has been established, and in September 1997 the Bank's directors approved a special fund of $8 million to enable the unit to carry forward its analytical and related work.

At first glance, reconstruction would seem a logical priority for what, after all, is still called the International Bank for Reconstruction and Development. As Bank staff now quip, "we have to put the `R' back in the IBRD." The dual objectives of reconstruction and conflict prevention are also consistent with the motivations of the Bank's founders 50 years ago. For a Bank that lends upward of $20 billion annually, the modest size of the new unit implies a very cautious approach; however, the true extent of the commitment to provide financing and technical assistance for reconstruction will depend on the accumulated approvals of recommendations made by country managers.

Bank staff can have few illusions about the difficulties involved in attempting to meet the needs of postconflict situations without a major change in Bank operations. That such a change is under way is certainly not evident.[52] International development experts outside the Bank are also beginning to challenge conventional wisdom in constructive ways. Nicole Ball, a fellow at the Overseas Development Council, for example, warns of "an urgent need for a paradigm shift within the development community to take account of the special conditions that exist following civil wars."[53] If the effort is to succeed, she notes, changes in funding priorities and operating procedures will be needed. The Bank is not yet operating with the expertise and scale of commitment required to undertake lending for such unconventional (for the Bank) activities as land mine clearance, demobilization and social reintegration of soldiers, and police reform.[54]

Effectiveness will also require greater financial flexibility, better contingency planning, and much greater attentiveness to the dynamics of conflict resolution and reconciliation than in the Bank's normal country lending programs. Standard economic benchmarks, Ball argues, also will have to be fundamentally altered, if the immediate objective is reconstruction rather than development.

Elsewhere Ball has urged the Bank to become engaged earlier, while efforts are being made to resolve a deadly conflict, rather than wait until the conflict has ceased. She offers several commonsense reasons: such involvement may encourage the warring parties to address economic issues and to develop mechanisms for solving those issues that may bear significantly on the peace process; early Bank involvement can spur advance planning; it can encourage cooperation with other donors, relevant UN agencies, and nongovernmental organizations that will be involved in the reconstruction process; and, by holding out the conditional prospect of postconflict economic assistance, the Bank and other donors may be able to help advance the peace process.[55]

Ball's policy paper also acknowledges that "the risks of doing business [in postconflict countries] are much higher than in `normal' developing countries"; these include the possibility of renewed hostilities, shortfalls in donor financing, the possibility of being inadvertently drawn into favoring one or the other hostile party, and physical dangers for Bank staff. To begin to address these risks, the policy paper advocates a much greater effort to work with other actors, including UN agencies, the European Union, bilateral donors, and nongovernmental organizations, and that the policy framework be extended so the Bank would become more attentive to conflicts in their earlier stages and better prepared to become engaged once peace is restored.

IMPERATIVES AND IMPEDIMENTS

Today's reconstruction tasks, however, are quite different from the task of overcoming the ravages of World War II. Moreover, the Bank has been largely out of the reconstruction business since the early 1950s. Occasionally it has provided special lending for reconstruction projects in the aftermath of floods, earthquakes, and other natural disasters. But not until the United States and the Soviet Union began finally to work together to resolve several long-running regional conflicts in Southeast Asia, Southern Africa, and Central America was the World Bank encouraged to think once again about major reconstruction programs. Once it began to do so, however, the prospect of World Bank assistance became one of the elements that mediators used as an incentive to conclude peace agreements.

Thus, with considerable political euphoria and special funding provisions by major donors, large reconstruction packages were mustered for Cambodia, El Salvador, Mozambique, Namibia, and Nicaragua, in what might rightly be called the post-Cold War peace dividend. Since then the Bank has been involved in large reconstruction efforts following a few other peace agreements, notably in Bosnia, the Palestinian territories, Haiti, and most recently Guatemala. Efforts in each of these early cases have been beset by problems, and the prospects of helping build a sustainable peace in Afghanistan, Central Africa, Liberia, and Sudan will be much more difficult still.

Since 1990 the Bank's management and staff have gained an appreciation of the diversity, difficulties, likely duration, and scale of these new demands. They are also finding it necessary to work with a greater variety of actors, within the UN and among nongovernmental organizations. So although the Bank's reconstruction initiatives still only amount to a small proportion of its overall operations, they are generating considerable interest within the Bank and among scholars and experts in international development.[56] The context and content of these efforts differ from the reconstruction work of the Marshall Plan era in several fundamental ways.

First, rebuilding a state that has been severely damaged by ethnic or other forms of intergroup violence obviously is not the same thing as rebuilding a defeated nation or one recently liberated from foreign occupation. Many of the states that are current or potential candidates for reconstruction were not really nations before the crisis. Unlike the postwar industrial nations of Europe and Japan, these states typically have weak economic and political institutions. Japan and Europe also had the advantage of well-educated and highly skilled workforces eager to join the reconstruction effort. In contrast to today's challenges, foreign assistance to the victims of World War II could be given with the expectation that it would be for a short period of time, highly focused on the sectors most essential to a broad-based recovery, and that assistance would thus become a significant catalyst for restoring national hope and self-help.

A second major difference is the security situation in today's postcrisis countries.[57] Building peace within states is very different from building peace among states. Enmity usually persists, and at a very local level. In the extreme cases, notably Rwanda, the survivors of genocide are asked to live next door to returning refugees who perpetrated that genocide.[58] Outbreaks of violence, whether to settle old scores, or to silence those who might bear witness before a war crimes tribunal, or motivated by some other reason, are a constant threat. In territories where groups have been forced to leave or to relocate during the conflict, residual resentments over lost lands, tensions with new neighbors, and ongoing efforts to redraw territorial frontiers persist. Local police and judicial capabilities are often weak or practically nonexistent. Even the NATO deployment in Bosnia today is no occupying army, providing protection for local citizens and foreign advisors trying to reform and rehabilitate states.

Adding to the physical insecurity of nearly everyone in postconflict countries is an unprecedented accumulation of land mines -- an estimated 110 million in place around the world. The World Bank is already advising the government of Bosnia on the design and implementation of a clearing program for the 2 million to 4 million mines scattered through the hills and valleys of that crippled country, and it has or expects to have similar programs under way in other countries.[59] Countries with severe land mine problems where the Bank has postconflict reconstruction programs under way include Angola, Cambodia, Croatia, and Mozambique. Clearing mines is costly, time consuming, and dangerous. Kuwait spent about $1 billion to rid itself of the mines that Iraq had laid during its 1990 invasion, and the operation cost the lives of 80 demining specialists.

Third, there is no effective leader and coordinator of reconstruction efforts, playing a role comparable to that of the United States after 1945. Not only did the United States dominate the entire postwar reconstruction effort militarily, economically, and politically, but Washington had a strategic vision and explanation for its undertakings that satisfied its own citizens and its old and new partners in Europe and Asia. Today a complex mix of governments, regional and international organizations, and nongovernmental organizations are simultaneously involved in reconstruction. They have different roles to play and different priorities within and among reconstruction programs. The states that are in need of help are scattered around the globe. None are of vital interest to the major powers, although the Middle East and the Balkans obviously are of greater strategic importance to the Bank's major shareholders than the many and looming reconstruction challenges in Africa. For any of a variety of historical, cultural, geographical, or other reasons, one or more countries will often step forward to take the lead in dealing with a particular problem state. But there is far too little coherence and coordination of efforts, and no strategic framework that would help guide priorities, the division of labor, and other decisions that presumably would improve the prospects for success.

In most failed or failing states the Bank has a long record of prior involvement. This can be a liability, particularly if segments of the local populace view past Bank policies as favoring one group over another. Some of this bias in lending, if bias there was, may have been the inadvertent side effect of a plan that, for sound economic reasons, gave greater bene fits to regions or sectors in which this or that group had traditionally been predominant. In any event, as an intergovernmental lender the Bank would have been identified with the regime in power when the country dissolved, and will need to work primarily though the successor government during the reconstruction phase. This limits the Bank's ability to appear impartial or to play a direct role in reconciliation.

Finally, in its effort to please major shareholders and to demonstrate that it can succeed in aiding reconstruction, the Bank risks being drawn into deep quagmires that could encroach on other Bank programs. No one can predict how long or difficult will be the reconstruction (perhaps "construction" is a more accurate term) of troubled or failed states. A former UN special representative to Burundi, asked for an estimate of that country's reconstruction requirements, suggested that donors adopt a fifty-year time horizon, and that a significant international military presence would be needed to ensure adequate security for economic recovery. Should Burundi slip into the chaos of a failed state such as Liberia or Somalia, the reconstruction challenge would be greater still. In an age when the major Western donors are trying to trim foreign assistance and set early exit dates for any security presence, the Bank's cautious approach toward postconflict situations is understandable.

Even if the Bank is able to design and implement effective reconstruction programs that can put postconflict countries on the road to sustainable peace and economic development in five or ten years, the demand to deal simultaneously with so many troubled or failed states raises additional practical and moral dilemmas. How many can it take on at one time? By what criteria should priorities be set among them? Presumably traditional economic criteria will not apply. And as will be explored in chapter 4, there is much confusion over who does what in complex emergencies and postconflict situations. For example, there are no clear lines between programs for relief, reconstruction, reintegration, reconciliation, and development. In any event, such countries are not likely to be creditworthy, so the Bank will not be able raise the necessary funds for reconstruction in world capital markets, but instead will have to draw on the $6 billion of annual credits available through the International Development Association, the Bank's concessional lending arm, which are reserved for the world's poorest countries. As more of this pool is diverted to reconstruction, countries that have remained at peace but are nevertheless in great need could face added hardship. This presents the Bank with the moral hazard of appearing to reward those who engaged in civil war.

PROSPECTS FOR EXPANDED ENGAGEMENT

Given all the risks and uncertainties to which postconflict situations give rise -- not to mention the Bank's worldwide exposure and the many competing demands on its resources -- the Bank's managers are not rushing into reconstruction. Opportunities for major involvement are still quite recent and limited in number. As the statement by Bank President Wolfensohn that opened this chapter suggests, Bosnia and the West Bank and Gaza are the two examples from which Bank officials are drawing lessons, because they "demonstrate the range of reconstruction issues that the Bank, at its very best, can address, creatively and effectively, within existing policy and operational procedures."[60] These situations are also noteworthy because of the extraordinary international attention, political will, and financial resources that they attracted, particularly from the Bank's major shareholders. The Bank was encouraged to devote far more of its own staff resources and funds to these cases than to others.

In El Salvador and Nicaragua, for example, the Bank participated only belatedly and without a solid international political consensus on the objectives, and in other postconflict situations, especially in several African countries, a weak or divided international response has contrained the Bank's ability to be helpful.[61] One bright spot of postconflict reconstruction in sub-Saharan Africa has been Mozambique, where the Bank took the lead in coordinating a large international effort. That effort has generated annual economic growth averaging 7 percent since 1992 and supported complementary democratic reforms, despite serious and growing economic disparities between the country's urban and rural sectors.[62] Another apparent success story, under quite different circumstances, has been the Bank-led effort to demobilize the Ugandan army and restructure what has become a vibrant peacetime economy.[63]

None of this progress, of course, is irreversible, and among the lessons the Bank's staff have drawn is the importance of getting to the scene early and with advance planning, a robust field presence, and a determination to sustain the effort over many years.[64] In some situations, particularly the failed states of Afghanistan, Liberia, and Somalia, this degree of engagement and commitment is not possible. But even where massive foreign engagement has been mobilized, notably in Cambodia, the international community's impatience to withdraw may add to the risk of reversal of political and economic reform.

In February 1997 the Bank's postconflict team organized a workshop with the Carter Center of Emory University in Atlanta to assess the lessons and experiences of war-to-peace transitions, with special reference to the very different situations in Guatemala and Liberia.[65] While echoing many of the same lessons outlined in the Bank's policy framework discussed above, the conclusions of the workshop emphasized two important elements of successful peace accords: active involvement by civil society and skillful governance. Although in both countries civil society and good governance have been seriously weakened by conflict, Guatemala is further along the path of democratic reconstruction and nearer resumption of significant economic development. The recipe for good governance that the workshop endorsed is quite easily stated but, for most postconflict countries, terribly difficult to fulfill. It has several key elements:

- Transparency, which requires disclosure of public budgets, both expenditures and revenues, and public debt, so that who pays and who benefits are apparent to all
- Accountability, which means that the governing body will be responsible for how it is generating revenue and allocating expenditure
- Rule of law, which demands a legal framework by which government and society conduct themselves
- Institutional pluralism, which supports the forgoing conditions, rather than a unitary structure
- Participation, which implies the involvement and empowerment of all the governed.[66]

Given the difficulties of achieving good governance in societies that have been ravaged by intergroup mass violence, which in some cases has reached genocidal intensity, it would make far more sense to address these elements *before* deadly conflict erupts. The Bank's policy framework, in fact, refers to this in a brief section on "Development Assistance and Conflict Prevention." This approach will be addressed in the final chapter of this report.[67]

The 1990s have been a time of experimentation for the Bank, and not only with regard to postconflict situations. The end of the Cold War opened up major opportunities to expand operations in countries of vital concern to the Bank's major shareholders, including the vast regions of the former Soviet bloc, where the Bank had virtually no prior experience. At the same time, the needs of many of the Bank's developing-country borrowers grew more urgent. This is particularly true among the poorer members, who were now ready and eager to adopt market reforms but are saddled with heavy debt and are not yet able to attract the vast amounts of private capital that recently have poured in to the dozen or so newly industrialized countries and big emerging markets. In this climate there is little likelihood that major resources for reconstruction, beyond the special cases such as Bosnia and the West Bank and Gaza, noted above, will be forthcoming. There is, however, a spreading recognition of the need to promote good governance. Governance is increasingly -- but by no means universally -- seen as critical to achieving sustainable economic development and essential both to ensuring that reconstruction efforts succeed and, as will be discussed in the next chapter, to creating the political will and institutional capacity to prevent deadly conflicts within states.

3. Investing in Good Governance for Conflict Prevention

Civil wars are failures of governance. To the extent that the World Bank is able to promote good governance, it might help prevent such disasters. Although the Bank's management and staff must remain sensitive to the restrictions placed on them by the Articles of Agreement, which prohibit political considerations from influencing their lending recommendations, political stability has always been recognized as an important precondition for economic development. During the Cold War the United States and its allies sometimes sought to use Bank loans to promote political stability in countries considered key to containing the spread of Communism. Here the main aim was stability for the sake of maintaining international alignments, rather than for the sake of achieving economic development. Although the two objectives were not mutually exclusive, the focus on the former often resulted in loans to repressive military regimes. Where Cold War considerations were not paramount, and borrowing governments of their own accord adopted policies to reduce inequalities and domestic tensions, the Bank typically did not hesitate to invest in programs that provided important incentives to achieve stability for development. And although this has been a general Bank policy since the 1960s, it has become much more widespread and obvious during the 1990s. Where the Bank still encounters difficulty, however, is in countries where a host government ignores rising inequalities and tensions and relies on repression to maintain stability.

In the 1970s the Bank's central theme of poverty reduction drew increasing attention to the problems of inequality. And as the Bank became more engaged in structural adjustment lending in the 1980s, it began in effect to underwrite governments, and inevitably it engaged in evaluating whether its overall programs were "reasonable." In the 1990s corruption, government transparency, military and other nondevelopment expenditures, the rule of law, and gender issues are among a growing list of politically sensitive issues that have become integral elements in the Bank's dialogues with borrowing countries.[68]

This growing intrusion into the sovereignty of states is resented and often resisted by borrowers, who may state their acceptance of these conditions for a loan or credit but then make little or no effort to fulfill them, citing lack of capacity. This chapter explores how this issue of governance capacity has gained greater prominence within the Bank, despite resistance from borrowers and nervousness about this trend within the institution itself, especially in its legal department and among its board of governors. And it points to new intellectual trends in this area which, if reinforced, could foster local political capacity for preventing deadly conflict.

THE EMERGING EMPHASIS ON THE POLITICS OF DEVELOPMENT

The Bank's growing readiness to press borrowers more directly and comprehensively on governance issues first manifested itself in the 1980 s in its dealings with African borrowers. Many African states are chronically weak, impoverished, vulnerable to foreign involvement, and susceptible to deadly intrastate conflict. In 1989, however, the Bank published a landmark study on development in sub-Saharan Africa in which it identified governance as a core issue in its regional strategy. Citing a statement by the president of Senegal, that "Africa requires not just less government but better government," the report observed that "many governments are wracked by corruption and are increasingly unable to command the confidence of the population at large."[69] Bank President Barber Conable drove home these concerns in a bluntly worded speech to the Bank's African directors in September 1990, declaring:

> Political uncertainty and arbitrariness evident in so many parts of sub-Saharan Africa are major constraints on the region's development . . . . I am not advocating a political stance here, but I am advocating increased transparency and accountability in government, respect for human rights and adherence to the rule of law.[70]

The critique of governance in Africa reflected broader Bank concerns with the capability of states. During the 1980s the proportion of Bank-funded projects with disappointing returns jumped from 11 percent to 20 percent.[71] In the same period the Bank also embarked on a controversial new lending strategy to press borrowing governments to agree to undertake major structural adjustments. The policy was introduced in 1980 in response to acute balance of payments crises in many borrowing countries in the aftermath of the world energy crisis of the 1970s. The oil producers had recycled billions of petrodollars in loans to developing countries, giving rise to huge budget deficits, foreign debts, misvalued currencies, and other problems there, and raising fears of massive defaults and the specter of widespread instability. So in addition to its traditional project loans for roads, power stations, port facilities, and other essential infrastructure, the Bank began setting new conditions on its loans: borrowing countries would have to make major changes in their macroeconomic policies.[72] Throughout the 1980s, adjustment lending amounted to about 18 percent of lending by the International Bank for Reconstruction and Development (IBRD, the Bank's core lending agency) and 12 percent of lending by the International Development Association (IDA, the Bank's concessional lending affiliate).[73]

This departure in lending reflected a new orthodoxy: "the Bank's conviction that the policy environment is as important as, if not more important than, the physical and institutional framework in inducing growth and development."[74] And by the time the 1980s drew to a close, most developing countries had accepted the recommended policy reforms as a condition for continued Bank and International Monetary Fund support and were seeking a better balance between market forces and state intervention in the management of their national economies. Some borrowers, however, saw the conditions as too rigid and the Bank as too inflexible in its antistate and pro-private sector recommendations and too ready to follow the latest development policy orientations of its main shareholders.[75] A report by the Bank's general counsel, Ibrahim F. I. Shihata, indicates how intrusive this lending had become:

> Loan agreements have been reached between the Bank and governments whereby disbursements of the loan would be made only if the government took action to reduce the number of civil servants, restructure ministries, and liquidate public enterprises . . . . In many instances, the measures required extensive legislative changes, particularly in the areas of labor regulation, investment, taxation . . . and 'the enabling business environment.'[76]

The results were mixed. On the one hand, resentment among borrowers rose over what many perceived as a loss of economic sovereignty and control over fiscal and monetary policy; meanwhile the local impact of these measures was seen as contributing to greater economic inequity, social unrest, and a heightened risk of conflict, which alarmed both the host government and the Bank itself.[77] As Ernest Stern, then a senior official at the Bank, observed:

> . . . we at the World Bank -- and everyone else -- I believe, underestimated the political difficulty of protected adjustment. Economists here and elsewhere often tend to believe that we need only do our analysis, reach our conclusions, and write a report; the rest will follow. We do not have much experience with the political processes of change. We fail to give weight in our own thinking to the fact that structural adjustment means a major redistribution of economic power and hence of political power in many of the countries undergoing this process.[78]

But policy-based lending has continued, extending to a variety of experiments to soften the social (and adverse political) impact of structural adjustment.[79] In the most extreme case, that of the former Yugoslavia, Susan Woodward of the Brookings Institution has argued that the most damaging causal factors of the mass violence there were traceable to Yugoslavia's prewar joint International Monetary Fund-World Bank program to repay foreign debt:

> Instead of restoring the country's capacity to service long-term debt, however, this program . . . devastated the Yugoslav economy and many of its social relations along with it. Stabilization . . . led to extraordinary austerity, therefore increasing competition for employment and resources that were vital to political power. Structural adjustment, in turn, shifted the internal balance of economic power among industries, localities, and regions, and required far-reaching political and constitutional reforms of the federal government and of economic relations between the republics and the center.[80]

In the aftermath of the Cold War, major donors no longer felt a strategic imperative to support Yugoslav stability. But with the administration of strong economic medicine, in Woodward's view, traditional methods and means of conflict resolution broke down completely.

The Bank's view was quite different. Vice President for External Relations Mark Malloch Brown questioned Woodward's identification of structural adjustment as a central cause of the war, reportedly noting that:

> Critics of structural adjustment often confused cause and effect. Any transition from a protected, inefficient economy to a more liberal one involved a brutal period of adjustment, with or without the advice of international financial institutions. Yugoslavia's dramatic dislocations were not caused by the World Bank, even if the Bank might have been more helpful in assisting the country in transition.[81]

The Bank's policy recommendations concentrated in the areas of macroeconomic and financial management, sectoral restructuring and policy reforms, and requirements for greater public sector efficiency and more constraints on public sector management. With the end of Communism and the evident failure of central planning, many countries, notably in Latin America, have sought the Bank's help in reducing and modernizing their public sectors. The countries of the former Soviet bloc faced even more perplexing and urgent challenges in reforming their failed state structures. Today much of the discussion about policy-based lending is subsumed under the new heading of "governance."

IDENTIFYING INTERESTS IN GOOD GOVERNANCE

The Bank's first comprehensive report on the subject of governance was released in 1991. It identified four elements deemed pertinent for the success of its programs in economic development: public sector management, accountability, a proper legal framework for development, and transparency.[82] Corruption, excessive military expenditure, popular participation, and human rights were still deemed too politically sensitive to be dealt with openly, although they were implicitly covered by this framework.

A year earlier, the Bank's general counsel had prepared a carefully drawn interpretation of the main provisions of both the IBRD's and the IDA's articles that insulate these institutions from political intervention by their members and prohibit them from taking noneconomic considerations into account.[83] He acknowledged that the terms "political affairs," "political character," and "economic considerations" were ambiguous and that the Bank's executive directors have the power to decide how to interpret these terms. But he sought to restrict the Bank to issues of governance that have to do with:

> . . . the governments' process of establishing well functioning rules and institutions for the efficient management of the countries' resources -- a process which should go hand in hand with the investment of capital for productive purposes.[84]

Regarding popular participation, as a general requirement the general counsel noted that:

> The Bank seems to have realized the advantages of ensuring adequate participation of the people affected by or benefitting from certain projects in the design and implementation of such projects. It now requires consultation with local non-governmental organizations . . . in the borrowing country with respect to environment projects and plans and often provides for popular participation in social projects and rural development programs.[85]

But on broader issues of participation he concluded that for the Bank to become involved in "such attractive matters as political reform and democratization" would require an amendment of the Articles of Agreement, to broaden the Bank's official purposes and dispose of the provisions prohibiting political activities.

Within five years of the Bank's 1991 governance report these topics had become common currency in the debate about development assistance and strategies both among Western donors and within the Bank itself. The change was spurred by the collapse of the Soviet Union. On May 29, 1990, 40 countries, including all of the Bank's largest shareholders, decided to establish a new European Bank for Reconstruction and Development (EBRD), with the promotion of democracy as part of its mandate. The EBRD's charter states that the new bank's mission is to promote "fundamental principles of multiparty democracy, the rule of law, respect for human rights and market economics."[86] The breadth of the new development bank's mission recalled the vision of the founders of the Bretton Woods institutions. The victors of the Cold War would now help Eastern Europe and the newly independent states of the former Soviet Union to develop economically *and* politically. Good governance would be both a goal of and a criterion for EBRD lending.

The initial euphoria of Western donors over the new initiative to promote democracy soon dissipated into dismay and division over war in the Balkans. Problems of internal management of the EBRD contributed as well. The combined efforts of Europe's multilateral organizations have made substantial contributions to stabilizing relations among and encouraging tolerance within the Eastern European and Eurasian states, and so have helped prevent the outbreak and spread of deadly conflict.[87] But the EBRD's partial withdrawal from more assertive pro-democracy lending has strengthened the hand of those within the institution who advocate a more traditional approach to development financing.

Meanwhile, a second (and as of this writing the latest) comprehensive Bank report on governance, issued in 1993, suggests a willingness to deal more directly with the underlying causes of deficiency in public management. Such an approach could position the Bank to adopt a more sensitive and constructive role with regard to the social and political forces that spawn domestic conflict. The report notes that:

> All regions of the Bank have given prominence to assisting borrowers to strengthen governance in their countries. World wide, countries are seeking to improve the performance of governments . . . . A major strategic issue for the Bank is how much further the governance agenda should be developed. As this report makes clear, the main thrust of the Bank's governance work has been PSM [public sector management]. But PSM, being mainly technical in character, addresses the processes and machinery of public sector performance, not necessarily its causes. This suggests action at two levels: firstly, more determined attempts to foster ownership of reform programs; and, secondly, encouragement of institutions of civil society, so that they can grow and in turn seek greater accountability from governments in the economic sphere.[88]

A further sign of the Bank's growing awareness of the governance deficits among many of its borrowers is the topic chosen for the 1997 edition of its flagship publication *World Development Report*: "The Role of the State." The 1997 report was also viewed as a corrective for what many borrowers and Bank staff felt had been a swing too far toward economic decontrol, privatization, cutbacks in social services, and contraction of the state during the 1980s, along with wholesale decontrol of the economy and liberation of the private sector. If intergroup conflict is to be prevented, the state must be strong enough to protect all of its citizens from abuses of ethnic and economic power.

There are at least four avenues by which the Bank could develop its governance agenda, advancing its economic mission while fostering social and political conditions conducive to preventing the intensification of intergroup conflicts that threaten economic progress:

- It could continue to broaden the analysis and evaluation of country programs to include the health and vitality of the state's legal and political structures, including human rights policies, the treatment of ethnic and other minorities, the extent (and trends) of ethnic diversity in public institutions and key economic sectors, changes in the control and financing of the military, the national media, and other key political and social indicators.
- It could develop the capacity to design and test new investment strategies in culturally diverse developing countries that would select, from the set of economically sound alternatives, projects that also promote intergroup cooperation, a more equitable distribution of economic opportunities, and other benefits conducive to national integration, state building, and conflict prevention. Such experiments, aimed at having the economic agenda support the objective of good governance rather than limiting the governance agenda to supporting economic objectives, would require stretching the current interpretation of the Articles of Agreement. Extensive consultation, particularly with the target countries, would be necessary. Although the distinction is difficult to draw, the

focus should be not on the nature of the state but on its capacity to provide a political framework conducive to sustainable development at home and full partnership in the global economy.
- It could develop the capacity and allocate the resources necessary to support regional development projects and programs that will give neighboring countries the incentives to act in ways that support greater tolerance toward each other and toward ethnic, religious, and other groups, especially when they are geographically dispersed.
- It could make a concerted and sustained effort to deepen cooperation with other multilateral, bilateral, and nongovernmental organizations that have stakes in preventing deadly conflict -- a topic discussed in the next chapter.

THE ANALYTICAL AND INSTRUMENTAL SALIENCE OF HUMAN RIGHTS

Since its founding the Bank has never hesitated, in its negotiations with borrowers, to stress when necessary the importance of the rule of law and due process as these apply to investment, commerce, and trade. And it has provided extensive technical assistance to build capacity in this area. Human rights, however, have not been a subject for negotiation. During the Cold War the human rights abusers of greatest concern to the Bank's major shareholders were Communist regimes, and as such did not belong to the international financial institutions. In the late 1980s, however, the United States began enacting legislation that instructed its executive director on the Bank's board to oppose loans and other forms of assistance (except for basic human needs) to countries deemed guilty of gross violations of "internationally recognized human rights" or of harboring terrorists. This prompted Bank General Counsel Shihata to write in December 1990:

> The Bank's practice, which has been recently subject to some controversy in the Bank's Board, has been to the effect that the degree of respect paid by a government to political and civil rights (as opposed to economic rights), cannot be considered in itself a basis for the Bank's decision to make loans to that government. Violation of political rights may, however, reach such proportions as to become a Bank concern due to significant direct economic effects or if it results in international obligations . . . such as those mandated by binding decisions of the UN Security Council.[89]

In mid-1993, at the World Human Rights Conference in Vienna, Shihata gave a more liberal interpretation of the Bank's articles when he noted the analytical value of human rights and popular participation for deciding the economic viability and creditworthiness of projects and programs.[90]

There is, of course, an economic argument for ignoring human rights except in the most egregious cases, for example that of apartheid South Africa. Many of the world's most dynamic economies, including several of the Bank's favorite success stories in East Asia as well as Chile under the "military capitalistic" regime of General Augusto Pinochet in the 1970s and 1980s, have or have had governments that engender widespread criticism from international human rights groups. As was noted in chapter 1, however, most of today's big emerging markets are complex multiethnic states that face major state-building challenges, as the effects of rapid economic expansion and greater openness and diversification generate pressures for greater popular participation and self-determination. Despite the obvious political sensitivities, earlier careful attention to the status of human rights in all borrowing countries should become a normal feature of Bank country assessments. Although this may be resented by major borrowers, notably China, significant changes in human rights protection can be critical indicators of political stability or instability, which will affect loan risk. Such assessments should not only inform country analysis of long-term creditworthiness but, if human rights conditions show signs of deterioration, should spur the Bank and others to quietly encourage corrective measures as an exercise in conflict prevention.

In using human rights and other indicators of a state's political health in this way, the World Bank would be in step with the post-Cold War change of outlook in the UN. A functional approach to human rights was one of the key points of *An Agenda for Peace*, the 1992 report prepared by UN Secretary-General Boutros Boutros-Ghali at the request of country leaders at the first-ever summit meeting of the Security Council. The call for UN members to pay closer attention to the decline of any government's commitment to human rights was not made for moral or ethical reasons, but instead was justified as serving member states' interests:

> . . . it is the task of leaders of States today to understand this and to find a balance between the needs of good internal governance and the requirements of an ever more interdependent world. Respect for democratic principles at all levels of social existence is crucial.[91]

At a time when the internal character of states has become a legitimate international security concern that is no longer tied to Cold War ideological alignments, the Bank also ought to be able to stretch its charter and recognize the internal character of states as a legitimate international *economic* concern.[92] Unless multiethnic states, whether dirt-poor or newly industrializing, acquire greater resilience, they will not be able to withstand the challenge of groups within their borders seeking self-determination -- a challenge that in this information age is bound to intensify.

INVESTING IN GOOD GOVERNANCE AND REGIONAL COOPERATION

In countries where ethnic or other tensions show signs of rising, or where they are already high, the Bank might experiment with bundling economically viable projects and related activities in ways that encourage a domestic environment more conducive to tolerant governance and the prevention of deadly conflict. This bundling, or what the EBRD's counsel, Melanie H. Stein, has termed "strategic investing," would be:

> . . . the systematic extension of credits and guarantees and the investment of equity in accordance with procedures and processes consciously designed to achieve, either at the individual project level or at the aggregate level, specified political goals, in particular a reduction in violent ethno-national conflict.[93]

Strategic investing for the prevention of deadly conflict not only focuses on improving the effectiveness of the state but also contributes to integrating the nation that supports the state. The Bank can foster national integration in at least two ways. The first is to target its lending and technical assistance so as to build bridges between groups within a diverse and conflict-prone society. The second is to assist directly those groups that are disadvantaged or vulnerable, and so help raise their stakes in the future of the nation. Both approaches are full of pitfalls, not the least of which is making certain that whatever is done meets the Bank's criteria for economic viability. These criteria can be rather flexible, particularly if the money comes from IDA or in the form of grants from surplus IBRD funds. Critics will argue, however, that the desire to satisfy political and social concerns will compromise sound economic analysis.

Supporting economically viable projects or credit schemes that bring ethnic groups together, for example, to develop a shared natural resource or solve an environmental problem, or to ensure ethnic diversity in educational and training programs, may require somewhat more time and expense in project development. But in an era of rising pluralism, the more the Bank can know about local social and political dynamics and factor these into its risk calculations, the better will the Bank's long-term objectives be served. The process of deeper engagement can also pay subtle but important prevention dividends.

Recent analyses of the proximate causes of ethnic conflict point to the absence of third parties who can effectively reassure each side that any commitments they make to observe self-restraint and to cooperate will not be somehow exploited by the other.[94] Normally such assurance is provided by the legal system, but when the government itself is controlled by one faction in an incipient ethnic conflict, rising insecurities can set off a local arms race in which each party to the conflict fears the worst and acts accordingly. Although the Bank lacks the resources and the political skills to credibly guarantee cooperation among groups that might be sliding toward conflict, it can encourage the dominant group to make serious efforts to forge renewed commitments to threatened minorities, and it can then draw the parties together around projects of common interest that can help reinforce these commitments. The objective is to help forge coalitions of mutual self-interest that will preserve and protect national unity and economic development.

Projects and programs aimed at helping disadvantaged groups achieve parity with the more powerful and affluent segments of society will not be negotiated without problems. Such help can arouse resentments in the majority community or ignite unrealistic expectations among the previously neglected; either way, such initiatives may exacerbate rather than alleviate conflict. Such efforts can realistically be only a small part of the Bank's engagement in a country, but if they are tied to other efforts to promote effective governance and to reduce intergroup tensions, they can raise the collective stakes in peaceful nation building. As with so many of the Bank's initiatives, complementary support from bilateral donors and nongovernmental organizations in fostering cross-ethnic cooperation and greater equity among groups can play a crucial role in helping the Bank meet its economic objectives and in fostering conditions conducive to preventing deadly conflict.

In recent years borrowing countries have had to deal with bilateral and nongovernmental donors concerned about human rights and popular participation. The Bank's approach necessarily would be much less overt, but it could suggest ways in which projects and other assistance could help moderate intergroup tensions and ease the task of consolidating power and state building, provided the government does not perceive the negotiations as subversive. Strategic investing would amount to constructing a package of incentives, rather than imposing a set of new negative conditions. No rational government, after all, welcomes domestic violence. And governments today are ever more eager to attract foreign direct investment, and they know that a stable political environment is a key criterion in the decisions of private foreign investors as well as those of the Bank. Failure to achieve a peaceful accommodation with restive minorities, particularly if order has to be restored by force, risks international isolation and sanctions.

For students of deadly conflict it is now conventional wisdom to note that the failure of prevention is less a function of the lack of early warning than of the absence of early action. The Bank lacks the mandate and the instruments to act against a government that appears to be losing legitimacy and effective authority over its people. But it could be more helpful if it used the early warnings of rising intergroup tensions within a state to guide its lending program in ways that might help to reduce these tensions, and if it worked more closely, yet still quietly, with the government to encourage local preventive action and, where appropriate, contribute to the economic elements of this strategy.

Raising these issues within the Bank's country review process would still be politically sensitive; even more sensitive would be to raise them in negotiations with a government borrower. But we live in an era in which no country can escape the attention of the world's media and of thousands of politically active nongovernmental organizations, capable of detecting and sounding the alarm about signs of injustice wherever they occur. There are also the human rights and labor welfare reports published by the United States and other national and international organizations, and public and legislative disinvestment movements aimed at economically isolating repressive governments. In such a context the Bank can hardly claim ignorance of or disinterest in the political forces that affect the domestic economic climate and the trade and foreign investment prospects of Bank members.

The quest for nonrepressive ways of achieving better national integration while maintaining national order has become a sufficiently common concern that the Bank will likely find that promoting good governance as a political objective may have greater appeal than poverty reduction. A major new study of the relative effectiveness of incentives and sanctions as instruments to help prevent deadly conflict suggests that such incentives, used early in a crisis, offer much greater leverage in encouraging restraint and accommodation than does the use of economic or other sanctions later on.[95]

To inform itself in such a way as to conduct the reformulated strategy proposed here, the Bank would need to augment its analytical capacity in the social sciences, both in Washington and, more important, in the field. Most of the intelligence for assessing the early warning signs of political instability and intergroup tensions can be acquired from accessible sources and with the help of nongovernment organizations, government embassies, the media, and the scholarly community, both within the country in question and outside. By simply committing itself to a policy of paying closer attention to the political life of the country, as a risk factor that could affect its lending decisions, the Bank should influence governments toward restraint. And in the event that demands for cultural self-determination turn violent, the Bank will be in a better position to defend its decisions to continue support, or to limit its support, of the incumbent regime.

The first objective, however, should be -- and should be perceived to be -- to help the incumbent government become a more capable, productive, and responsible member of the World Bank. The Bank cannot be neutral or impartial with regard to factions within a state, but it may be able to help that state undertake projects and programs designed to reduce the risk of violence. If local insurgents threaten secession, in some circumstances the Bank could decide to continue lending to the endangered government and do what it can to support the preservation of the state.

In rare circumstances the Bank might elect to adopt a passive position on the issue of a state's preservation, conditioning short-term financing and assurances of long-term support on the parties agreeing to a process of disassociation that is peaceful and that meets other criteria of tolerance, fairness, and restraint.[96] This, after all, was the policy of the United States, Western Europe, and Japan during the collapse of the Soviet Union and the emergence of newly independent states in its former republics. In the United States, the Bush administration declared that it was more interested in how states dissolved than whether they dissolved, and it made diplomatic recognition and any future foreign assistance contingent on several principles, including the peaceful resolution of all disputes, respect for the rule of law, respect for human rights, and a demonstrated commitment to market economics and multiparty democracy.[97] And for the most part the Soviet bloc dissolved peacefully, allowing the U.S. administration to claim -- without ever being able to prove -- success for its preventive diplomacy.

The Bank, however, is intergovernmental and cannot remain neutral. The dilemma then becomes how far to support a state that is in conflict with its own citizens. The forceful suppression of an insurrection or secession may sometimes be necessary and justified: more than a century ago the United States fought a just war to preserve its own union, and circumstances may arise where the Bank will want to continue assisting a state engaged in prosecuting a civil war.[98] For the Bank to curtail or halt its operations in a country will inevitably be viewed as a hostile act by the country's government, because it withholds expected resources and implicitly elevates the standing of any challenger. Obviously, the Bank would like to avoid such circumstances, and this is another compelling reason for preventive action. But in doing so the existing state must be the primary focus of the Bank's early efforts.

Although, in early prevention, positive incentives appear to be more effective than the threat of sanctions in persuading a government to act in ways that ought to appeal to its self-interest, the World Bank does have an established tradition of "strategic nonlending." This approach could offer, in extreme cases, a negative counterpoint to strategic investing. In the late 1940s and 1950s strategic nonlending entailed the withholding of loans for reasons other than a negative judgment about the capacity and willingness of the borrower to service the loan. It was, in short, a blunt tool for encouraging governments to change their policies -- long before the era of macroeconomic policy-based lending. After World War II strategic nonlending applied to major projects planned or in the pipeline, and these actions were, in effect, sanctions against such measures as legislation hostile to private foreign investment, failure to clear foreign debts, or excessive state control of the economy.[99]

Strategic nonlending based on political considerations would conflict with the Bank's Articles of Agreement, yet it has been used in recent years for very obvious political purposes. When it was, in effect, used to protest human rights abuse under apartheid in South Africa, the Bank could justify this policy as merely respecting UN-mandated sanctions. A more dramatic and controversial example of strategic nonlending was the decision by the World Bank and the Asian Development Bank to halt further work on several loans in the pipeline for China, and to freeze consideration of new loans, after the violent crackdown on human rights demonstrators in Tiananmen Square in June 1989.[100] Two years later, less decisive action was taken against the government of Kenya for a series of repressive actions.[101] In the case of Kenya the Bank was pulled along in the wake of actions taken by the Group of 24 donor countries at the Paris meetings of the Consultative Group for Kenya. At that moment the Group of 24 was more united than it had been in taking such actions, thanks to the group's early (but short-lived) concerted action to hold the emerging market economies of Eastern and Central Europe and the former Soviet Union accountable to basic principles of human rights, market economics, rule of law, multiparty democracy, and the peaceful settlement of disputes. This initiative fractured when the breakup of Yugoslavia led to deepening divisions among the Western powers over how to respond to that crisis.

Governments would be unlikely to approve the return of strategic nonlending as Bank policy, except in cases of extreme danger or of UN-designated threats to international security such as those noted earlier. But if the Bank were to adopt a more strategic approach to the promotion of good governance and conflict prevention, the possibility, however remote, that the Bank might slow down or freeze its activities in response to human rights abuse could serve as a useful restraint on governments tempted to use repression to maintain order.

During the life of the Bank, regional cooperation, by helping turn former enemies into good neighbors, has become one of the major building blocks of world order. The economic consequences of regional cooperation have also been generally positive, both for the participating countries and for the global economy. The World Bank's role in this process has, however, been circumscribed, because technically it may lend only to governments, not to other multilateral organizations. This limitation has been circumvented over the years by orchestrating simultaneous support to countries engaged in a joint effort, and by providing advice and technical assistance to the secretariats of regional organizations. If the Bank were encouraged by its members to expand its support for regional cooperation, not only could this deliver economic benefits for government participants, but it could also become an important tool for conflict prevention.

In regions where tensions among neighbors run high, support for economically viable projects can also help reduce the risk of conflict. This has already been accomplished with modest Bank assistance in Southern Africa and looms as a much bigger challenge in the Great Lakes region of Central Africa, where regional economic and political cooperation will be absolutely vital if the spreading cycles of violence are ever to be halted. Refugees across Africa and other unstable regions always pose a risk of further conflict between their home and host countries. Even where populations have been reasonably stable, one country's majority ethnic group may be a neighbor's ethnic minority. Funding projects to develop shared water, mineral, and other resources cannot only yield economic benefits but also serve as an important confidence-building measure. Such investment can also help stabilize populations on both sides of a frontier, reducing the risk of refugee flows and/or of cross-border insurgencies. If the Bank is to assume a more active role in preventing intergroup conflicts within countries, a necessary corollary in many parts of the world will be to spur regional cooperation as well.

4. Partners in Prevention

The World Bank's modest but growing interest in postconflict reconstruction, good governance, and conflict prevention can only be advanced through expanded partnerships with other multilateral, bilateral, and nongovernmental organizations. In most peacebuilding and postconflict reconstruction situations, the Bank lacks the capacity and the support to lead and instead must learn to follow and work with others, notably the UN secretary-general and his special representatives, UN and regional military forces, and major humanitarian agencies. Nongovernmental organizations, bilateral agencies, and other parts of the UN system are also ahead of the Bank in working to promote good governance through programs to expand participation of the governed and ensure greater transparency, accountability, respect for human rights, and the rule of law.

Historically, the Bank has usually dominated whatever coordinating processes in which it was involved, sometimes generating resentment among other participants.[102] As the world's largest source of development assistance and of technical expertise on development matters, with the backing of all of the major donor countries, its lending gives the borrowing country its seal of approval, which makes raising other assistance much easier. Furthermore, as manager of several donor consultative groups the Bank has vast experience in leveraging and coordinating country assistance programs. But during the 1990s, in Bosnia, Cambodia, Central America, the Middle East, and Southern Africa, the Bank has been pressed to work more closely with and to defer to other actors. In some cases, noted below, significant gaps in communication and in willingness to cooperate persist. This can result in missed opportunities to contain or mitigate the effects of deadly conflict and ensure that fragile peace processes are rendered irreversible.

The 1995 summit of the Group of Seven (G-7) leading industrial nations in Halifax, Canada, called for expanded cooperation among international organizations, and World Bank President James D. Wolfensohn has pledged his organization's compliance with that mandate. In his February 1997 *Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty*, Wolfensohn stressed that stronger partnerships would be key to the Bank's effectiveness. He listed five main groups of Bank partners and how they should interact. The ways in which these relations are envisioned suggests a higher profile for conflict prevention:

- Client countries: with more intense consultation through participatory Country Assistance Strategies, increased field presence and decentralization of authority to local offices.
- International agencies: with special attention to strategic alliances with entities that influence the environment for development, such as the IMF; regional development banks; the United Nations; the European Union; and the World Trade Organization.
- The private sector: the Private Sector Development Group will expand and deepen its partnerships with public/private institutions.

- Civil society: at the country level, partnerships with foundations, civic organizations and other NGOs will be systematically planned in the context of country assistance strategies.[103]

Wolfensohn and UN Secretary-General Kofi Annan have both emphasized a new determination to cooperate. And Wolfensohn has made a special effort to reach out to private foundations and other not-for-pro fit organizations to acquire a better understanding of the role of civil society, human rights, and other issues related to good governance and political development for which the Bank is poorly staffed and funded.[104] Most of these postconflict and governance collaborations, however, are still in the early stages of development. They may encounter some resistance among Bank operations managers and executive directors who fear that such collaboration could undermine the Bank's core mission of poverty alleviation and sustainable development and divert scarce resources from that mission. This chapter begins by focusing on those policies of the advanced industrial countries that are giving fresh emphasis to the links between conflict prevention and development. Despite declining aid levels, these governments will remain the Bank's biggest and most influential shareholders, with their bilateral development agencies remaining among the Bank's key funding partners.

MAJOR BILATERAL DONORS

At the High Level Meeting of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) in May 1995, heads of aid agencies and ministers of development cooperation from OECD member countries focused on the need "for development co-operation to contribute more pro-actively to conflict prevention and post-conflict." Their collaboration resulted in May 1997 in a policy statement titled *Conflict, Peace and Development Co-operation on the Threshold of the 21st Century*.[105] The willingness of the major donors to implement this policy statement has yet to be tested, but the statement is bound to influence the context for debates within the Bank and among the other institutions that collaborate with it. These include the IMF, the UN and the United Nations Development Programme (UNDP), the five regional development banks (RDBs), and a number of nongovernmental organizations. Because the issues and policies treated in this report are still in flux within the Bank and among its member countries, not much can yet be said about the potential for collaboration with these other institutions. This chapter only very briefly highlights the Bank's relations with them, to provide some additional context for the conclusions and recommendations in the final chapter.

The DAC policy statement declares as its first principle that "helping strengthen the capacity of a society to manage conflict without violence must be seen as a foundation for sustainable development." It goes on to state a collective determination that development cooperation "must play its role in conflict prevention and peacebuilding alongside the full range of other instruments available to the international community: economic, social, legal, environmental, and military."[106] Although the policy reiterates a commitment to respect the "cardinal principle of development cooperation . . . [that] developing countries are ultimately responsible for their own development," it endorses a broader concept of engagement by bilateral donors than would be appropriate under traditional diplomatic practice and suggests a further stretching of the principle of noninterference when it states:

> The task of international assistance is to help strengthen a country's indigenous capacities. This must be done in ways that are even-handed and that encourage broad participation throughout society . . . . Development co-operation efforts should strive for an environment of "structural stability" as a basis for sustainable development. This concept embraces the mutually reinforcing objectives of social peace, respect for human rights, [and] accountable military forces.[107]

With regard to preventive action, the stated policy is:

> Development assistance will have the most impact in conflict prevention when it is designed and timed to address the root causes of violent conflicts, as well as the precipitating factors, in ways that are relevant to local circumstances. These may include the imbalance of opportunities within societies, the lack of effective and legitimate government, or the absence of mechanisms for the peaceful conciliation of differing interests within society at the local, national and regional levels.[108]

To encourage bilateral and multilateral donors to implement the policy, the DAC ministers and heads of aid agencies issued a much longer set of *DAC Guidelines on Conflict, Peace and Development Co-operation.*[109] The guidelines were the product of a special task force of 18 governments plus representatives of the World Bank, the IMF, the UNDP, and the European Commission.[110]

The DAC guidelines have six broad elements: analysis of the links between violent conflict and development; coordination both within the international community and in the country in question; the transition from humanitarian relief to development; building the foundations of good governance and civil society; postconflict operational priorities; and regional approaches to conflict prevention and peacebuilding. Appendix B of this report contains a brief summary of the ten ways that the DAC guidelines recommend that the international community respond to the need for conflict prevention and peacebuilding.

Although the World Bank is accustomed to taking a leadership role in the consultative groups that design, monitor, and modify international assistance to developing countries, the DAC guidelines recognize that preventing conflict requires *ad hoc*, innovative approaches that, in most cases, would not favor a prominent role for the World Bank. The consultative process envisioned in the guidelines calls for:

> . . . flexibility on the part of donor agencies . . . in the way fund-raising instruments (expanded consolidated inter-agency appeals, special donor consultations, round-tables, consultative groups, etc.) are prepared. By mapping out clearly the rationale and funding requirements of peacebuilding and reconstruction programs, the strategic framework can help donors in their decisions, relative to aid resource allocations.[111]

Leadership in forging and carrying out the strategic framework, including mobilizing resources and creating field-level consultation and information sharing, as well as operating the coordinating mechanism, could come from anywhere within the international community. There have, for example, been several "Friends Groups" of countries that come together, usually with the blessing of the UN secretary-general, because of shared concern for a troubled state or about a regional conflict.[112] More generally, the DAC guidelines look to the United Nations rather than the World Bank to take the lead in coordinating preventive action, and they state that "Reform of the economic and social sectors of the UN system -- working with the political, military and humanitarian arms *and the international financial institutions* -- must in future strengthen the synergies in the total international response" (emphasis added).[113]

Any efforts to mount timely, flexible, and coordinated responses will, of course, require financial resources. And what is not clear from the DAC policy statement and guidelines is whether the Western donors are prepared either to redirect existing foreign assistance funds from other priorities or to raise new money to deal with these contingencies. Before briefly identifying the other institutions with which the Bank is expected to form partnerships, it should be noted that the Bank's managers face several uncertainties regarding the policies and commitments of certain Western donors. Foreign assistance provided by the OECD countries as a group continues a slow but steady decline, and the proportion of this shrinking total that is allocated to multilateral institutions has also declined, from 35 percent in the early 1980s to 30 percent a decade later.[114] And among the major donors, the unreliability of the United States presents the greatest problems.

PROBLEMS WITH THE UNITED STATES

The United States led the world in creating the UN and the international financial institutions, but its commitment to multilateralism began to erode more than 20 years ago. Washington's policies in Vietnam, the Middle East, and South Africa under apartheid, and its opposition to various efforts by nonaligned developing countries to gain greater influence over the UN, left the United States increasingly isolated. This estrangement has accelerated in the wake of the Cold War as the U.S. Congress has repeatedly forced unilateral cutbacks in U.S. contributions to the UN and to the international financial institutions.[115]

Between 1985 and 1997 the amount of funding appropriated by Congress for the nonmilitary, diplomatic, and economic instruments of U.S. foreign policy declined in real terms by more than 50 percent.[116] The United States, once the world's unchallenged leader in providing foreign assistance, now ranks last, on an assistance-per-capita basis, among the 24 Western donors. In absolute terms the United States recently dropped from first to fourth place, behind Japan, Germany, and France.[117] For a multilateral institution such as the World Bank, understanding -- much less anticipating -- the change in U.S. support is very difficult. Public opinion surveys reveal broad but not intense support for multilateral institutions among the American public, although they also reveal that the public believes the United States already spends far more than the 1 percent of the federal budget that actually goes for nonmilitary international programs.[118] Perhaps because of the public's general disinterest in international affairs and its misperceptions about what is actually being spent, a minority of politicians and constituency groups strongly opposed to multilateralism in general, and the UN and the international financial institutions in particular, have been able to engineer sharp and unanticipated disruptions in the funding of U.S. commitments to these institutions.[119] The effects on the World Bank, particularly with regard to issues of concern to this report, are disruptive and dispiriting.

At the very time that the United States was pressing the World Bank to engage heavily in support of peace processes in Bosnia, the Middle East, Cambodia, Central America, and Southern Africa, it was refusing to meet its commitments to contribute to the International Development Association (IDA), the Bank's concessional lending arm, which is vital for postconflict reconstruction and for promoting good governance in poor countries. The United States, which in 1992 had pledged a total of $3.75 billion to IDA-10 (the tenth replenishment of IDA funds), reduced its third-year contribution from $1.3 billion to $700 million, bringing its total overdue payments to IDA-9 and IDA-10 to $934 million. As World Bank President Wolfensohn pointed out, "If every government cut [its pledges] by the same rate, IDA -- which deals with 67 countries and more than 2 billion people, of whom 1.2 billion live on under a dollar a day -- would have been cut from $6 billion a year to a bit over $3 billion."[120] U.S. funding cuts forced other donors to establish an emergency fund, without the participation of the United States, in 1996, the first year of IDA-11. The troubled IDA-11 negotiations may have signaled the end of nearly three decades during which this form of multilateral concessional assistance, at least, had increased at a modest but steady pace. The Clinton administration has secured from Congress an appropriation to honor its overdue pledges, so that the United States can participate in the two subsequent years of IDA-11 by providing $700 million in 1997 toward the $4 billion total annual contribution by donors. And the administration appeared to have won congressional approval for repayment of $900 million out of some $1.3 billion in U.S. arrears to the United Nations, plus a commitment to provide $3.5 billion in loan guarantees for a new IMF emergency credit program to help countries that find themselves in extraordinary financial straits, as did Mexico in 1995 and Indonesia in late 1997.

The idea of an "Emergency Financing Mechanism involving a fund arrangement with strong conditionality but with high-up-front access and faster procedures to access Fund resources in crisis situations" was endorsed by President Clinton and other G-7 leaders at their 1995 Halifax summit.[121] In November 1997 a donor consortium of 25 nations was formed to back the new IMF facility, which would work in partnership with the World Bank and the Asian Development Bank to provide $32 billion in emergency credits to Indonesia, South Korea, and Thailand to help prevent financial crises in those countries, the political side effects of which were potentially dangerous. Prospects for this preventive action suddenly stalled when Congress decided to withhold the $3.5 billion in loan guarantees, to force the administration to condition its pending $385 million contribution to international family-planning programs on a prohibition of abortions or abortion advocacy.[122] As of this writing it is not known whether the funds for the IMF's New Agreements to Borrow or those for UN arrears, also being held hostage to the abortion issue, will be approved in 1998. Such capricious unilateral actions by the United States are, however, one of the main reasons why building multilateral capacity for preventive action has become so difficult.

When the United States, the world's richest nation, unilaterally refuses to meet its treaty obligations, it strikes a blow to the foundations of the international order and, more immediately, prevents the multilateral institutions from doing the work that the U.S. and other governments are asking them to do. It may also constrain these institutions from forging creative new partnerships, such as the New Agreements to Borrow. And faltering U.S. support of multilateral institutions casts a shadow across the Bank in its dealings with other institutions, as noted below.

WITHIN THE UN SYSTEM

At their Halifax summit the G-7 leaders also declared: "To help prevent and mitigate emerging crises, including those with human rights and refugee dimensions, we will ask . . . the Bretton Woods institutions and the U.N. to establish a new coordination procedure, supported as necessary by existing resources. . . ."[123] Relations among the main institutions of the UN system had been constrained by Cold War politics, as noted earlier. Today the World Bank faces different political pressures, but it still seeks to maintain as much independence as possible over the disposition of its financial resources. And this has made coordination more problematic than the Halifax communiqué might indicate.

The one UN specialized agency with which the Bank has enjoyed a long and close relationship is the United Nations Development Programme, because until recently the UNDP had grant money for technical assistance, which the Bank lacked.[124] Increasingly the Bank has been able to use its own discretionary funds for the technical assistance required to design and assess the feasibility of projects that eventually qualify for Bank loans, while the UNDP's budget has declined. Meanwhile the UNDP has been undertaking a series of programmatic, structural, and organizational changes to improve the delivery of technical assistance and to exercise a more forceful leadership role in the international development community. Under the leadership of James Gustav Speth, the UNDP has begun a major process of change designed to transform it into an agile and responsive multilateral development assistance agency capable of responding to the challenges of a turbulent world.[125]

Rather than foster competition between the two institutions in the field of technical assistance, the World Bank should engage in an active process of collaboration with the UNDP aimed at improving the overall effectiveness of multilateral technical assistance and capacity-building programs. Countries that are trying to consolidate peacemaking processes and are involved in postwar reconstruction constitute a propitious setting in which to try new collaborative arrangements and learn from experience. This would entail, for example, combining the extensive network of UNDP resident representatives with grant resources at the disposal of UNDP (part of which could be provided by the World Bank, the RDBs, and bilateral agencies); with the technical and economic skills of World Bank staff; and with the training expertise of the Bank's Economic Development Institute, fostering teamwork and a more coherent approach to the provision of technical assistance to developing countries.[126] It is also clear that such collaborative arrangements could extend to other institutions, such as the RDBs and the bilateral cooperation agencies. The World Bank's executive directors have expressed concern, however, that the Bank not attempt to duplicate the work of others.

As cooperation with the UNDP has ebbed, Bank officials remain wary about working too closely with other UN agencies, notably those engaged in humanitarian emergencies and reconstruction. This issue surfaced in the recent deliberations over the establishment and role of a new unit for postconflict situations. According to Bank staff there was a clear sense among the Bank's governors that funds should not be provided during complex emergencies for relief and other needs that are the domain of the UN High Commissioner for Refugees and other humanitarian organizations. Most postconflict countries do not qualify for conventional Bank financing, and major new claims on the Bank's limited grant funds would limit its ability to provide technical assistance and concessional lending for poverty alleviation in countries where peace prevails.

Another example of the reluctance of the Bank to have its country programs influenced by the UN's political organs has been its response to Security Council-mandated sanctions. Countries that are the neighbors and/or major trading partners of a state that has been targeted for economic sanctions may suffer collateral damage that is both severe and undeserved. Innocent states may be burdened with sudden inflows of refugees, disrupting the local economy and derailing Bank-approved programs and projects. Increased costs for defense and public safety in these countries could also undercut development plans. And the side effects of economic sanctions can cause great and unforeseen hardship in countries that previously depended on trade and other ties to the target country. The UN Security Council mandated sanctions only twice between 1945 and 1990 but eight times between 1990 and 1994. Both the consensus to apply sanctions and their effectiveness will be undermined if too many innocent bystanders in neighboring countries are hurt. Thus far, the Bank has taken the position that it will adjust its programs in those countries as it deems necessary, but there is mounting pressure within the UN and among country governments to foster much closer cooperation and coordination between the UN and the Bank to deal more effectively with these side effects.[127]

Inadequate coordination with the World Bank and the IMF has also been a problem for the UN during postconflict efforts to consolidate peace and prevent a recurrence of violence. Typically, the Bank and the IMF do not become deeply engaged until after the first phase of peacemaking and peacekeeping, when sufficient security has been achieved to begin the withdrawal of UN military forces and the burden to restart the economy can be undertaken primarily by the international financial institutions. Such transitions are always complex and difficult. The costs of poor coordination can be substantial, as UN officials Alvaro de Soto and Graciana del Castillo have documented in the case of El Salvador.[128]

The example of El Salvador is not unique. There as in many other postconflict situations, the international community first helped engineer and then sanctioned peace accords with ambitious reforms, which sought to eliminate the causes that had led to deadly conflict. Demobilization of the armed forces, creation of a new national police, development of an independent and capable judiciary, reform of public administration, and extensive land reform were all part of the package. Also typical was a simultaneous effort by the World Bank and the IMF to stabilize the economy and effect a program of major structural adjustment, which they deemed essential for restarting economic growth and removing the political dangers of rampant inflation, budget deficits, and an inability to generate foreign exchange through expanding trade. Unfortunately, the financial prescriptions worked at cross-purposes with the political reforms: demobilization, land reform, and other elements in the peace accord required increases in government spending that would impede the IMF-supported stabilization program. Failure to harmonize these two processes put successful conflict prevention at risk in El Salvador, and as de Soto and del Castillo rightly point out, the lessons learned there were immediately relevant to postconflict situations in Cambodia, Haiti, Mozambique, and elsewhere.

Throughout the UN system, barriers to better communication persist. Agencies have different charters, budgets, and governing bodies. In their dealings with national governments they often interact with ministries that are trying to protect bureaucratic and budgetary prerogatives: foreign affairs for the UN, finance for the World Bank and the IMF, health for the World Health Organization, development for the UNDP, and so on. Moreover, even if communication and coordination were improved internationally and locally, there is a further need for greater flexibility within UN agencies with a stake in postconflict reconstruction, including the Bank and the IMF. During the Cold War, as noted earlier, Western governments sometimes prevailed on the Bank and the IMF to bend their strict economic criteria and extend support to an underperforming country for geostrategic reasons. And in recent years criteria have been stretched to accommodate the urgent needs of Russia and other former Communist states, or to reinforce the Dayton peace accord in Bosnia. In other cases, as de Soto and del Castillo note with respect to El Salvador, the Bank and the IMF withheld badly needed postconflict concessional assistance because the country's per capita income was too high (in El Salvador's case only $300 too high) for the country to be eligible.[129] Other problems arise when agencies are too inflexible about what sectors or functions they are allowed to assist.

Communication, coordination, and flexibility within the UN system could be improved in three ways that would involve the World Bank and the IMF. One way is suggested in the UN secretary-general's July 1997 Programme for Reform. Within countries where the UN has a major presence, the secretary-general recommends that a "UN House" be established to accommodate all the local offices of the various UN agencies under one roof, and that this consolidation be linked to decentralization of decisionmaking to the country level to encourage greater flexibility.[130] A second way, which the secretary-general has also begun to address, is to make the Administrative Committee on Coordination (ACC) a more significant body. The heads of all the UN agencies, including the Bank and the IMF, meet semiannually within the ACC, but this has traditionally been little more than a forum for general dialogue, not one for substantive coordination. A third mechanism, noted by de Soto and del Castillo, is the dormant UN-World Bank Liaison Committee, created in 1961 to promote closer cooperation between the two organizations. This committee was to have met no fewer than four times annually and to have opened the way for coordination of technical assistance and other development work; it was, however, opposed from the outset by the World Bank and has never operated formally.[131]

Improving communication, coordination, and flexibility between the Bank and the rest of the UN system to prevent the outbreak or recurrence of conflict will require strong political and financial leadership on the part of the advanced industrial countries that control the majority of World Bank shares. This is unlikely so long as the United States undermines its capacity to lead by refusing to pay its UN dues and, more important, is unable to achieve greater domestic political consensus and resolve regarding its foreign policy purposes and priorities in the post-Cold War era. In the meantime, the leaders of the international financial institutions are taking some modest but worthwhile steps beyond the cooperation that the force of circumstances is producing in postconflict situations such as Bosnia. One key relationship that has always been close but can still be improved is that between the World Bank and the IMF; another is that between them and the RDBs.

When the two Bretton Woods sisters were established, the Bank's assigned role was to finance postwar reconstruction and long-term economic development while the International Monetary Fund concentrated on the need to stabilize currencies and exchange rates. During the 1980 s the World Bank expanded its scope of action beyond investment lending into policy-based lending to support policy reforms. This change had important implications for the Bank, including modifications in conditionality, alterations in disbursement procedures, and changes in the skill mix of its staff. It also implied the need to focus on macroeconomic policies such as balance of payments and fiscal management, hitherto an exclusive preserve of the IMF.[132] On occasion, these overlapping efforts created confusion and conflict. For example, in 1988 the Bank decided to go ahead with a structural adjustment loan to Argentina in the face of IMF opposition -- a decision that may have reflected a strong U.S. interest in helping to stabilize conditions in that country following the shock of military defeat by the United Kingdom in the Falklands/Malvinas war. Commitments for such quick-disbursing adjustment lending reached about 30 percent of total Bank lending in the late 1980s and early 1990s.

Today, the World Bank need not continue to devote so much of its financial and professional resources to the short-term task of shoring up the macroeconomic foundations for growth in its borrowers. As a result, the Bank can redirect these resources to investments that promote long-term growth and good governance, and reduce poverty, leaving the IMF once again as the primary monitor of short-term macroeconomic policy performance. Recently, several highly indebted middle-income countries that had turned to the Bank for urgently needed structural adjustment loans concluded debt refinancing and reduction agreements with their commercial and bilateral creditors, and workouts of their arrears with multilateral institutions, thus removing important constraints to renewed external financing. At the same time, the so-called Washington consensus on macroeconomic policies -- including noninflationary monetary and fiscal policies, greater openness to trade and foreign investment, a more focused and efficient role for the state, and more market-based resource allocation -- has taken hold in most developing countries.[133]

Recalibrating the division of labor does not, however, obviate the need for close coordination between the World Bank and the IMF. The close linkages that have developed between them exert a powerful influence on borrowing states, through what is often referred to as cross-conditionality. The parameters of such conditionality can place severe demands on borrowers, and as noted earlier, the Bank and the IMF have been accused of being causes of intrastate conflict rather than instruments of its prevention.[134] The Bank, with its large field staff, broad development agenda, and strong analytical capabilities, has a decided comparative advantage over the IMF in diagnosing problems of weak governance and rising domestic tensions that could seriously affect, or be affected by, their joint country programs. The warning function that the Bank can play when IMF prescriptions seem to be hurting the prospects for social stability and development needs to be recognized and strengthened by the major shareholders of the two institutions.

Cooperation among the international financial institutions has been spurred by the needs of the newly independent states of the former Soviet Union. These countries joined the Bretton Woods institutions in the early 1990s just as they were embarking on extremely complex and tense transformation processes, first to sovereign independence and then from centrally planned to market economies and from one-party states to democracies. A joint effort with a clear division of labor among the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), and the OECD led to the first comprehensive studies of the policies and interventions necessary for countries to proceed with economic transformation. The IMF took the lead on macroeconomic policy issues, the World Bank did so on certain key sectors of the economy, and the OECD and the EBRD focused on technical assistance and the private sector.[135]

Demands for involvement in conflict prevention and postwar reconstruction affect the IMF only to a limited extent. Its role is usually con fined to providing technical assistance for the establishment of a reliable system of economic statistics, organizing the central bank, and providing technical assistance to improve tax collection and other government functions in the field of macroeconomic policy. Since 1989 IMF Managing Director Michel Camdessus has spoken openly about the need for countries to reduce unproductive military spending, and the IMF and the Bank have together criticized governments that they feel have allocated too large a proportion of public funds for arms.[136] The two institutions should broaden the range of joint appeals and coordinated efforts, to help countries reduce military expenditures and adopt other policies that are conducive to good governance and conflict prevention. One way to do this, on which chapter 5 of this report elaborates, would be to address these issues in the World Bank-IMF Development Committee, a joint ministerial committee with delegates from 24 countries that represent the full membership of the Bank and the IMF. This committee meets twice annually in an effort to build consensus on key development issues.

THE REGIONAL DEVELOPMENT BANKS

In addition to forging closer cooperation with the IMF, the World Bank needs to engage the five regional development banks -- the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the soon-to-be-launched Middle East and North African Development Bank -- more closely on issues of good governance, regional cooperation, and the economic dimensions of conflict prevention. Relations with the RDBs are especially complex, however, because most have regarded the Bank as a competitor, not only in making loans but in the generation and adoption of development concepts and policies.

The RDBs increased their capital during the 1980s and moved aggressively to expand their investment lending, both for projects and for sectoral programs. The RDBs sometimes follow the World Bank's operational lead, but they are able to initiate programs on their own as well because they frequently offer more attractive financial terms and conditions (for example, the Inter-American Development Bank's average lending rates are slightly lower than those of the World Bank). Borrowers often perceive the regional banks as closer to their concerns and interests. That perception is reinforced by the fact that their staff members usually have a better understanding of the political and social realities of their regions.

A World Bank report on the occasion of the 50th anniversary of the Bretton Woods institutions pledged "to increase its close collaboration with the regional development banks, including mutual exchanges of economic and technical work, enhanced co-financing, and an appropriate division of labor."[137] To advance this process the World Bank-IMF Development Committee of finance ministers, mentioned above, established in 1994 a Task Force on Multilateral Development Banks to undertake, for the first time, an assessment of the capabilities of and scope for coordination among the World Bank and the RDBs. The task force's report, released in March 1996 with the support of the Development Committee, calls for intensified coordination in three respects:

1. The main place where coordination must work is at the country level. Here the need for coordination extends beyond the MDBs [multilateral development banks] to all assistance programs offered to a particular country.
2. More effective and continuous coordination is needed among the MDBs at the working level and at that of the chief executives, to avoid duplication, seize opportunities for joint action, and harmonize corporate practices, where appropriate.
3. A need for coordination arises at the level of the owners to enhance the coherence of policy guidance and to monitor the performance of the MDBs as a group.[138]

The task force recommended a set of shared goals that should apply -- albeit not equally in all cases -- to the five RDBs. Among the goals broadly congruent with long-term structural improvement in conditions conducive to preventing deadly conflict are the following: to mobilize international savings and concessional assistance for sustainable development; to ensure access of lower-income countries to special resources, linked to reforms and positive development results; to support the transition of formerly centrally administered economies to market systems; and to assist in the reconstruction of devastated economies and, following conflicts, help provide economic support for a lasting peace.[139] This is a promising start for the development of new ideas about the most appropriate and effective institutional relationships between the World Bank and the RDBs.

Coordination between the World Bank and the RDBs is unlikely to develop, however, without additional debt relief for the heavily indebted middle- and low-income countries. In spite of the concessional nature of most loans to these countries, international financial institutions account for a significant proportion of their total debt, and negative net transfers are becoming a burden that is increasingly difficult to bear in the late 1990s. This has led to calls for multilateral debt reduction schemes similar to the Brady plan for commercial bank debt nearly a decade ago, particularly in sub-Saharan Africa, where debt relief should be seen as an urgent precondition for conflict prevention, as well as economic development.

In April 1996 the managements of the World Bank and the IMF presented to the Development Committee a report titled *A Framework for Action*, which outlined a strategy for alleviating the burdens of the heavily indebted poor countries (HIPCs) of the world.[140] The ministers requested that the Bank and the IMF, in close consultation with the RDBs and bilateral assistance agencies, move swiftly to produce a plan of action in six months. Without such a plan, many borrowing countries would have continued to face a growing problem of negative new transfers, in which repayments of old loans exceed inflows of new capital. An examination of the 1996 edition of the World Bank's *World Debt Tables* confirms that the Bank's net transfers to the developing world as a whole have been negative during the 1990s.[141]

Unless these capital flows can be reversed, the capacity of the multilateral development banks to play a more vital role in creating the economic conditions necessary for preventing the outbreak or recurrence of deadly conflict will be severely limited. One year after the announcement of *A Framework for Action*, a debt reduction package of $338 million, applied to half a billion dollars of debt stock, had been concluded with Uganda, and the World Bank's president declared that HIPC agreements for Bolivia, Burkina Faso, and Côte d'Ivoire were near completion.[142]

Although the HIPC initiative represents a major breakthrough for the Bank, progress in implementing the plan has been slower, and the scale smaller, than eligible countries had hoped. The RDBs are in a somewhat more favorable position than the World Bank in their relations with borrowers, in terms of both net flows (disbursements minus amortization) and net transfers (net flows minus interest payments) of financial resources.[143] But if economic conditions within the HIDCs are to improve significantly, the World Bank must accelerate and widen implementation of *A Framework for Action* so that governments will have the means to stabilize and reform their economies, in ways that could help reduce domestic social tensions and prevent deadly conflict.

The willingness of the RDBs to deal with issues of good governance and postconflict situations has varied from institution to institution in light of differing regional needs, institutional resources and capabilities, and norms. As noted in the previous chapter, the newest of the RDBs, the European Bank for Reconstruction and Development, is also the only international financial institution with a mandate to use its resources to promote democracy. After experiencing significant start-up difficulties and becoming mired in controversies, the EBRD has evolved into a more important player in the Eastern European countries and the former Soviet Union, and it doubled its capital base in early 1996. The EBRD and the World Bank provide reinforcing advice and financial support, which is particularly important in helping these countries overcome the low state capability that is such a serious and mounting obstacle to further progress in the region. Despite the initial period of poor management, and despite criticism of its early efforts to assist political development, the EBRD remains the most open of the RDBs to applying its resources to help create conditions conducive to conflict prevention and national peace and reconciliation.

The other RDBs are less inclined to address governance issues, although the Inter-American Development Bank (IDB) has recently moved into new areas such as the provision of technical assistance and lending to improve the functioning of judiciaries and legislatures in Latin American countries. This is in keeping with the World Bank's call for greater efforts to strengthen the institutional underpinnings of democratization, which has spread through the region as a "quiet revolution," and provide crucial ingredients for an environment conducive to preventing and peacefully resolving conflict.[144] As the IDB's capital base has doubled in recent years, it has become a more important source of financial resources for Latin America than the World Bank, both in absolute terms and in terms of net flows and transfers. Until the early 1990s the IDB closely coordinated its sectoral operations with the World Bank, but it has now begun to act in a more independent way in its sectoral investment and adjustment operations.

The African Development Bank (AfDB), by contrast, is a much smaller and weaker RDB, but it too has become more willing to address issues of good governance and to play a role in the postconflict situations scattered around the continent. Because of the AfDB's many internal difficulties and limited funds, it is not a competitor of the World Bank. With so many countries on the continent suffering crises of statehood, the World Bank urgently needs to work with the AfDB in support of projects to improve the effectiveness of states by overhauling public institutions, strengthening the rule of law, and developing checks on the abuse of state power.[145]

The RDB that is least inclined to pick up on the DAC's guidelines for promoting good governance, or to work with the World Bank on these issues, is the Asian Development Bank

(ADB). Traditionally well funded by Japan, the ADB can lend at rates generally below those of the World Bank. It has experienced some controversy in its negotiations to increase its capital base, primarily because of differences among shareholders regarding the role it should play in the Asian region (for example, regarding its role in support of the public and private sectors, concessional lending to India and China, and lending to Vietnam). With the potential addition of new members from Central Asia, and with a possible major capital increase in the future, the number, complexity, and scope of ADB operations could expand significantly during the late 1990s. Until the economic upheavals in the fall of 1997, Asian states had demonstrated an ability to manage the forces of economic globalization and domestic economic expectations successfully. However, the World Bank and the ADB will need to cooperate in helping these countries modernize their public administration and decentralize government authority if this adaptation is to continue.[146]

PRIVATE SECTOR FIRMS AND NONGOVERNMENTAL ORGANIZATIONS

As noted elsewhere in this report, one of the most significant global developments in recent years has been a reversal in the ratio of public to private capital flows to developing countries. For example, World Bank President Wolfensohn noted in April 1997 that whereas seven years previously private sector flows were half the size of official flows, by 1996 official flows were $55 billion while private sector flows had topped $230 billion.[147] Most of this private capital goes to a handful of newly industrializing countries, but it is affecting the outlook of political elites in developing countries more broadly. During the last few years some shareholders have pressed the World Bank to expand its direct support for the private sector and to go beyond encouraging a market-oriented economic environment where private firms can prosper in developing countries. The World Bank has been facing diverging sets of demands in its relations with the private sector, both with respect to its sources of funding and with respect to its clients.

At one extreme, some argue for a return to the more traditional World Bank role of supporting public sector investments in infrastructure and the social sectors, while at the other extreme others argue for direct lending to private sector institutions without government guarantees. In between these positions lie several options for the World Bank to expand its role as a catalyst for private investment through cofinancing, lending for the privatization of public enterprises, investment guarantees, and other incentives. This also raises the question of relations between the World Bank and its existing private sector-oriented affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency, and the need to clarify the division of labor and the scale of activities among these affiliates of the World Bank Group.

One indication of the renewed willingness of the World Bank to work with the private sector is the recent establishment of a new grant facility, expected to be funded primarily by large private sector firms, to provide technical assistance to developing-country governments in the field of telecommunications and other information-related areas. The new facility, called the Information for Development Program, or infoDev, is expected to raise about $6 million and will be administered by the World Bank. A council of donors, without the participation of recipients, will decide on the criteria for awarding grants, which are expected to fund training programs, demonstration and pilot projects, policy studies, and some research activities.

The World Bank also has had longstanding relations with the international academic community, primarily with the English-speaking community of economists; with nongovernmental organizations, institutionalized through the World Bank-NGO Committee; and with journalists and the public at large through its external relations department. Private consulting firms and private foundations have also been actively engaged in World Bank activities (studies, lending, research support, and provision of technical and management services). This report will not attempt to devise a rigid blueprint for its interactions with the wide diversity of academic institutions, nongovernmental organizations, private sector firms, mass media, and other independent organizations. However, it is clear that the World Bank should intensify its relations with a range of other organizations -- consulting groups and private firms from developing countries, the non-English-speaking academic community, the electronic mass media (especially international television), nongovernmental organizations, and private foundations -- in the interest of furthering its expanded role in postconflict reconstruction, good governance, and conflict prevention.

This brief review of World Bank interactions with other members of the international development community suggests the need to take a fresh look at its relations with a highly diverse set of development and financing institutions. In addition to identifying its comparative advantage, the World Bank should explore the possibility of taking an active role in strengthening other development organizations and in forging partnerships to better pursue its own objectives.

5. Improving the World Bank's Capacity for Preventive Action

World Bank officials who read drafts of this report argue that within the institution there is a growing sensitivity to how policy-based lending could affect the prospects for domestic peace and political development. First, they are concerned with the possible negative impact, cases where Bank lending appears to favor one group over another, and say that they have improved measures to ensure that their programs "do no harm." Second, there is talk about the positive role that country programs can have in bringing different factions together for the common national good, but officials acknowledge they lack staff expertise, the institutional experience and capacity, and the mandate for doing so. At the same time, it is widely recognized within the Bank that efforts to promote conflict prevention and postconflict reconstruction will only succeed if they become part of the Bank's main country operations.

INTEGRATING PREVENTION INTO DEVELOPMENT OPERATIONS

A preliminary framework for integrating concerns for conflict prevention into development operations has been proposed, as part of the policy paper *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, approved by the board on April 25, 1997. The framework has four parts:

1. Social assessments, including explicit recognition of sources of social conflict and social tension as a core aspect of development planning. Analysis should focus on patterns of distribution of resources within a society, an emphasis on

inclusiveness of opportunities including attention to disparities between geographic regions or readily identifiable social groups.

2. Engagement with civil society, incorporating an approach to development which values participatory approaches and the concept of social capital, that is, the vision that social organizations matter, that individuals make decisions which do not only reflect their membership in households but also in larger social entities. The intermediary role of social organizations can support a stable environment for development or can prove to be the channel for organized violence which disrupts societies. . . . Evaluations of development investments must take full account of the fact that institutions and social organizations matter both for good and bad and provide the filters through which investments are distributed.
3. Increased focus on governance, incorporating elements of accountability and transparency and including an expanded sensitivity to the role of government institutions in selectively allocating and extracting resources and in providing the predominant legal framework for dispute resolution and conflict management within the territorial bounds of a given state.
4. A frank exploration of the costs of both random and organized violence in undermining the routine functions of socioeconomic activity. The impact of violence and the dissolution of bonds of trust and confidence in society conflict with the underpinning assumptions of development, alter strategies of household accumulation and investment, yet are little understood.[148]

It is too soon to know whether this approach will gain greater operational significance in country programs. There is still considerable dissent within the Bank and among member governments over how much attention and resources to allocate for potential conflict and postconflict situations. And the Bank's managers frequently are presented with conflicting demands. Deep divisions persist over such issues as whether country programs and specific loans are too political in their objectives and criteria. There is also reluctance within the Bank and among member governments to support activities of a more political nature, or that appear to overlap with the work of UN agencies with mandates to deal with relief, humanitarian, and peace operations.

Part of this reluctance stems from a fear that more-risky investments could hurt the financial standing of an institution that had to raise nearly $11 billion on world capital markets in 1996. Although most loans to poor and conflict-prone countries are in the form of International Development Association credits, with the funds provided by wealthy donor governments, many worry that loans and credits to especially risky borrowers could hurt the Bank's credit rating, raising the cost of borrowing and thus cutting into the profits used for overhead and to fund special programs for the poorest countries. Holding borrowers to tough standards also is deemed good practice and helps insulate staff from the pressures of governments to satisfy parochial political interests.

Meanwhile the Bank is under intense pressure to "do more with less," even as donor countries cut their own foreign assistance budgets, which have sunk, relative to their GDPs, to a 20-year low.[149] At the same time, these donors press the Bank to underwrite huge new investments in Russia and to help clean up the mess in Bosnia and in several other countries in Africa, Central

America, and Asia where conflicts raged during the Cold War. And in December 1997 the Bank faced another major and unexpected demand to contribute $10 billion to help rescue South Korea.[150] Other borrowers -- developing countries that have worked hard to qualify for the Bank's traditional lending criteria -- resent this diversion of funds to countries reeling from self-inflicted crises.

There is no strategic imperative, comparable to that which prevailed after World War II, that would forge a new consensus among the Bank's main shareholders, and neither the United States nor any other major country is willing or able to lead such a campaign. Instead, the current goals of poverty alleviation and sustainable development will likely persist. The Bank's role in peacebuilding and postconflict reconstruction will change incrementally, following precedent more than prescription. The cautious and very modest commitment to the new unit for postconflict reconstruction, and the months of board reviews that were required before the four-person unit was established, suggest that no major institutional reforms are likely. Other innovations, such as funding for land mine clearance and military demobilization, will also be done on a small and experimental basis.

A more significant shift, and one that is more directly related to primary conflict prevention, has been the growing, Bank-wide interest in helping countries overcome political weakness and the absence of good governance, which are increasingly seen as the main impediments to sustainable development. Too many poor countries today lack the political, legal, and administrative structures to support even the early stages of economic modernization and international engagement. The more economically successful developing countries, including several of the volatile multiethnic countries that are among today's "big emerging markets," are saddled with political structures that are far less resilient and adaptive than their economies. Political structures and processes nearly everywhere face rising domestic insecurities resulting from externally generated forces of economic globalization and the local demands of mobilized ethnic minorities and other groups seeking greater cultural, economic, and political empowerment and self-determination. So a crucial question raised in this report is, What role can the Bank play in helping to build politically capable states, not only after deadly conflicts have ended but to prevent their eruption in the first place?

The Bank has come a long way in acknowledging the importance of political factors and the need for good governance in reducing a country's risk as a borrower and in enhancing the chances for sustainable development. *World Development Report 1997: The State in a Changing World* symbolizes this concern. No longer, for example, is the Bank reluctant to tackle the politically sensitive issue of corruption, which it views as an obstacle not only to raising private foreign capital but also to the broader challenge of building states that can become reliable and resilient partners in a rapidly changing global political economy. Corruption has become for the World Bank what human rights violations have become for the United Nations, a key indicator of a troubled state.[151] For the World Bank to focus too directly on human rights as a criterion for lending would still be considered by the vast majority of its shareholders as violating the prohibition in its Articles of Agreement against political activity. Trying to root out corruption, however, does address the problem of abuse of authority, which must be contained if conflict is to be prevented.

Recent Bank efforts to promote good governance, as noted earlier, are giving legitimacy to outside actors in helping developing countries become politically capable partners; here the most essential element is to find political rather than military solutions for internal problems of nation building. The Bank must accelerate its support of political development in three ways. First, it must give greater weight to political factors, including the likely effects of its intervention on ethnic and other intergroup tensions, when designing country assistance strategies. At a minimum, the Bank must avoid becoming an instrument of those who seek either the domination or the disintegration of a state by the threat or use of force. This will require adding expertise to country teams that can inform judgments about political risks and the capacity of states to govern effectively. Second, the Bank must build capacity to work more closely with other international and nongovernmental organizations in diagnosing and responding to the warning signs that a state may be at risk. Successful preventive action will require new divisions of labor among all who share a collective interest in seeing that rising intergroup tensions are resolved peacefully and by political means. If the World Bank were to share its concerns about rising corruption or ethnic discrimination in the allocation of state economic benefits, if the UN commissioners for refugees and human rights were to share their concerns about people at risk, and if the UN secretary-general were able to focus these concerns to generate a balanced and comprehensive international response, the prospects for prevention would greatly improve. Finally, the Bank must accelerate its efforts to develop and implement programs to promote good governance and postconflict reconstruction.

ANALYSIS AND TRAINING

Assessing the impact of Bank financing on intergroup tensions will require an increase and a redeployment of analytical resources. Country strategies will have to be tailored so that Bank programs either do not exacerbate conflict or, more positively, help preserve and expand the domestic political space so that local parties can avoid conflict. As noted above, with ethnic and other forms of violent conflict now a global reality, at least two close students of the World Bank have proposed the broad introduction of "ethnic conditionality" for both instrumental and intrinsic reasons.[152] Such conditionality would be analogous to what the Bank now practices with regard to the environment.

The analytical tasks would be threefold. The Bank should:

- Identify all major subnational groups and their principal demographic, economic, social, and political characteristics
- Analyze historical and current patterns of their interactions and the relative access of each to economic and state power, including the effects on these relations of past Bank involvement in the country
- Assess the likely impact of current and proposed lending on this domestic political dynamic.

If it should appear that a particular project loan, or proposed policy-based lending, could have deleterious effects on relations between communities, the Bank would then face the politically sensitive task of trying to work out an arrangement with the government to neutralize or avoid such effects. At present the Bank is not as well staffed to undertake such social analysis as many commercial lenders, who now consider political risk assessment a normal part of their business. Political economists are still scarce in the Bank. The pressures on Bank staff remain overwhelming to book more loans, particularly to countries that qualify for concessional credit, and the easiest way to do so is to stick to traditional economic criteria, without introducing additional concerns about the political health of a borrower and how a particular project could affect intergroup tensions and the risks of deadly conflict.

The Bank's Operations and Evaluation Department (OED) has a threefold mandate: "to measure how far, how effectively, and how efficiently the Bank's activities are achieving their desired results; to draw and disseminate lessons for application in policies, operations and processes; and to help the Bank and its member countries improve their evaluation capabilities."[153] If the Bank is to operationalize the concerns of the *World Development Report 1997*, political factors should play a much more central role in the work of the OED. This would open the way for loan officers and country directors to pay much closer attention to how Bank investments affect, or are affected by, tendencies toward intergroup conflict.

The evaluations that the OED produces go to the Bank's governing board of executive directors through the Committee on Development Effectiveness. If the OED were to make a more conscious effort to highlight political factors in the hundreds of evaluations it completes each year, this would resonate throughout the Bank. It would be especially useful for the OED to go back and reassess projects after five to eight years, a standard practice elsewhere, with particular emphasis on countries where deadly conflicts and complex humanitarian emergencies have recently destroyed Bank investments.

Whether World Bank country strategies, however inadvertently, contributed to ethnic tensions in Yugoslavia or in Rwanda and Burundi, for example, needs to be carefully analyzed. There is also a general tendency within the Bank to continue lending to a government long after serious warning signs of a troubled state -- such as severe human rights abuses or forced displacements -- are plainly evident. In-depth historical analyses of whether and how Bank loans become part of the problem of rising intergroup tensions within troubled states apparently do not exist. Such evaluations would not be politically or bureaucratically easy for the Bank, especially because they would require the assistance and advice of the borrowing country. The process would also require greater emphasis on qualitative analysis than Bank staff normally welcome or feel competent to undertake, and at a time when the OED is focused on improving its quantitative measures of performance. Circumstances within low-income IDA countries, where states are often very weak, deserve high priority.

Complementing the work of OED is the less operationally focused Economic Development Institute (EDI). The EDI "helps government officials share policy lessons and exchange experiences, by imparting skills needed to use resources effectively, and by helping to build an informed and engaged civil society."[154] During 1996 it conducted 358 conferences, seminars, and workshops in all regions of the world. And increasingly it is opening its doors to parliamentarians, journalists, educators, staff of nongovernmental organizations, and labor and business leaders, as well as government officials. Of particular interest to this report, the EDI ran special seminars in Angola, Gaza and the West Bank, Ethiopia, and Uganda, as well as for Bosnia (in cooperation with the Austrian Peace Institute) on postconflict reconstruction.

The EDI has the outreach capacity and flexibility, not available to the OED, to draw on the growing body of research on preventing deadly conflict that is currently supported by universities, independent research centers, and special initiatives such as the Carnegie Commission on Preventing Deadly Conflict. The Commission, for example, has supported projects on how economic incentives and sanctions affect conflict, the role of regional organizations, the links between economic development and prevention, and many other topics that might inform policy planning and analysis within the World Bank. The EDI would have to adapt this material for use by senior managers and operations specialists. The work of Wolfgang Reinicke, cited in chapter 3, is another excellent line of research for the EDI to pursue; his proposal for ethnonational assessments might prove relevant for World Bank operations in the former Eastern bloc, as well as in developing countries.

Exploring opportunities and obstacles for closer interinstitutional cooperation, particularly with the UN Secretariat and those UN specialized agencies engaged in conflict prevention and amelioration, is another important area that the EDI and World Bank senior management need to explore. The EDI could convene annual or biannual workshops involving professionals with recent field experience in countries with failed or failing states. The EDI can also tap its own unique and worldwide network of former trainees, to open low-key channels of better communication on politically sensitive issues that will inevitably rise on the World Bank's agenda but remain poorly understood.

STRATEGIC PLANNING

In the mid-1980s the World Bank experimented with a Strategic Planning Division under the direction of Francisco Sagasti, one of the authors of this report. The division developed various research techniques that cut across the Bank's geographic and functional interests. After several years and various personnel changes in the Bank's senior management, it was decided to fold the strategic planning capabilities back into regular operations. With James Wolfensohn's arrival as Bank president, however, a fresh effort is under way to reestablish a central strategic planning capability closely tied to the president's office. Among its other tasks will be to generate analysis of major contingencies likely to confront the Bank in the years ahead.

If the EDI were to establish a data base on past Bank involvement in countries that became troubled states and domestic and international forces that surrounded these developments, this material should be of use to the office of strategic planning as it seeks to provide senior management with an awareness of key trends that affect Bank operations. The strategy office could inform, and draw on, the work of both the OED and the EDI for long-range exploratory forecasting and more problem-oriented forecasting.[155]

The Bank cannot be all things to all people. The strategy office can help set priorities and clarify where the Bank's history and mandate allow it to add value to preventive action, before, during, and after a crisis. The Bank must be concerned about all stages of a crisis in a borrowing country, even though it may only have the means and the mandate to become engaged operationally at the postconflict stage. Until then it may be able to do little more than strive to "do no harm," targeting its loans in ways that at least do not exacerbate problems. Articulating the theory that should underlie Bank policies on when and where to be on the lookout for opportunities that contribute to conflict prevention, without unduly undermining normal lending criteria, should be a central task of the strategic planning office.

Although the strategy office is not directly involved in operations, it can draw on the research and evaluation done by others in the Bank and, in extraordinary circumstances, propose special prevention initiatives that would not normally surface through the Bank's regular operations. For example, there might be opportunities for quick, flexible short-term financing of programs to reform and train police, demobilize armed forces, field negotiating teams, and take other steps to complement UN peace operations. Some of this work is just now getting under way in the new unit for postconflict situations. The strategic planning office should not detract from the work of that unit, but instead should raise the possibilities of working with others at early stages of conflicts to help prevent their eruption and escalation. This office could underpin UN preventive diplomacy. To inform the Bank's managers and staff about longer-term conflict prevention needs and opportunities, the strategy office could undertake priority country and comparative analysis of technical and financial assistance for setting up parliaments, improving tax collection, and strengthening nongovernmental organizations and other elements of civil society. Such analyses should result in lending policies that help alleviate not only poverty but also the economic imbalances that often occur along ethnic lines. Fostering a greater sense of national purpose and interdependence among potentially conflicting groups in a borrowing country is vital to long-term conflict prevention.

The strategic planning office should also see the joint World Bank-IMF Development Committee as an important outlet for its work. The Development Committee was created in 1974, following the collapse of the Bretton Woods system of fixed exchange rates and in the midst of a world energy crisis, as a high-level, broadly representative forum of finance ministers from developing and donor countries. Its purpose was to provide political leadership and guidance on issues of interest to both the World Bank and the International Monetary Fund (IMF).[156] The committee's 24 members represent the full membership of the Bank and the IMF, and the group normally meets twice annually. Although its mandate is to advise the boards of governors of the Bank and the IMF on economic development issues and the resources required to address them, the committee has interpreted this charter broadly and has addressed environmental, trade, and other issues that lie beyond the traditional development agenda. Over the years the committee has launched a number of special funding arrangements, debt reduction initiatives, and new partnerships involving the Bank and other UN specialized agencies to deal with environmental problems.

The broad themes raised in this report could provide the context for topics that the committee could address regarding the stakes of the international financial institutions in and their contributions to preventing deadly conflict. Recommendations for the committee's agenda can come from any of the participants, but because of its focus on development, deference is traditionally shown to the president of the Bank to propose topics he believes require the attention of the ministers. With the help of the new office on strategic planning, and drawing on the Bank's recent experiences in postconflict reconstruction, including the need to forge new links of cooperation with other multilateral and nongovernmental organizations, the Bank's president should focus on concrete prevention issues of interest to finance ministers. For example, since the end of the Cold War the UN has mandated sanctions against eight countries in attempts to prevent the outbreak, escalation, or recurrence of deadly conflict. The success of these efforts frequently depends on mitigating the impact on neighboring countries, and this can best be done with the help and coordination of the international financial institutions. Achieving such cooperation has been difficult, however, and the Development Committee should assess both the impediments and the incentives involved. On a broader front, the committee needs to reconsider how the Bank and the IMF should relate to the UN, regional organizations, nongovernmental organizations, and other actors whose roles are changing in the aftermath of the Cold War. This topic could inform, and be informed by, the work of the Bank's existing office of external relations.

The Bank has a vice president for external affairs and lower-ranking offices in New York and elsewhere to keep it informed about the UN and other institutions. Current arrangements, however, appear inadequate to the challenges outlined in this report, which span a range of global issues that will increasingly affect Bank operations. The vice president for external relations oversees all of the Bank's public relations activities, with lower-ranking officers handling various liaison functions and contracts with other organizations. There needs to be a more careful and concerted effort to nurture the Bank's institutional partnerships. These relationships could inform the work of strategic planning and of the Development Committee and help evolve more efficient divisions of labor in addressing problems, including conflict prevention, that are of growing concern to the governments that share ownership of these institutions.

Traditionally the Bank has remained largely aloof from other, more political multilateral institutions. Although it is technically part of the UN system, it kept its distance during the Cold War, with strong encouragement from its major Western shareholders, to preclude the Soviet Union and other centrally planned economies from gaining any influence over Bank policies and operations. The emergence in the 1970s of a vocal majority of developing countries in the UN General Assembly calling for a "new international economic order," in which the borrowers would acquire greater control over the lenders' policies, only helped reinforce the isolation of the international financial institutions from the rest of the UN system. With the market orthodoxy of the Bank and the IMF now virtually unchallenged worldwide, and with a new era of pragmatism evident at the UN and among regional organizations, now is an opportune moment to explore the possibilities for closer cooperation among these institutions.

Regular consultations between the heads of the UN and the World Bank, and among their senior staff, could help establish principles and guidelines for problem solving, including, for example, encouraging closer cooperation between the regional development banks and other regional organizations. When, for example, the UN secretary-general has picked up strong early warning signals that a state may be succumbing to forces of instability that could lead to conflict, and decides to send a special envoy to assess the situation and to develop a prevention initiative, key Bank staff should be providing and receiving intelligence and analysis, and perhaps someone from the Bank should go along on the mission. Both organizations are already more receptive to cooperating with nongovernmental organizations, and each might benefit from learning lessons from the other -- lessons that may be especially important in devising early warning and response strategies in countries that may be slipping into or trying to recover from conflict. This approach would be fully consistent with UN Secretary-General Kofi Annan's insistence that the best way for the UN to approach international problem solving is according to the principle of subsidiarity, resolution of issues at the most local level allowed by resources and political realities.

As the World Bank acquires the capacity to cooperate more effectively with other multilateral organizations, it should also seek to strengthen its ties with the cluster of smaller powers that have acquired special international standing as leading multilateralists. This group includes 20 or so Scandinavian, Latin American, and Western European countries, plus Australia, Canada, New Zealand, South Africa, and a handful of others. The wealthiest among them are not the largest sources of bilateral development assistance, but on a per capita basis they are some of the most generous. They also enjoy enormous international respect and have done some of the most creative work on the reform of the UN and other multilateral institutions. The Bank might well seek to enlist their support, as an informal group of the like-minded, to consider the elements for a long-term strategy for the World Bank to pursue, in partnership with other regional and international institutions, to make prevention an integral and effective part of the international development agenda.

THE PRESIDENT'S VISION

Finally, the Bank's strategic compact, the program of internal restructuring approved in early 1997, should encourage a greater awareness at all levels of the Bank of the causes and consequences of deadly conflict and how the institution, in cooperation with others, can contribute to conflict prevention.[157] It is too soon to gauge the compact's full impact and how its implementation might complement a greater attention to conflict prevention in the EDI, the strategic planning office, the Development Committee, or the office of external affairs. But the compact seeks to position the Bank to respond to two imperatives that are highly salient to the development of the norms, political will, and international capacity for preventive action:

> Globalization is reinforcing our member countries' common interest in solving the problems of poverty, environment and civil strife. At the same time, global trends are impacting the Bank's client countries in very different ways, requiring a much more differentiated and tailored response -- for the poorest nations, the transition economies and post conflict states.[158]

The compact recommends dealing with these imperatives by improving management and loan performance in four areas:

1. Field operations, so that they will be more flexible and responsive to new demands (e.g., in Bosnia)
2. Development agenda, to give greater attention to issues of social and environmental sustainability and the changing roles of the private and public sectors
3. Knowledge base, to improve capacity to analyze past lessons and other improvements in analytic and research capabilities
4. Institutional capabilities, by a more integrated information system, the streamlining of regional programs, and strengthening training and other human resource capacity building[159]

All four hold potential for shifting the Bank's institutional culture in ways that would allow it to become more responsive to needs and opportunities to act in ways that could help prevent the outbreak of deadly conflict, but the most promising is the first. Expanding and diversifying the Bank's field presence and devolving authority downward should open the way for engagement in potentially troubled countries, so that the Bank will be better able to make loans that help to integrate, rather than fragment, fragile multiethnic societies.

During their first 50 years the World Bank and the rest of the UN system have sought, in different ways, to help create a world that is safe for diversity among states. Despite huge disparities of wealth and military power, that goal appears to have been met. The more complex but no less important challenge now facing these institutions, and the international community they purport to represent, is to find ways and means to ensure that all states become safe for diversity. *World Development Report 1997* suggests a growing willingness of the World Bank to hold borrowing nations accountable for how well they govern their own citizens. Between 1992 and 1996 the UN secretary-general published three broad statements that outlined agendas for peace, development, and democratization. These agendas also signaled a fundamental shift toward promoting and protecting the security and well-being of people within states as the best way to achieve enduring peace between states. Thus, for the World Bank, such signs of state weakness as corruption, the absence of the rule of law, and inadequate public administration are to be seen as a threat to economic prosperity, and the denial of human and minority rights as precursors to state failure or more complex emergencies that could threaten regional peace. If both global institutions continue down these two tracks, perhaps a vision of a new world order will emerge, one that places human rights above states' rights. Framing such a strategy for conflict prevention in the 21st century might be a subject that leaders of these institutions could pursue with their member governments, and persuade them to undertake such a strategy and present it for consideration by the 55th UN General Assembly in the year 2000.

Appendix A. Finances of the World Bank

Among donors capable of influencing international development and order, the World Bank is without peer. In the fiscal year ending June 30, 1996, new World Bank commitments totaled $21.5 billion, equivalent to 40 percent of all the bilateral development assistance provided by the 24 wealthy donor nations of the Organization for Economic Cooperation and Development. This total consisted of $14.66 billion in loans for 256 projects funded by the International Bank for Reconstruction and Development (IBRD), and $6.86 billion in credits for 127 projects funded by the International Development Association (IDA).[160] Relative to a global economy that now exceeds $27 trillion, this may not seem a large amount, and indeed it is now much smaller than the rapidly rising tide of private investment in the more advanced developing countries -- that figure jumped from $44 billion in 1990 to $170 billion in 1995.[161] But for poorer countries, including those most threatened by internal conflicts, the World Bank is the most important benefactor, actual or potential.

Since its founding the International Bank for Reconstruction and Development has lent approximately $277 billion (in nominal dollars). Since 1960 the International Development Association has provided an additional $101 billion in no-interest loans, known as credits, to countries with per capita incomes below a certain cutoff ($1,630 in 1995). Sixty-two middle- and low-income countries are eligible to borrow from the IBRD; 16 countries at the lower end of this scale are allowed to apply for a blend of IBRD and IDA funds; and the 63 poorest countries are eligible only for IDA credits.

Calculations of creditworthiness remain at the heart of all Bank operations. To raise loan money for non-IDA loans, the Bank goes to private capital markets and issues bonds, which are backed by the sovereign guarantees of its shareholders. Given these guarantees, the Bank is able to generate funds at very advantageous interest rates: just under 7 percent in early 1997, with maturities of 15 to 20 years.[162] Money for IDA credits is raised in the form of grants from rich countries; these credits carry a small annual service fee of 0.75 percent and can be paid off over as much as 40 years.

The World Bank is a development lender of last resort for the poorest countries. As countries improve their creditworthiness on international capital markets, and as their per capita incomes increase, they are expected to "graduate" from IDA borrowing to IBRD borrowing, and then, beyond a certain level of income, to stop all borrowing from the World Bank. In this last category of ineligible borrowers are the 39 richest country members, 26 of which are "graduates" of World Bank assistance.[163] The World Bank retains such enormous influence because so many countries -- four-fifths of its members -- are eligible borrowers and compete for Bank funds.

At the same time, the Bank depends for its survival on the willingness of borrowers to honor their commitments. Loans to about 100 member countries are the Bank's principal assets. In the IBRD these loans generate the stream of income to pay back the principal and interest owed to bondholders, whereas in the IDA such income -- referred to as reflows -- increases the pool of resources available for further concessional lending to the poorest countries. Both streams of income, supplemented by profits from management of the World Bank's cash portfolio, provide the necessary resources to cover administrative costs and to generate net income. Net income is used for a variety of purposes, including buildup of reserves, reductions in loan charges, contributions to IDA, and grants. In fiscal year 1995 (July 1, 1994, to June 30, 1995), joint IBRD and IDA administrative expenses were $1.4 billion, and IBRD net income was $1.35 billion. Interest on outstanding loans represented more than 80 percent of total income, with the rest coming from various service fees and other income. It is important to emphasize that most of the World Bank's administrative expenses and net income are covered by the timely repayment of loans by its middle- and low-income borrowers, not from developed-country contributions.[164]

Appendix B. OECD Development Assistance Committee Guidelines: Key Actions Needed

The new DAC Guidelines represent our collective view and commitment on basic changes in the ways in which the international community responds to the need for conflict prevention and peacebuilding.[165] Drawing upon the many detailed points addressed in these guidelines, we would emphasize the following ways in which development cooperation can better respond in the future:

- Recognize structural stability as a foundation for sustainable development and help advance public understanding of peacebuilding and conflict prevention objectives and strategies as explicit parts of cooperation programs.

- Strengthen our agencies' means to analyze risks and causes of violent conflicts in partner countries at an early stage, and to identify opportunities for aid efforts to help address these root causes. The overriding objective of this work is to enhance the capacities of partner-countries themselves -- civil society and government at all levels -- for peacebuilding and conflict prevention.
- Work with colleagues within our governments to ensure that all our policies -- including in the areas of security, political and economic relations, human rights, environment, and development cooperation -- are coherent in fostering structural stability and the prevention of violent conflict. This includes support for the provisions of cease-fire agreements, UN arms embargoes, and work to help prevent illegal arms supplies from fueling conflicts. Harmonized and responsible behavior with respect to the supply of military goods, especially the supply of small arms, is critical in these situations. Our dialogues with partner countries should promote similar coherence on their part.
- Strive for greater coherence and transparency in conflict prevention initiatives and responses to conflict and complex emergencies by the international community. This involves early warning that is more closely linked to decision-making and better organized and coordinated among the various multilateral, regional, bilateral and nongovernmental actors. Wherever possible, a shared analysis should lead to agreed strategic frameworks for action and to agreed responsibilities for leadership in coordination, taking into account the local, national, regional, and international context.
- Encourage and support initiatives by countries from regions or subregions where conflicts or tensions are emerging. This should aim to help them to better contribute to conflict prevention and resolution, building on the critical mediation and facilitation roles which they may be in a position to play.
- Seek to reduce institutional, budgetary, and functional barriers between relief assistance, rehabilitation, and development cooperation planning, that can produce contradictions, gaps, and obstacles to well-coordinated assistance. Reform of the economic and social sectors of the United Nations system -- working with the political, military, and humanitarian arms and the international financial institutions -- must in the future strengthen the synergies in the total international response.
- Work in the appropriate forums for internationally agreed and adhered to performance standards and principles for humanitarian and rehabilitation activities that govern the operating methods of implementing agencies (intergovernmental, governmental, and nongovernmental).
- Act on the need for responsive procedures for resource mobilization and delivery in crisis situations while maintaining essential accountability. This includes building capacity for crisis management and crisis resolution as well as ensuring that assistance does not contribute to prolonging the conflict.
- Encourage efforts to promote open and participatory dialogue and strengthened capacity to meet security needs at reduced levels of military expenditures, including through strengthened capacity for the effective exercise of civil authority over military forces.

- Monitor and evaluate performance in the areas of assistance for peacebuilding and conflict prevention, and continue our work, including through the DAC, to refine and amplify best practices in these fields of vital importance for sustainable development.

Appendix C. Country Eligibility for Borrowing from the World Bank

COUNTRIES ELIGIBLE FOR IBRD FUNDS ONLY

1995 GNP per capita US$766-$5,295 or more[a]

Slovenia
Argentina
Seychelles
Antigua and Barbuda
Uruguay
Hungary
Malaysia
Chile
Czech Republic
Gabon
Trinidad and Tobago
Brazil
Mexico
Croatia
Mauritius
South Africa
St. Kitts and Nevis
Venezuela
Botswana
Slovak Republic
Estonia
Poland
Panama
Thailand
Lebanon
Turkey
Belize
Costa Rica
Latvia
Fiji
Peru
Russian Federation
Belarus
Lithuania
Namibia

Colombia
Tunisia
Paraguay
Ukraine
Algeria
El Salvador
Jamaica

Note: Eligibility as of June 30, 1996.

[a]Countries are listed in descending order of per capita income in each category (read down

each column).

Jordan
Iran, Islamic Republic of Marshall Islands
Micronesia, Fed. Sts. of Dominican Republic
Romania
Ecuador
Bulgaria
Guatemala
Papua New Guinea
Morocco
Swaziland
Syrian Arab Republic
Philippines
Kazakhstan
Indonesia
Uzbekistan
Moldova
Turkmenistan
Suriname

COUNTRIES ELIGIBLE FOR A BLEND OF IBRD AND IDA FUNDS

1995 GNP per capita US$260-5,295[b]

Lucia
Dominica
Grenada
St. Vincent and the Grenadines
Macedonia, FYR of Egypt
Kyrgyz Republic
China
Armenia
Zimbabwe

Azerbaijan
Pakistan
Georgia
India
Nigeria
Bosnia and Herzegovina

COUNTRIES ELIGIBLE FOR IDA FUNDS ONLY

1995 GNP per capita US$80-1,630[b]

Tonga
Vanuatu
Western Samoa
Cape Verde
Solomon Islands
Bolivia
Kiribati
Lesotho
> Djibouti
Maldives
Albania
Sri Lanka
Congo
Cameroon
Côte d'Ivoire
Honduras
Guyana
Senegal
Guinea
Comoros
Mauritania
Bhutan
Angola
Ghana
Nicaragua
Equatorial Guinea
Benin
Tajikistan
Zambia
Lao People's Democratic Republic
Sao Tomé and Principe
Central African Republic
Mongolia
Togo
Cambodia

Kenya
Yemen
Guinea-Bissau
Haiti
Mali
Vietnam
Bangladesh
Madagascar
Uganda
Burkina Faso
Niger
Nepal
Chad
Sierra Leone
Malawi
Burundi
Tanzania
Zaire
Rwanda
Ethiopia
Mozambique
Afghanistan
Eritrea
Gambia, The Liberia
Myanmar
Somalia
Sudan

[b]Countries are eligible for IDA funds on the basis of (a) relative poverty and (b) lack of creditworthiness.

Source: *The World Bank Annual Report 1996* (Washington, DC: World Bank, 1996), pp. 233-34.

Notes and References

1. For an analysis of the strategic aspirations of the United States and the other nations that took the lead in creating the World Bank see David A. Baldwin, *Economic Development and American Foreign Policy, 1943-62* (Chicago: University of Chicago Press, 1966).

2. E. H. Carr, *Nationalism and After*, 2nd ed. (London: Macmillan, 1965), pp. 1-6.

3. For a systematic review of how these principles have been compromised see Stephen D. Krasner, "Compromising Westphalia," *International Security* 20, no. 3 (Winter 1995/96), pp. 115-51.

4. The International Bank for Reconstruction and Development (IBRD), which together with its affiliate the International Development Association (IDA) is known as the World Bank, was established in 1945 along with the International Monetary Fund (IMF). The IMF's role was to regulate an international monetary order based on its members' commitment to freely convertible currencies and stable exchange rates. A country must qualify for IMF membership before it may join the World Bank. Today the World Bank Group consists of four legally and financially distinct entities: the IBRD, whose primary function is to lend to member countries at near market rates of interest; the IDA, created in 1960 to provide no-interest loans (credits) to the poorest countries; and two affiliates established to promote private investment in developing countries, the International Finance Corporation and the Multilateral Investment Guarantee Agency. This report only deals with the IBRD and IDA, which share the same staff and facilities.

5. IBRD, *Articles of Agreement* (as amended effective February 16, 1989), Article IV, Sect. 10.

6. For an account of the Bank's early involvement in the domestic affairs of its members see David A. Baldwin, *Economic Development and American Foreign Policy*, Chaps. IV and V. The issue of interference intensified during the 1980s, when the Bank became heavily involved in policy-based lending. See Joan M. Nelson, "The Diplomacy of Policy-Based Lending," in *Between Two Worlds: The World Bank's Next Decade* (Washington: Overseas Development Council, 1986).

7. David Gillies, "Human Rights, Democracy and Good Governance: Stretching the World Bank's Policy Frontiers," in *The World Bank: Lending on a Global Scale*, J. M. Griesgraber and B. G. Gunter, eds. (London: Pluto Press, 1996).

8. See David C. Rapoport, *The Importance of Space in Violent Ethno-Religious Strife*, Institute on Global Conflict and Cooperation, University of California, Policy Paper no. 21, January 1996.

9. Stanley Hoffmann, "Politics and Ethics of Military Intervention," *Survival* 37, no. 4 (Winter 1995-96), p. 30.

10. World Bank, *The World Bank Annual Report 1996* (Washington: World Bank, 1996), p. 11.

11. World Bank, *World Development Report 1995: Workers in an Integrating World* (New York: Oxford University Press, 1995), p. 1.

12. IBRD, *Articles of Agreement*, Article I, Sect. 1.

13. For a critical assessment of the World Bank's evolving mission and impact see Catherine Caufield, *Masters of Illusion* (New York: Henry Holt, 1997).

14. World Bank, *Annual Report 1996*, p. 6.

15. Until the late 1980s Moscow remained committed to the Brezhnev Doctrine, which proclaimed the right of the Soviet Union to intervene to crush revolts in client states (as it did in Hungary, Czechoslovakia, and Afghanistan); during the 1980s Washington pursued the Reagan

Doctrine in support of anticommunist insurgents in Central America, Angola, and Afghanistan. See Hoffmann, "Politics and Ethics of Military Intervention."

16. Stockholm International Peace Research Institute, *SIPRI Yearbook 1996: Armaments, Disarmament and International Security* (New York: Oxford University Press, 1996), p. 16. SIPRI defines a "major armed conflict" as prolonged combat between the military forces of two or more governments, or of one government and at least one organized armed group, and incurring the battle-related deaths of at least 1,000 people. In 1995 all conflicts so de fined occurred within rather than between states.

17. Michael Brown, ed., *The International Dimensions of Internal Conflict* (Cambridge, MA: MIT Press, 1996), pp. 4-7.

18. Steven Holtzman, remarks during the opening session, "Lessons for the International Community in War-to-Peace Transitions," reproduced in *Making Peace Work*, ODC Conference Report (Washington: Overseas Development Council, 1996).

19. *World Bank News*, "Wars Lasting Longer, Displacing More People," February 15, 1996.

20. Adam Roberts, *Humanitarian Action in War*, Adelphi Paper 305 (London: International Institute for Strategic Studies, 1996), p. 12.

21. *Global Humanitarian Emergencies, 1996* (New York: U.S. Mission to the United Nations, February 1996), p. 3.

22. Ibid., p. 1.

23. Michael Maren, *The Road to Hell: The Ravaging Effects of Foreign Aid and International Charity* (New York: Free Press, 1997), p. 237.

24. Statement by Assistant Secretary of State for International Organization Affairs Princeton Lyman before the Second Joint Conference of the United Nations High Commissioner for Refugees and the International Peace Academy, 30 June-1 July 1996, reprinted in *Healing the Wounds: Refugees, Reconstruction and Reconciliation* (New York: UNHCR and International Peace Academy, 1996), p. 49.

25. Nicole Ball, "The Challenge of Rebuilding War-Torn Societies," in *Managing Global Chaos: Sources of and Responses to International Conflict*, Chester A. Crocker and Fen Osler Hampson, with Pamela Aall, eds. (Washington: United States Institute of Peace Press, 1996), p. 607.

26. *Global Humanitarian Emergencies, 1996*, p. 6.

27. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, April 25, 1997, p. 2.

28. Boutros Boutros-Ghali, *An Agenda for Peace* (New York: United Nations, 1992), para. 17. These ideas were more fully developed in Boutros-Ghali's *An Agenda for Democratization* (New York: United Nations, 1996) and will be cited below in the discussion of the World Bank's efforts to promote good governance.

29. In the United States this literature began to flourish in the 1970s, with publication of Harvard scholar Raymond Vernon's *Sovereignty at Bay* (New York: Basic Books, 1971). More recently, the Japanese and Europeans have joined the debate: see, for examples, Kenichi Ohmae, *The End of the Nation State* (New York: Free Press, 1995) and Jean-Marie Guehenno, *The End of the Nation-State* (Minneapolis: University of Minnesota Press, 1995; originally published as *La fin de la democratie*).

30. Hans Magnus Enzenberger, *Civil Wars: From L.A. to Bosnia* (New York: New Press, 1990).

31. David Lake and Donald Rothchild, "Ethnic Fears and Global Engagement: The International Spread and Management of Ethnic Conflict," Policy Paper no. 20, University of California, San Diego, January 1996.

32. David Lake, "Ethnic Conflict and International Intervention," University of California, Institute on Global Conflict and Cooperation, The International Spread and Management of Ethnic Conflict project, Policy Brief no. 3, March 1995.

33. Ted Robert Gurr, *Minorities at Risk* (Washington: United States Institute of Peace, 1993).

34. Rapoport, *The Importance of Space in Violent Ethno-Religious Strife.*

35. Ronnie Lipschutz and Beverly Crawford, "Economic Globalization and the 'New' Ethnic Strife: What is to be Done?" University of California, Institute on Global Conflict and Cooperation, The International Spread and Management of Ethnic Conflict project, Policy Paper no. 25, May 1996.

36. John Stremlau, "Clinton's Dollar Diplomacy," *Foreign Policy*, no. 97 (Winter 1994-95), pp. 18-35.

37. The recent history of the city of Bangalore, India, points to this trend. See John Stremlau, "Dateline Bangalore: Third World Technopolis," *Foreign Policy*, no. 102 (Spring 1996), pp. 152-68.

38. See Michael Bruno, Martin Ravallion, and Lyn Squire, "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues," in *Perspectives on Aid and Development*, Catherine Gwin and Joan M. Nelson, eds. (Washington: Overseas Development Council, 1997), Policy Essay No. 22.

39. Isaiah Berlin, "Return of the Volksgeist: Nationalism, Good and Bad," in *At Century's End: Great Minds Reflect on Our Times*, Nathan P. Gardels, ed. (La Jolla, CA: ALTI, 1996).

40. *Global Humanitarian Emergencies, 1996*, p. 17.

41. Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996); Enzenberger, *Civil Wars: From L.A. to Bosnia.*

42. Gillies, "Human Rights, Democracy and Good Governance," p. 121.

43. World Bank, *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press, 1997).

44. Ibid., pp. 1-2.

45. Ibid., p. 3.

46. Ibid., p. 4.

47. See, for example, Boutros Boutros-Ghali, *An Agenda for Democracy* (New York: United Nations, 1997), and *Our Global Neighborhood*, The Report of the Commission on Global Governance (New York: Oxford University Press, 1995).

48. Mohammed Ayoob, "The New-Old Disorder in the Third World," in *The United Nations and Civil Wars*, Thomas G. Weiss, ed. (Boulder, CO: Lynne Rienner, 1995), pp. 13-30.

49. Wolfensohn's other five priorities were to bring the International Development Association's 11th replenishment of funds (IDA-11) to a successful conclusion; to address the debt problems of the poorest countries; to build and expand partnerships with other international organizations (such as the United Nations and its agencies, the World Trade Organization, and the European Union); to accelerate private sector development; and to create a 'results culture' within the Bank. James D. Wolfensohn, address to the Board of Governors of the World Bank Group, October 1, 1996.

50. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction.*

51. Ibid., pp. iii-iv.

52. "Poverty reduction and sustainable development remain the central objectives of the World Bank." World Bank, *Annual Report 1996*, p. 14.

53. Nicole Ball, remarks to the opening session, "Lessons for the International Community in War-to-Peace Transitions," reproduced in Nicole Ball and Tammy Halevy, *Making Peace Work: The Role of the International Development Community*, Policy Essay No. 18 (Washington: Overseas Development Council, 1996). See that publication for a fuller exposition of her views.

54. One of the most promising experiments thus far taken in this realm was the assistance given to Uganda in the early 1990s to demobilize its army after a long civil war. This effort reduced the country's defense expenditure from 35 percent to 25 percent of GDP and cut the army by nearly

50 percent. See Nat J. Colletta and Nicole Ball, "War to Peace Transition in Uganda," *Finance and Development*, June 1993. Colletta, manager of the Post Conflict Unit in the Bank's Social Development Department, led the effort and had begun to design a similar program for Rwanda, but plans were aborted when mass violence erupted there in mid-1994. For a 1996 update on Bank research and planning for demobilization and reintegration programs see Nat J. Colletta et al., *War-to-Peace Transition in Sub-Saharan Africa: Lessons from the Horn, the Heart, and the Cape* (Washington: World Bank, 1996).

55. Nicole Ball, "The Challenge of Rebuilding War-Torn Societies," pp. 607-22.

56. See, for example, Ball and Halevy, *Making Peace Work.*

57. See Adam Roberts, *Humanitarian Action in War*, Adelphi Paper 305 (London: International Institute for Strategic Studies, 1996), p. 12, for an excellent treatment of the security problems facing humanitarian and development organizations in crisis situations.

58. Philip Gourevitch, "Letter from Rwanda: The Return," *New Yorker,* January 20, 1997.

59. *World Bank News*, "Clearing Land Mines: A Slow and Costly Operation," February 15, 1996, http://www.worldbank.org/htm/extdr/extcs/wbn0215.htm#reconstruction.

60. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction,* p. 11.

61. Ibid., pp. 11-12.

62. Roberto Chavez, World Bank Representative in Mozambique, remarks to the Overseas Development Council, Washington, October 22, 1997.

63. See Nat Colletta et al., *Case Studies in War-to-Peace Transition. The Demobilization and Reintegration of Ex-Combatants in Ethiopia, Namibia, and Uganda.* World Bank Discussion Papers no. 331 (World Bank: Washington, 1996).

64. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, pp. 12-14.

65. *From Civil War to Civil Society: The Transition from War to Peace in Guatemala and Liberia*, Report of a workshop held in Atlanta, Georgia, February 19-21, 1997 (Washington and Atlanta: World Bank and Carter Center of Emory University, 1997).

66. Ibid., p. 7. The recipe proposes a four-part framework for integrating conflict prevention into development operations: social assessments, including explicit recognition of the sources of social conflict; engagement with civil society; increased focus on governance; and a "frank exploration" of the costs of both random and organized violence in undermining the routine functions of socioeconomic activity.

67. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, pp. 3-5.

68. The authors are grateful for the comments of Edward V. K. Jaycox on this point.

69. World Bank, *Sub-Saharan Africa -- From Crisis to Sustainable Growth: A Long Term Perspective Study* (Washington: World Bank, 1989), cited in "Issues of 'Governance' in Borrowing Members: The Extent of Their Relevance Under the Bank's Articles of Agreement," Memorandum of the Vice President and General Counsel, December 21, 1990, pp. 1-4.

70. Cited by David Gillies, "Human Rights, Democracy and Good Governance," p. 115.

71. See Carey Schwaber, "The Inefficacy of the World Bank," http://www.tiac.net/users/process/carey/ibrd.html.

72. G. K. Helleiner, "Policy-Based Program Lending: A Look at the Bank's New Role," in *Between Two Worlds: The World Bank's Next Decade*, Richard E. Feinberg et al., eds. (Washington: Overseas Development Council, 1986).

73. World Bank, *Adjustment Lending: Policies for Sustainable Growth*, Policy and Research Series 14. In terms of net disbursement during the decade, adjustment lending accounted for 33 percent of the total IBRD disbursement.

74. World Bank, "Issues of 'Governance' in Borrowing Members," p. 8 (see note 69).

75. For an assessment of the shortcomings and unintended negative consequences of the Bank's efforts to apply strict conditionality in support of tough structural adjustment programs during the mid-1980s, see Daniel C. Milder, "Foreign Assistance: Catalyst for Domestic Coalition Building" in *The World Bank: Lending on a Global Scale*, Griesgraber and Gunter, eds., Chap. 6.

76. Ibid., p. 9.

77. For a critical update on structural adjustment see Milder, "Foreign Assistance: Catalyst for Domestic Coalition Building."

78. Ernest Stern, "Evolution and Lessons of Adjustment Lending" in *Restructuring Economies in Distress: Policy Reform and the World Bank*, Vinod Thomas et al., eds. (New York: Oxford University Press, 1991), p. 4.

79. See Joan M. Nelson et al., *Fragile Coalitions: The Politics of Economic Adjustment* (Washington: Overseas Development Council, 1989).

80. Susan L. Woodward, remarks before the Second Joint Conference of the United Nations High Commission for Refugees and the International Peace Academy, 30 June-1 July 1996, reprinted in *Healing the Wounds: Refugees, Reconstruction and Reconciliation*, pp. 12-13. Michel Chossudovsky, "Dismantling Yugoslavia, Recolonizing Bosnia," *Le Monde*

Diplomatique, April 1996, has made a similar argument: "Secessionist tendencies feeding on social and ethnic divisions gained impetus precisely during a period of brutal impoverishment of the Yugoslav population . . . . Following the initial phase of macroeconomic reform in 1980, industrial growth plummeted to 2.8 percent in the 1980-1987 period, plunging to zero in 1987-1988 and to -10.6 percent in 1990.

"The economic package was launched in January 1990 under an IMF Stand-by Arrangement (SBA) and a World Bank Structural Adjustment Loan (SAL II). The budget cuts requiring the redirection of federal revenues towards debt servicing were conducive to the suspension of transfer payments to the governments of the Republics and Autonomous Provinces thereby fueling the process of political Balkanization and secessionism . . . .

"In 1989, according to official sources, 248 firms were steered into bankruptcy or were liquidated and 89,400 workers had been laid off. During the first nine months of 1990 directly following the adoption of the IMF programme, another 889 enterprises with a combined work-force of 525,000 workers were subjected to bankruptcy procedures. In other words, in less than two years more than 600,000 [were laid off]. The largest concentrations of bankrupt firms and lay-offs were in Serbia, Bosnia-Herzegovina, Macedonia and Kosovo . . . ."

81. Ibid., p. 17. A more formal positive assessment appears in World Bank, *Annual Report 1990*, p. 49: "Bank assistance in financing reform efforts dates back to July 1983, when a first structural adjustment loan was approved. Fiscal 1990 saw Yugoslavia's reform efforts increase sharply. The government's stabilization program, launched in March 1990, was supported by an IMF standby arrangement and by a second structural adjustment loan from the Bank. The reform measures supported by the loan seek to liberalize further the price and trade regime and ensure the continued operation of a competitive foreign-exchange system. More significant, the loan supports the government's bold initiative to restructure the financial and social-enterprise systems and to strengthen their overall discipline in the economy, while also supporting improvements in the country's social safety-net system . . . ."

82. "Managing Development: The Governance Dimension," cited in "Governance: The World Bank's Experience," draft report prepared by the Operations Policy Department of the World Bank, November 29, 1993, p. i.

83. World Bank, "Issues of `Governance' in Borrowing Members."

84. Ibid., p. 56.

85. Ibid., p. 53.

86. European Bank for Reconstruction and Development, "Introduction." http://www.ebrd.org/intro/index.htm.

87. See Abram Chayes and Antonia Handler Chayes, eds., *Preventing Conflict in the Post-Communist World* (Washington: Brookings Institution, 1996).

88. "Governance: The World Bank's Experience," pp. 54-57 (see note 82).

89. World Bank, "Issues of 'Governance' in Borrowing Members," pp. 35-36.

90. "The World Bank and the Promotion of Economic and Social Human Rights," report submitted to the World Human Rights Conference, Vienna, June 1993, and conference address by Ibrahim Shihata.

91. Boutros Boutros-Ghali, *An Agenda for Peace*, para. 18.

92. Wolfgang H. Reinicke has proposed that the World Bank adapt the technique it now uses to assess the environmental impact of its loans, to allow it to gauge the effects of loans on intergroup tensions in a borrowing country. See "Can International Financial Institutions Prevent Internal Violence? The Sources of Ethno-National Conflict in Transitional Societies," in Chayes and Chayes, eds., *Preventing Conflict in the Post-Communist World*, pp. 281-338.

93. Melanie H. Stein, "Conflict Prevention in Transition Economies: A Role for the European Bank of Reconstruction and Development?" in Chayes and Chayes, eds., *Preventing Conflict in the Post-Communist World*, p. 361.

94. James D. Fearon, "Ethnic War as a Commitment Problem," June 23, 1996 (draft). University of California, Institute on Global Conflict and Cooperation.

95. David Cortright, ed., *The Price of Peace: Incentives and International Conflict Prevention* (Lanham, MD: Rowman & Littlefield, 1997).

96. For a thoughtful analysis of the passive option toward the association and disassociation of peoples see Reinicke, "Can International Financial Institutions Prevent Internal Violence?"

97. See James A. Baker, III, *The Politics of Diplomacy: Revolution, War and Peace 1989-1992* (New York: Putnam, 1995), Chap. 6.

98. For a thoughtful survey of the internal security problems of developing countries and when the use of force to maintain the national order may be justified, see Mohammed Ayoob, "The New-Old Disorder in the Third World," in *The United Nations and Civil Wars*, Thomas G. Weiss, ed., and "Subaltern Realism: IR Theory Meets the Third World," in *International Relations Theory and the Third World*, Stephanie Neuman, ed. (New York: St. Martin's, 1997).

99. David A. Baldwin, *Economic Development and American Foreign Policy*, pp. 37-50.

100. David Gillies, "China Spring: Using Economics to Mask Politics" in *The World Bank: Lending on a Global Scale*, Griesgraber and Gunter, eds., pp. 126-29.

101. David Gillies, "Imposing Democracy in Kenya?" in *The World Bank: Lending on a Global Scale*, Griesgraber and Gunter, eds., pp. 123-26.

102. Nicole Ball, Jordana D. Friedman, and Caleb S. Rossiter, "The Role of International Financial Institutions in Preventing and Resolving Conflict," in *The Price of Peace*, David Cortright, ed., pp. 243-66.

103. World Bank, *The Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty*, February 13, 1997, p. 11.

104. In advance of a March 1996 meeting between Wolfensohn and a group of foundation presidents, a set of briefing papers was prepared that concludes by outlining criteria for collaboration between the Bank and independent organizations. See Peter Bosshard, Carlos Heredia, David Hunter, and Frances Seymour, *Lending Credibility: New Mandates and Partnerships for the World Bank* (Washington: World Wildlife Fund, 1996).

105. *Conflict, Peace and Development Co-operation on the Threshold of the 21st Century*, A Policy Statement by Development Ministers, Aid Agency Heads and Other Senior Officials Responsible for Development Co-operation, meeting as the Development Assistance Committee (DAC) on 5-6 May 1997.

106. Ibid., p. 2.

107. Ibid.

108. Ibid.

109. Development Assistance Committee of the OECD, *DAC Guidelines on Conflict, Peace and Development Co-operation* (Paris: OECD, 1997).

110. Participants included Australia, Austria, Belgium, Canada, Denmark, the European Commission, Finland, Germany, Ireland, Italy, the IMF, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, the United States, the UNDP, and the World Bank. Invited organizations included the United Nations High Commissioner for Refugees and the United Nations Department of Humanitarian Affairs.

111. Development Assistance Committee of the OECD, *DAC Guidelines,* p. 22.

112. See Jean Krasno, "The Group of Friends of the Secretary-General: A Useful Diplomatic Tool." Paper prepared for the Carnegie Commission on Preventing Deadly Conflict, Washington, December 1996. Available on the Commission's Web site: www.ccpdc.org

113. *Conflict, Peace and Development Co-operation*, DAC Policy Statement, May 5-6, 1997, p. 4.

114. The 1995 Development Assistance Committee report on *Development Cooperation* (Paris: OECD, 1995) states: "The proportion of total Official Development Assistance (ODA) contributed to multilateral agencies was almost 35 percent in the early 1980 s . . . [but] declined to around 30 percent in 1993-1994, reflecting a fall in contributions to development banks, and

donors trimmed support for a number of United Nations development agencies in part because of concerns about the effectiveness and accountability of some of these institutions. . . . The fall in multilateral ODA would have been larger but for a substantial increase in donors' support for those international agencies involved in emergency and disaster relief." (p. 93)

115. For a summary and analysis see Jeffrey Laurenti, *National Taxpayers, International Organizations: Sharing the Burden of Financing the United Nations*, A Briefing Book of the UNA-USA Global Policy Project (New York: United Nations Association of the United States, 1995).

116. L. Craig Johnstone, "The 1998 International Affairs Budget: Supporting America's Global Leadership," address at the U.S. Department of State, Washington, February 14, 1997.

117. According to the DAC, as reported in a May 7 dispatch by Agence France-Presse, total U.S. development assistance during 1995 fell in real terms by about 8 percent from 1994 levels. Brian Atwood, administrator of the U.S. Agency for International Development, stated that France had overtaken the United States as the second-largest donor.

118. For a detailed report and analysis of public opinion on these issues see Steven Kull, I. M. Destler, and Clay Ramsay, *The Foreign Policy Gap: How Policymakers Misread the Public*, A Report of a Study by The University of Maryland Program on International Policy Attitudes, October 1997.

119. For a thoughtful analysis of this political dynamic see Jeremy D. Rosner, "The Know-Nothings Know Something," *Foreign Policy*, no. 101 (Winter 1995-96), pp. 116-29.

120. James D. Wolfensohn, address to the 1818 Society Luncheon, Washington, March 7, 1996.

121. "The Halifax Summit Review of the International Financial Institutions," Background Document, June 15-17, 1995, p. 4, and "Halifax Summit Communiqué," June 16, 1995.

122. Jerry Gray, "Congress Deprives Clinton of Money for UN and IMF," *New York Times*, November 14, 1997, p. A1.

123. "Halifax Summit Communiqué," June 16, 1995, para. 34.

124. In the late 1960s the Pearson Report suggested an international division of labor between the UN agencies: the UNDP would provide grants for technical assistance and prefeasibility studies; the bilateral agencies would finance feasibility studies for investment projects; and the World Bank would provide loans for investment projects. The rapid growth of UN agencies in the 1960s and 1970s expanded the supply of technical assistance, and UNDP grants became the vehicle of choice for the World Bank to finance such activities. In the 1990s the World Bank established its own free-standing, nonreimbursable, discretionary technical assistance program under the administration of the regional vice presidents. As funding for the UNDP has declined, so too has its collaboration with the World Bank.

125. See, for example, Transition Team of UNDP Staff, *UNDP: A Charter for Change* (New York: UNDP, October 1993); Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *Future of the United Nations Development Programme: Initiatives for Change*, Report of the Administrator, DP/994/30, May 23, 1994; Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *Initiatives for Change: Follow-up to Decision 95/22, Paragraph 4*, Note by the Administrator, DP/1996/2, November 21, 1995; *Change and Reform in UNDP: Highlights*, Note by the Administrator, January 1996.

126. One of the authors of this report (FRS) has been in contact with new recruits at the UNDP and at the World Bank, primarily as a lecturer in their training programs. He was impressed by the excellent technical skills and economic understanding of World Bank recruits but relatively unimpressed by their knowledge of the political scene, their experience in developing countries, and their sensitivity to noneconomic development issues. The situation with UNDP recruits tended to be the opposite: their limitations in technical and economic matters were offset by their knowledge, sensitivity, and experience in the political, cultural, and social aspects of development. Developing countries and the international community in general would gain a great deal if these two multilateral institutions could forge more effective partnerships for technical assistance and capacity building.

127. John Stremlau, *Sharpening International Sanctions: Toward a Stronger Role for the United Nations* (Washington: Carnegie Commission on Preventing Deadly Conflict, 1996), Chap. 4.

128. Alvaro de Soto and Graciana del Castillo, "Obstacles to Peacebuilding," *Foreign Policy*, no. 94 (Spring 1994), pp. 69-83.

129. Ibid., p. 78.

130. *Renewing the United Nations: A Programme for Reform*, Report of the Secretary-General, July 14, 1997, para. 51.

131. de Soto and del Castillo, "Obstacles to Peacebuilding," p. 80.

132. For a history of relations between the IMF and the World Bank see "Sisters in the Wood," *The Economist*, October 12, 1991. Although it has not been taken seriously in policymaking circles, the question of whether the Bank and the IMF should be merged or even abolished has been raised by some critics of international organizations in general. For a critique of the Bretton Woods institutions and suggestions that they should disappear see Doug Bandow and Ian Vasquez, eds., *Perpetuating Poverty: The World Bank, the IMF and the Developing World* (Washington: Cato Institute, 1994).

133. The extent to which developing countries have accepted the tenets of the so-called Washington consensus on economic policy reforms should not be exaggerated; see John Williamson, *Latin American Adjustment: How Much Has Happened?* (Washington: Institute for International Economics, 1990). Many of the World Bank's policy prescriptions for sound macroeconomic management will continue to be seen as an undesirable imposition, tolerated as a

condition for access to Bank financing. Even in Latin America, where a major ideological shift in thinking about economic policy and the role of the state has occurred, it is far from certain that governments, opposition groups, and the general public have fully internalized the need for policy reform. See, for example, Moises Naím, "Latin America Post-adjustment Blues," *Foreign Policy*, no. 93 (Fall 1993), pp. 133-50, and "Latin America the Morning After," *Foreign Affairs* 74, no. 4 (July/August 1995), pp. 45-61; and Stephan Haggard and Robert Kauffman, *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

134. Lance Taylor, *Varieties of Stabilization Experience* (Oxford, UK: Oxford University Press, 1988), p. 147. For a detailed analysis of the evolution of cross-conditionality practices see Roberto Junguito, "IMF-World Bank Policy Advice: The Coordination/Cross-conditionality Question," and Patricio Meller, "The Roles of the International Financial Institutions: A Latin American Assessment," in the proceedings of the UNCTAD conference, "The International Monetary and Financial System: Developing Country Perspectives," Cartagena, Colombia, April 1994.

135. See International Monetary Fund, World Bank, Organization for Economic Cooperation and Development, and European Bank for Reconstruction and Development, *A Study of the Soviet Economy* (Washington, February 1991).

136. Nicole Ball, *Pressing for Peace: Can Aid Induce Reform?* ODC Policy Essay no. 6 (Washington: Overseas Development Council, 1992).

137. World Bank, *Learning from the Past, Embracing the Future* (Washington: World Bank, 1994).

138. Development Committee Task Force on Multilateral Development Banks, *Serving a Changing World*, Washington, March 15, 1996, p. vi.

139. Ibid., p. vii.

140. Development Committee, "Resolving Debt Problems of the Heavily Indebted Poor Countries," April 23, 1996.

141. World Bank, *World Debt Tables 1996* (Washington: World Bank, 1996). See also Goran Ohlin, "The Negative Net Transfers of the World Bank," in the proceedings of the UNCTAD conference on "The International Monetary and Financial System: Developing Country Perspectives," Cartagena, Colombia, April 1994.

142. News briefing by World Bank President Wolfensohn at the World Bank, Washington, April 25, 1997.

143. For example, between 1990 and 1992, positive net transfers to Asian countries by the Asian Development Bank exceeded those by the World Bank, whereas World Bank negative net transfers to Latin America were more than double those by the Inter-American Development Bank.

144. World Bank, *World Development Report 1997*, p. 166.

145. Ibid., p. 162.

146. Ibid., p. 163.

147. News briefing by World Bank President Wolfensohn, Washington, April 25, 1997.

148. World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, pp. 3-5.

149. *The Reality of Aid: 1996*, An Independent Review of International Aid Prepared by Eurostep and ICVA (London: Earthscan, 1996), p. v.

150. Michael Schuman and Bob Davis, "South Korea Agrees to IMF's Bailout Terms," *Wall Street Journal*, December 4, 1997.

151. For a discussion of the rising importance of human rights concerns within the United Nations and as a factor in conflict prevention, see John Stremlau, *People in Peril: Human Rights, Humanitarian Action, and Preventing Deadly Conflict* (Washington: Carnegie Commission on Preventing Deadly Conflict, 1998).

152. Wolfgang H. Reinicke, "Can International Financial Institutions Prevent Internal Violence?; and Milton J. Esman, *Can Foreign Aid Moderate Ethnic Conflict?* Peaceworks No. 13 (Washington: United States Institute of Peace, March 1997).

153. World Bank, *Annual Report 1996*, pp. 32-33.

154. Ibid., p. 151.

155. For a brief review of the nature and utility of forecasting techniques see Nazli Choucri and Thomas Robinson, *Forecasting in International Relations* (San Francisco: W. H. Freeman, 1978).

156. The Development Committee's formal title is "Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries." For further information contact the Executive Secretary, Development Committee, World Bank, Room MC12-360, Washington, DC 20433.

157. World Bank, *The Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty*, February 13, 1997.

158. Ibid., p. ii.

159. Ibid., Executive Summary.

160. World Bank, *Annual Report 1996*, p. 21.

161. The past 20 years has seen major shifts in the mix of, and competition for, capital flowing to developing countries. Two major indicators of this are the ratio of public to private capital going to developing countries, which has flipped from 80:20 to 20:80, and the proportion of the world's workers in countries largely cut off from international markets by protection and central planning, which has fallen from two-thirds to about 10 percent. Except for the big emerging markets, most middle- and lower-middle-income developing countries still find it very difficult to obtain long-term financing in the international capital markets at terms as favorable as they obtain from the World Bank. The same applies to private sector firms in these countries, some of which have managed to secure funding from capital markets for their investment projects through the good offices of the Bank's private sector window, the International Finance Corporation.

162. The World Bank Group remains a most efficient means of providing access to relatively low-cost external financing for the vast majority of middle-income developing countries. The distinction between "paid-in" and "callable" capital provides a big leverage ratio for the more than 180 countries that share ownership in the World Bank: their relatively small paid-in shareholder contributions are multiplied many times over when the Bank issues bonds to tap the sources of private savings in the industrialized nations. Bank shareholders would have to contribute the full amount of their share of authorized capital only in the unlikely event that massive defaults from World Bank borrowers were to bankrupt the institution. This also allows the World Bank to appear extremely conservative by maintaining a one-to-one gearing ratio between its authorized capital and its obligations to bondholders. Such an intergovernmental loan guarantee scheme permits the World Bank to raise capital at low cost, and then to lend these funds to its borrowers with a small markup to cover operating expenditures. In addition to its conservative gearing ratio, the World Bank is a preferred creditor (first in line to be paid back by borrowers), it has never had an outright default (even though several countries have accumulated arrears), and it has never had to reschedule its loans (although the "special approach" adopted in 1991 for countries in arrears could be viewed as an exception). All of this, together with the World Bank's reputation in international capital markets as an innovative institution, gives additional security to World Bank bondholders and allows it to keep its triple-A bond rating and its cost of borrowing rather low. See also "The World Bank Graduates," http://www.worldbank.org/backgrd/ibrd/grad.htm.

163. See appendix C for a list of World Bank borrowers. World Bank, *Annual Report, 1996.* South Korea was the most recent country to graduate, on March 3, 1995.

164. World Bank, *Annual Report, 1995.* At the beginning of fiscal 1995 net income earned during fiscal 1994 ($1.05 billion) was allocated as follows: $285 million to the general reserve, $220 million to prefund interest waivers, $300 million to IDA, and $246 million to surplus (p. 131). Net income for the fiscal year ending June 30, 1996, was $1.35 billion, which was allocated as follows: $280 million to the general reserve, $90 million to the Trust Fund for Gaza, $100 million to the Debt-Reduction Facility for IDA-only countries, $250 million as an immediate grant to IDA, and the remainder of $634 million to surplus (World Bank, *Annual Report, 1996*, p. 159).

165. Development Assistance Committee of the OECD, *DAC Guidelines*, 1997.

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