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Bosnia: Will the Bank Give Peace a Chance?

Just at the time when Bosnia is taking steps to heal ethnic strife and the consequences of the war it spawned, the World Bank and the International Monetary Fund (IMF) are leading the country into a structural adjustment program (SAP) of the type that has caused economic polarization and social instability in most countries where it has been applied.

The Bank has been in the forefront of the Bosnian reconstruction effort. At the Peace Implementation Conference in London in early December, World Bank President James Wolfensohn said that about $4.9 billion would be needed over a three-year period to reconstruct Bosnia. Wolfensohn's summary of the consequences of the war made the need for assistance apparent: 250,000 people killed; domestic food production down to one-third of local needs, with 90 percent of the population dependent on food aid; a doubling of infant mortality over the past four years; annual per capita income down from $1,900 in 1990 to $500 today; and industrial output now at five percent of 1990 levels.

Because of the urgency of Bosnia's needs, Wolfensohn is taking the extraordinary step of asking the Bank's board to make funds available in advance of the country officially joining the Bank. Some of what the Bank plans to do in Bosnia is positive and ranges from funding mine clearance to rehabilitating the water system. However, instead of taking the opportunity to involve Bosnians in the planning of a reconstruction of the local economy, the Bank is promoting a reconstruction package centered on rapid privatization and reforms designed primarily to attract foreign investment.

Bank documents acknowledge that, before the war, Bosnia's state-owned coal mines maintained high standards and were efficiently run. Yet, the Bank's loan program calls for rehabilitating "the lowest cost and most competitive mines" and then transferring them to private-sector ownership. This would create a long-term public debt and provide a sizeable subsidy to private business.

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Haitians Seek Control of Their Economy

Ten years to the day after the dictator Jean Claude Duvalier was uprooted by popular protest and flown out of Haiti by the U.S. government, Rene Preval was inaugurated on February 7 as the second democratically elected President.

Like his friend and predecessor, Jean-Bertrand Aristide, Preval confronts enormous pressures on the economic front. He will have to negotiate among popular groups and other progressive forces (the constituency of Preval's Lavalas Party) that are increasingly vocal in their opposition to the donor-supported economic plan for Haiti, and to the actions of the obsessively pro-business U.S. government, the multilateral development banks (MDBs), the International Monetary Fund (IMF) and various factions of the Haitian elite.

As the primary source of capital for investment and reconstruction in Haiti, the donor community wields extraordinary power in determining the country's economic future. Since Aristide's return in 1994, donors have provided more than US$500 million in loans and grants, an amount equivalent to

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field, the Bank envisions changing the state's role from ownership of the telephone system to that of a regulator. New telephone systems will be constructed by private, probably foreign, companies and, despite the uncertainty about Bosnia's future, it will be a fool-proof investment. The Bank calls on donors to provide guarantees to the private investors, who stand to profit handsomely from the reconstruction and operation of the telephone system.

That such reforms are currently resulting in economic polarization and social and political unrest in other countries of Eastern Europe and the former Soviet Union by accelerating the creation of a class of super rich while stripping the majority of wage and job security and social services has not swayed the Bank. Bank officials say they are only following the wishes of Bosnian officials. Wolfensohn referred to "Bosnia's stated interest in moving toward a market economy."

Leaders in other Eastern European countries, as they emerged from communism, also asked for help in establishing market economies. Because of the extensive leverage, however, of the Bank and the Fund, exerted directly and through former staff positioned in key financial decisionmaking roles in the region, the development of these economies has not been reflective of the priorities of increasingly disgruntled local populations. With Western companies taking advantage of the openings created by the North American and European law firms and brokerage houses that have rewritten foreign-investment regulations and handled the privatization of state companies and agencies, the development of domestic productive capacity has suffered badly.

In Russia and Poland, the inequities and insecurity generated by the externally driven economic program have given a rebirth to former communist parties. In Hungary, the Socialist Party, in accommodating the IMF and its demands for rapid privatization and austerity, has seen its star fall into deep descent, while the country's ultra-nationalist Smallholders' Party has soared in popularity. With the international financial institutions continuing on this course in the region, indications are that Eastern Europe will increasingly find itself lurching to political extremes and experiencing ever-greater social instability.

In Bosnia, skepticism already runs deep. Many Bosnians, for instance, believe that it was the IMF's management of the post-Tito Yugoslav economy that created the wave of hyperinflation which helped precipitate the civil war. Now, under the new Bosnian constitution adopted as part of the Dayton peace agreement, the Governing Board of the Bosnian Central Bank will be headed by "a Governor appointed by the International Monetary Fund."

The Bank may also come to be seen in the same light, as local control over the economy is reduced and popular mechanisms of economic management eliminated. When it was part of Yugoslavia, Bosnia was a successful exporter that generated foreign-exchange surpluses. Much of the industrial and agricultural sectors were organized on a worker-owned cooperative basis. Now, under the guidance of the World Bank, the people of Bosnia may not have the option of retaining such positive elements of their former economic system.

The Bank recognizes that its program will produce economic and social casualties. Like an army that moves into war and builds hospitals and morgues to deal with the inevitable consequences, the Bank has made "safety net" programs an integral part of its Bosnia operation. Bank documents say that these programs will be "developed to meet the ongoing welfare needs of vulnerable groups." Yet, at the same time, the Bank warns against going too far in aiding the battered people of Bosnia. Its documents argue that limiting social aid "is important not only for macroeconomic reasons, as a bloated social assistance budget would undermine fiscal prudence needed for stability, but also for economic efficiency at the micro level, as inappropriate targeting and excessive amounts of social assistance would discourage work and enterprise..."

It is too early to tell if peace and unity will come to Bosnia. Unfortunately, the World Bank and the IMF may never give peace a chance. ■

Tony Avirgan

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more than twice the 1995 Government of Haiti budget. Another $680 million has been pledged by donors for release over the next three years.

According to the IMF, the Haitian government has fulfilled virtually all of the structural adjustment conditionalities associated with foreign assistance last year. The Aristide government eliminated most protective tariffs and import restrictions, maintained low wages, wiped out fuel and food subsidies while maintaining incentives for assembly industries, raised utility fees for individual consumers, increased international reserves, and maintained a floating exchange rate.

Under popular and parliamentary pressure, however, the government balked at privatizing its flour and cement factories, effectively slowing the overall pace of privatization. In response to this commitment to the will of the Haitian people, USAID has withheld an undispersed $4.6 million of a $45 million balance-of-payments support grant. The U.S. government had funded a $2 million study by the International Finance Corporation which recommended privatization and had paid $900,000 to a public relations firm in Montreal to sell privatization to the recalcitrant Haitian public.

The privatization issue also delayed Haitian government negotiations with the World Bank, the Inter-American Development Bank and the IMF for structural adjustment loans in 1996. These talks were renewed when the government sent a draft letter of intent to the World Bank in mid-December that reportedly walked the line between promising to privatize and insisting on a national debate on the issue.

The big question for Haitians is: what position will soon-to-be President Preval take vis-a-vis additional structural adjustment measures required by donors?

According to a December Associated Press report, Preval said that, while he planned to institute some of the harsh economic reforms demanded by western donors and international banks, he will do it in his own way and on his own timetable. Privatizing state-run enterprises and trimming and cleaning up a bureaucracy bloated by corruption are top priorities, he said. "The state has to create the conditions for private business to invest, then leave the private sector to its activities. And then the state must occupy itself with health, education, those areas," Preval told AP.

It seems that the struggle of the people of Haiti to gain control of their economy is just beginning, even while they have elected a pro-Lavalas Parliament and President. Groups such as the Haitian Advocacy Platform, whose members include peasant groups, student and professional associations, development organizations, women's groups and unions, are mobilizing against the adjustment program, which they believe will only worsen Haiti's desperate poverty. They are also demanding development alternatives that build on the proven knowledge and experience of popular groups and address the needs and priorities of the poor majority. ■

Lisa McGowan