China's Transition Experience, Reexamined
by Jeffrey Sachs and Wing Thye Woo

The most remarkable difference between reforms in China and in countries of Central and Eastern Europe and the former Soviet Union (CEEFSU) is that China succeeded in producing more than a decade of phenomenal growth, while countries of CEEFSU, no matter which reform strategy has been tried, have seen a sharp initial downturn in production, usually with a significant rise in unemployment. The undoubted Chinese success led many economists to urge CEEFSU to adopt the Chinese dual-track approach (see box next page). By 1996, however, the call for this dual-track approach has basically disappeared in the fast-reform countries of CEEFSU, since their sharp initial downturn has been followed by rapid growth. Poland's per capita GDP growth was around 6 percent in 1995, around the levels of the East Asian tigers. A similar rate of growth is expected in 1996.

Shifting from Wheat to Rice?
The differences in initial conditions and economic structures are so profound that it has been necessary for countries of CEEFSU to follow a fundamentally different kind of reform from Chinese gradualism. A simple transplantation of Chinese-style reforms to Russia or to other countries of CEEFSU would not be possible or desirable. Supporters of introducing Chinese gradualism in Russia might as well advise Russia to solve its agricultural problems by shifting from wheat to rice. We can summarize the structural differences, and their implications, as follows:

1. In 1978, at the start of the reform period, China's heavily subsidized state sector employed a relatively small share, 18 percent, of the labor force while the agricultural sector—not subsidized by the state—accounted for 71 percent of the labor force. State-owned enterprises (SOEs) offered a generous package of wages and social protection, pensions, heavily subsidized housing, medical cov-

What's inside...

Latvian Banking Crisis: Stakes and Mistakes—The fall of Baltija Bank is an omen—to avoid tremors in their financial sectors, transition economies should tighten bank supervision, warns Alex Fleming and Samuel Talley. (page 6)

Using World Bank Credit Lines. Alex Fleming reports on an innovative method—used in the Baltics—to recapitalize banks. (page 9)

How to Tender in Bosnia. Our compilation includes an interview with Procurement Coordinator Naushad Khan; a look at the specifics of reconstruction procurement; and a basic primer on World Bank procurement procedures. (pages 11-18)

Purchasing Power Parities (page 19)

Letter to the Editor—Russian Economic Crime: The Flip Side
Leonid Grigoriev and Gregory Kisunko respond to Michael Gray and Aleksandr Zhilin. (page 20)

Book of the Month—Leszek Balcerowicz: Socialism, Capitalism, Transformation
Reviewed by Martin Schrenk (page 22)

Quotation of the Month: "We Will Regulate Foreign-controlled Enterprises." If Zyuganov wins...—a leading Communist outlines a scenario for Russia. (page 24)

Milestones of Transition (page 25)

World Bank/IMF Agenda (page 28)

Conference Diary (page 30)

New Books and Working Papers (page 32)

Bibliography of Selected Articles (page 39)
erage, childcare, food, and recreational facilities. The peasants received none of these benefits and are still consuming roughly one-third of what urban residents consume. While most state enterprise workers have chosen to keep their privileged positions (at least during the first fifteen years of reforms), the peasants have been only too glad to shift out of low-income agricultural activities and into the new, higher-income jobs in the nonstate sector, notably in the township and village enterprises (TVEs) and in enterprises in special economic zones of the coastal provinces (see box on page 3). Thus, the nonstate sector grew despite the preservation of the state sector. It is important to note that China's rural reforms contributed directly to a one-time jump in productivity in agriculture between 1979 and 1985, but after that, agricultural productivity returned to its historical trend. Therefore, rapid growth in China has come mainly from the non-state, nonagricultural sectors.

Countries in the CEEFSU, by contrast, lacked a vast surplus-labor sector, and the (also heavily subsidized) state sector workers were eager to keep their privileges rather than risk the transition to the nonstate sector. In Russia, around three-fourths of the population are urban residents, and as of 1991, more than 90 percent of the population were employed in state-owned enterprises. Further, Russian farmers on state farms (sokhozes) and collective farms (kolkhozes) received approximately the same income and benefits as SOE workers, thanks to very large subsidies from the central government. Therefore, when the new, nonstate sector was progressively legalized during 1986-91, an SOE worker shifting into the nonstate sector could experience a drop in income and security. The flow of workers to the nonstate sector was insufficient to reinvigorate the economy.

**2. Market reforms in the CEEFSU countries necessarily involved an initial decline in industrial production.** In these countries heavy industry was overdeveloped under the old regimes' bureaucratic directives while the service sector was correspondingly underdeveloped. In China a decline of agriculture’s contribution to the GNP itself generated growth, without a squeeze of the existing industry. Besides, industry was not as excessively built up, since it had endured a much shorter period under stable central planning than the industries in the CEEFSU. The experience of China and the CEEFSU countries suggests that the marketization of a planned economy inevitably shifts resources toward the service sector: from the agricultural sector in China, and from industry in the countries of the CEEFSU.

Seen this way, much or all of the initial drop in industrial production in the CEEFSU countries after the start of reforms was a natural part of the needed reallocation of employment and resources.

**3. In both regions partial liberalization unleashed macroeconomic pressures, especially by allowing state enterprises to reduce actual and reported profits, so their tax payments decreased.** These pressures were more manageable in China, partly because the state enterprise sector employed a smaller part of the labor force, partly because of rapid growth in other sectors, and partly because of adequate monetary policy. The pressures turned explosive in much of the CEEFSU, particularly Bulgaria, Poland, and the (former) Soviet Union, because of deeper structural problems as well as gross macroeconomic mismanagement during the communist reform period (and well into the postcommunist reform period in much of the former Soviet Union).

**4. One key macroeconomic burden is social expenditure.** In China social spending from the central government covers a small fraction of the workforce, much less than 20 percent. In CEEFSU,

**What Is the Dual-Track Approach?**

The basic Chinese strategy for moving from economic planning to a market system has been the gradual decentralization of economic decisionmaking, including the liberalization of the non-state-owned economy. The dual-track approach of establishing a market track, parallel to an existing plan track, pervades almost every area of economic policymaking: sectoral reform, price deregulation, enterprise restructuring, regional development, trade promotion, foreign exchange management, central-local fiscal arrangements, and domestic currency issuance. For example, the typical process of dual-price transition is as follows:

- Opening the free market while keeping state supply unchanged at the (lower) plan price.
- Adjusting the plan price incrementally over time to approach the market price. The supply offered at the plan prices is normally fixed by quota, if not reduced, over time. Generally, no "shock" is observed when convergence of the two prices occurs.

This approach was introduced at the end of 1978 with rapid and comprehensive liberalization of the agricultural sector while the industrial sector remained under traditional central planning management. The agriculture communes were disbanded over a two-year period by distributing the land with multiyear (usually fifteen-year) leases to the peasants, and allowing the leases to be relatively freely tradable. State procurement prices for agricultural products were raised, and free markets for some agricultural products were allowed. Farmers now enjoy wide-ranging production freedom: only 5 percent of their production in 1993 was set by the state plan.

In 1984 the dual-track arrangement was extended to industrial goods, with state procurement quotas for consumer goods much lower than for producer goods. The proportion of planned production of total industrial output value has been reduced from more than 90 percent in 1978 to 5 percent in 1993.
by contrast, social spending from the central government covers nearly the entire population, and public demands for social guarantees outrun the fiscal capacity of the state.

**No Such Thing as Free Subsidies**

The usual argument for the superiority of China's two-track approach compared with a Polish-style "big bang" goes something like this. Economic reform involves substantial upheaval, so it is desirable to moderate the size of the shocks that will hit the economy during the transition. Therefore, it is useful to protect the old sectors of the economy at the same time that new economic opportunities are introduced by market liberalization. Since the old sectors are inefficient, they will lose out in competition with the new sectors, but this will happen gradually as workers voluntarily flow from the old state enterprises to the new and more efficient nonstate enterprises. A direct "assault" on the existing state enterprises—by cutting subsidies, raising input prices, privatizing ownership—is both unnecessary and traumatic. But in China the proportion of the labor force employed by state-owned units was 18 percent in 1978 and was still 18 percent in 1993. This means that there were actually 35 million more Chinese working in state-owned units in 1993 than in 1978. The state-owned sector is not "withering away."

Several studies have concluded that total factor productivity (TFP) growth of the Chinese SOE sector has been positive in the reform period. However, these calculations are based on questionable price deflators of intermediate and final outputs. Even calculating with these data, annual TFP growth of SOEs reached only about half of that achieved by the collectively owned enterprises (which include town and village enterprises).

Besides, overall profitability of the SOE sector has been declining. Many SOEs are still running losses, a decade after the start of enterprise reforms. In 1992, a boom year, output grew 13 percent, and yet two-thirds of Chinese SOEs were loss-makers. The heavy losses have continued to the present. Some blame the tough competition by nonstate enterprises. But decline in profits occurred across the board, even in heavy industries with negligible new entry by nonstate firms. Excessive wage increases throughout the SOE sector may have been a more relevant reason for the profitability decline. Managers have little incentive to resist wage demands because their future promotion to larger SOEs is determined in part by increases in worker welfare during their tenure.

The financial weakness of SOEs undermines macroeconomic stability; it reduces fiscal revenue, widens the budget deficit, and causes faster monetary growth; and it forces the central bank to cover the bulk of SOE losses through bank loans. The relatively small size of the SOE sector (compared with countries of the CEEFSU) enabled the government to help out the loss-makers without endangering macroeconomic stability, and to retain some control over the enterprises, especially over their fulfillment of production quotas at plan prices. With the state still being able to monitor the SOEs, there was less need to consider immediate privatization because widespread spontaneous privatization did not occur. But the fact remains that just as it did not succeed in producing the new socialist man during the Cultural Revolution, China, like Eastern Europe and Russia, has not succeeded in producing profitable SOEs.

**Another Look at China's Success Story**

In addition to the "advantages of backwardness" in economic structure, there are several other factors that have contributed to China's superior growth performance:

- China's reforms did not start at a time of high macroeconomic crisis and severe external debt requiring implementation of an austerity program.

### SOE, COE, TVE, FFE, SEZ...

In China, an SOE is a nationally owned enterprise; the central government is the ultimate authority for the enterprises' operations and the disposition of its assets, even though the SOE in most cases has been assigned to the provincial or county government for supervision and management. The nonstate enterprises are those in which the central government lacks final authority over the disposition of assets. The nonstate sector consists of community-owned (collective-owned) enterprises (COEs), cooperatives, individual-owned enterprises, private corporations, and foreign joint ventures. COEs are owned by all the residents of the city, township, or village, and cooperatives by a small group of persons. The most prominent type of nonstate enterprise is the community-owned enterprises in the rural areas, known as township and village enterprises (TVEs). Foreign Funded Enterprises (FFEs) were predominantly established in the SEZs, Special Economic Zones.

Opening of the economy to foreign trade and investment has caused Chinese exports to boom, especially exports from the TVEs in recent years (see table).

#### China's Export Boom, 1987-94

<table>
<thead>
<tr>
<th>Year</th>
<th>Total export-GDP ratio</th>
<th>TVE share</th>
<th>Total exports</th>
<th>TVE</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>1.09</td>
<td>147</td>
<td>16</td>
<td>16</td>
<td>13.0</td>
</tr>
<tr>
<td>1988</td>
<td>1.53</td>
<td>177</td>
<td>27</td>
<td>27</td>
<td>13.0</td>
</tr>
<tr>
<td>1989</td>
<td>1.89</td>
<td>196</td>
<td>37</td>
<td>37</td>
<td>12.0</td>
</tr>
<tr>
<td>1990</td>
<td>1.64</td>
<td>299</td>
<td>49</td>
<td>49</td>
<td>17.0</td>
</tr>
<tr>
<td>1991</td>
<td>1.75</td>
<td>383</td>
<td>167</td>
<td>167</td>
<td>19.0</td>
</tr>
<tr>
<td>1992</td>
<td>2.54</td>
<td>468</td>
<td>119</td>
<td>119</td>
<td>19.0</td>
</tr>
<tr>
<td>1993</td>
<td>4.44</td>
<td>529</td>
<td>235</td>
<td>235</td>
<td>17.0</td>
</tr>
<tr>
<td>1994</td>
<td>3.26</td>
<td>1042</td>
<td>340</td>
<td>340</td>
<td>23.0</td>
</tr>
</tbody>
</table>
China's saving rate is unusually high even by East Asian standards. Household saving is about 23 percent of disposable income in China versus 21 percent in Japan, 18 percent for Taiwan, 16 percent for Belgium, 13 percent for West Germany, and 8 percent for the United States. The annual flow of household saving into the formal financial system (the state banks and rural credit cooperatives) rose steadily from 3.4 percent of GDP in 1980 to 11.7 percent in 1991.

The high household saving rate plays an important role in stabilizing the Chinese economy. It has enabled the government to rely on seignorage (money-financing of the budget deficit and off-budget SOE subsidies), since the households are willing holders of the increased money supply. (Comparable subsidization of industry in Russia has so far produced very high inflation, because the increased money supply has not been willingly held by households and firms).

The two disastrous leftist campaigns, the Great Leap Forward (1958-62) and the Cultural Revolution (1966-76), undermined belief in Marxist dogmas, weakened the state's administrative capacity, and discredited central planning. The Great Leap Forward program of crash industrialization starved around 30 million to death in the 1958-61 period, and the Cultural Revolution purged around 60 percent of party officials.

The legacy of these two disasters enabled Deng Xiaoping to quickly transfer a significant amount of formal and informal economic policymaking power and resources to the provinces when he returned to power in 1978. The central ministerial and party apparatus were too politically exhausted and too discredited to resist his decentralization. This ending of Beijing's stranglehold over political power has been fundamental to the continuation of economic reforms. (When the conservatives sought to re-impose a Stalinist central planning economy in the immediate aftermath of the Tiananmen shootings in 1989, the provincial representatives were strong enough to repel the recidivist tendency toward central planning. Furthermore, it was the mobilization of this new decentralized political power by Deng Xiaoping after the collapse of the Soviet Union that forced the conservative faction to accept the new vision of a socialist market economy.)

Central planning in China was always much shallower than in the CEEFSU. The Soviet central plan controlled 25 million commodities whereas the Chinese central plan controlled only 1,200 commodities. Furthermore, the breakdown of the national distribution system during the decade of the Cultural Revolution forced local authorities to promote small and medium-size industrial enterprises in order to meet local demand.

Existence of family ties between the mainland Chinese and the overseas Chinese has facilitated the conduct of business. The explosive growth of the Special Economic Zones (SEZs) in southern China is a result of wholesale movement of labor-intensive industries from Hong Kong and Taiwan, which were losing their comparative advantage in these industries. China was closer, wages were lower, and language difficulties were nonexistent, compared with the alternative sites in Southeast Asia. Managers could commute daily from Hong Kong to supervise their factories in Shenzhen. The family connections greatly reduced the transaction costs of the investment by providing reliable local supervisors, inside information on the enforcement of regulations, and contacts with the local authorities.

Of all the factors identified as important causes of China's achievements in the 1978-92 period, only the high saving rate could be considered (in part) a policy lesson for economic reforms. The other factors are rather specific to China's circumstances.

Keeping the Bird Happy

Gradualism in China is as much the result of a political struggle between the Stalinists and the reformers, and of a general lack of consensus in the society at large, as it is the result of a particular theory of reform. The Stalinists subscribe to the "birdcage economy" doctrine. In the conception of its originator, Chen Yun, the central plan is the cage and the bird is the economy. The premise is that without central planning, the economy will be in chaos and production will be inefficient—that is, without the cage the bird will fly away. The amount of market activity that is to be tolerated to keep the economy working is analogous to the amount that the cage needs to be swung to create the illusion of greater space and keep the bird happy. The reformers, on the other hand, believe that only a market economy will promote long-term economic development.

"Muddling through" has not been a strategy, as claimed by some observers, so much as a result of the lack of political consensus. The reformers were able to convince the Chinese leadership in October 1992 to formally abandon "the planned commodity economy" in favor of "a socialist market economy with Chinese characteristics."

In November 1993, for the first time, the party identified ambiguous property rights as an important cause of the inefficiency of the state enterprise sector, and decided that large and medium-size state-owned enterprises should experiment with the corporate system, and
that some small state-owned enterprises could be contracted out or leased; other SOEs shifted to the partnership system in the form of stock sharing, or were sold to collectives and individuals.

Since there is now more political consensus at the elite level, popular support at the mass level, and better knowledge generally of the steps required to establish a market economy, it is not surprising that China has accelerated its economic reforms since 1994. The new reform measures included unification of the exchange rate, making the currency convertible for current account transactions, a new tax system, the corporatization of the state-owned banks, and the corporatization of SOEs.

To sum up, the different results that we saw in China, Poland, and Russia immediately after the implementation of different economic reform programs arose more from differences in their economic structure than from the economic strategies implemented. China's reform problem is basically the classic development problem of promoting the movement of low-productivity, surplus agricultural labor into industry and services, while Central and Eastern Europe's and Russia's reform problem is the much more difficult and conflictual adjustment problem of inducing labor to move from uncompetitive, heavily subsidized industries to newly emerging, efficient industries.

This article is drawn from the articles and ongoing research of the authors.

Jeffrey Sachs is professor of International Trade at Harvard University and advises governments in several countries including Bolivia, Estonia, Mongolia, Poland, and Russia.

Wing Thye Woo is professor of Economics at the University of California, Davis.

---

National Peoples' Congress-Waits and Sees

China's economic targets imply a strategy of continued austerity. However, pressure from ailing state enterprises and inland provinces for a selective easing of credit is intense. All of the key reports to the March session of the National Peoples' Congress stressed that the government would continue its "appropriately" tight monetary policy through 1996 and for the next five years in order to control inflation. Prime Minister Li Peng acknowledged, in his report, the need for a "reasonable scale" of investment in fixed assets and in ongoing construction projects. There is debate among Chinese leaders over whether to relax credit. Some leading officials argue that any loosening now would risk a new bout of inflation. However, a large number of SOEs and less-developed inland provinces are pushing for a loosening-up. Nonetheless, economic targets are based on the continuation of the tight credit policy.

Economic Growth. Li predicted GDP growth of 8 percent this year and average annual growth of 8 percent thereafter up to 2000. This is down from average growth of 11.8 percent in 1991-95. On the basis of these and further projections, GDP is expected to rise from 5.8 trillion renminbi ($700 billion) to 8.5 trillion by 2000, and to double by 17 trillion by 2010. Actual GDP growth this year could be around 9 to 10 percent. Tight credit and strong demand have led to upward pressure on the exchange rate, which has eroded much of the gain in external competitiveness that resulted from the 1994 devaluation.

However, although a fall in net exports will tend to slow the economy—trade was in deficit in December and January after nineteen consecutive months of trade surpluses—this may be offset by strong consumption and capital investment. After growth in fixed assets investment came down to 18.8 percent last year, Li envisages a 32 percent expansion in 1996 and average annual growth of 30 percent to 2000. Total fixed asset investment in 1996 is expected to reach 2.1 trillion renminbi, with 1.4 trillion going to SOEs and institutions, and 660 billion to community-run and private organizations. Priority will apparently be given to key projects under construction in infrastructure, agriculture and industry, as well as to inland regions. The startup of new projects will continue to be controlled, especially high-grade real estate and urban construction projects.

Inflation. Beijing enjoyed considerable success in reducing inflation last year to less than 15 percent from 21.7 percent in 1994, albeit with the aid of price freezes, administrative measures, and subsidies. The government hopes that inflation will drop to 10 percent in 1996 and remain below 8 percent through the next five years.

Budget. The draft budget provides for a deficit of 61.4 billion renminbi in 1996, a slight improvement over last year's 62.1 billion renminbi. Total revenue will amount to an estimated 687.2 billion renminbi, an increase of 11.1 percent over 1995, with expenditures totaling 748.6 billion renminbi, up 9.9 percent. Tax reform, including improvements in collection and the new revenue-sharing agreements with the provinces, has helped to stabilize government finances.

State-owned Enterprises. To assist ailing state-owned enterprises (SOEs), which are burdened by excess workers, outdated equipment, and poor management, reformers last year proposed a two-tier strategy (see Transition, November-December 1995):

- One thousand key SOEs are to be singled out for special assistance, including low-interest loans, debt forgiveness, and technical aid, in order to transform them into modern corporate entities capable of operating independently from the state and assuming responsibility for their own profits and losses.
- A special fund is to be established to encourage other SOEs to merge, offset debts, and improve efficiency. It is also understood that many of these companies will declare bankruptcy. (Mergers, however, may create monopolies and can couple more efficient firms with less efficient ones.)

The parliament's recent session did not yet discuss these proposals.

Based on reports of Oxford Analytica, the Oxford (U.K.)-based international consulting firm. (Email: ra@oxford-analytica.com).
Latvian Banking Crisis: Stakes and Mistakes
By Alex Fleming and Samuel Talley

In the spring of 1995 Latvia experienced the largest banking crisis of any country of the former Soviet Union (FSU) to date: the banking system lost about 40 percent of its assets and liabilities, and depositors are estimated to have lost almost $800 million in savings. Earlier, bankers had hopes that their country would become the Switzerland of the Baltics. Offering exceedingly high rates of interest and operating under a liberal regulatory and disclosure regime, Latvian banks attracted large capital inflows and short-term deposits from Russia and the CIS. But then banks began to fail with alarming frequency toward the end of 1994. The crisis reached its peak when Bank Baltija, by far the largest bank in the country, was forced to suspend its activities.

The Evolving Banking System

When Latvia gained independence in 1991, it inherited branches of the same specialized Soviet banks as other FSU countries: the savings bank, the industrial/construction bank, a social bank, and an agricultural bank. While most FSU countries converted these branches into nationally owned banks that continued their former specialization, the Latvian government decided to combine the forty-five branches of these former Soviet banks and place them under the auspices of the Bank of Latvia. This enabled the government to pursue a flexible bank restructuring strategy. In 1993 nine branches were sold to private commercial banks (seven of them to Bank Baltija); fifteen branches were consolidated into eight private banks and sold through offerings of shares; and the rump of twenty-one branches were structured into one state bank—the Universal Bank of Latvia, or Unibank.

Earlier, however, the Bank of Latvia did not play any type of governance role in the branches under its wing. Branch managers followed a business-as-usual policy, and as a result, a significant amount of bad lending took place. Most bad loans were concentrated in the branches of Unibank. An audit showed that as of March 1994, Unibank owned 40 percent of all nonperforming loans in the banking system, which totaled about 25 million lat ($50 million). These loans were taken off Unibank's books and replaced by government bonds.

Government policy toward the evolving commercial banking sector was driven primarily by parliament's insistence that any person or entity should have the right to establish a bank. As a result, a plethora of banks emerged: by 1993 more than sixty banks had been licensed. Some were pocket banks owned by state enterprises; some were purely private, dedicated to raising deposits to onlend to the owners; and some were set up with specific functions in mind (Olympija Bank was set up to help finance the Latvian Olympic team).

The incentive for establishing a bank was simply to gain access to a much cheaper source of funding than would be possible through existing banking institutions. All of these private or quasi-private banks were allowed to develop with little supervision from the Bank of Latvia. From 1992 to 1994 the private banks' share of total assets in the banking sector grew from 47 percent to 85 percent. Credits granted by the new commercial banks accounted for 89 percent of the total by the end of 1994, a huge jump from 23 percent two years earlier.

Rise and Fall of Bank Baltija

Bank Baltija expanded at unprecedented speed between 1993 and 1995. In 1994 it became the largest Latvian commercial bank in terms of assets, own capital, and deposit funding. Nine main shareholders owned 91 percent of the total shares; roughly 59 percent were owned by the family of Alexander Lavent, chairman of the bank's supervisory board. Among Lavent's companies, several are Russian-dominated and registered offshore.

Baltija's assets grew from about $25 million in January 1993, to almost $500 million by early 1995. Its own capital grew from about $1 million in early 1993 to $44 million in January 1995. Baltija had thirty-seven branches and forty-nine offices throughout Latvia with 1,300 employees in total. In April 1995, when the banking crisis began, the bank had total deposits of $392 million and a loan portfolio of $283 million. The bank was ready to develop a large network of branches and become the number one retail bank, in competition with the savings bank. It offered extremely high interest rates on lat deposits—90 percent for one-year deposits—at a time when the savings bank was offering just 14 to 20 percent, and other banks a maximum of 52 percent. By the end of 1994 Baltija attracted some 200,000 personal accounts.

In March 1995 the central bank invited all banks to prepare and present financial statements that had been audited on the basis of international accounting standards. Bank Baltija failed to present such accounts, or to give its auditors—Coopers and Lybrand—full access to needed documentation for the audit. That
behavior raised concern that Baltija might have an insolvency problem, even if moderate in size.

As enterprises started to withdraw their deposits from the bank, followed by households, which were slower to grasp the gravity of the problem, the Bank of Latvia provided modest support for Baltija, as did a few large corporations and commercial banks. It also initiated an across-the-board investigation of the bank's financial operations. The accountants dug deeper and deeper into Baltija's books and learned that the bank's negative net worth was about $320 million, or 7 percent of Latvia's expected 1995 GDP. The Bank of Latvia refused to provide further liquidity support. The crisis had come to a head.

Officials of the Bank of Latvia and the government began protracted negotiations with Baltija's owners and management. But the bank's managers and owners were just maneuvering to gain time and opportunity to strip the bank of its assets. In late April 1995, for example, Bank Baltija allegedly sold more than half of its loan portfolio of $160 million to the Russian Intertek bank. (Moscow-based Intertek is a pocket bank, owned by major oil companies, along with the Russian Ministry of Energy, its largest shareholder. Some cross-ownership between Baltija and InterTek was also suspected.)

In return, Baltija was to receive Russian government bonds equal to 29 percent of the par value of the loans sold. The Russian bank never delivered the bonds to Baltija.

Finally, Baltija was declared insolvent in July 1995 and placed under the control of the central bank. Of the roughly $500 million in assets on Baltija's books, some $260 million had disappeared by the time the administrator took over. Attempts to cancel the loan-sale agreement with InterTek and have the loans returned to Baltija failed. InterTek has refused even to confirm that a loan agreement was ever signed and claims that all original documents on the loans have been returned to Baltija. Funds were also blocked at Baltija's correspondent accounts with banks in Russia, Belarus, and Ukraine. But Baltija has refused to die. It was declared bankrupt, but later, received a reprieve. On April 4, 1996, it was again declared bankrupt and this time was put in the hands of a liquidator.

Besides Bank Baltija, other middle-size banks were involved in the crisis, including the Latvian deposit bank, the Centra bank, and Olympija Bank. Those were eventually declared insolvent. A number of smaller banks also experienced difficulty. In all, about 40 percent of the assets and liabilities in the banking system were compromised, totaling almost $900 million.

What Caused the Crisis?

Questionable banking practices during transition, the effects of stabilization, and ill-fated responses to developments in the Russian commodities market all had a hand in the Latvian banking crisis.

• Transition uncertainties. Major players in the banking system—the enterprise borrowers, the bankers, and the banking supervisors—are all prone to mistakes as the economies make the transition from a command to a free market system. As a consequence, nonperforming loans increase across the banking sector; moreover, a lack of laws governing loan collateral may inhibit collections. (In Latvia commercial banks had to make provisions of about $140 million at the end of 1994, and another $86 million in the first half of 1995.)

• Dubious bank activities. During transition, many banks were created to satisfy the rent-seeking of owners and management. Such get-rich-quick ambitions are fostered by a loose legal and supervisory framework. (Loopholes characterized banking laws in Latvia and other FSU countries during at least the first phase of transition.)

• Stabilization fallout. As observed primarily in Latin America, banking becomes susceptible to crisis as stabilization takes hold. Tight monetary policies...
force up nominal interest rates and simultaneously reduce rates of inflation, creating a strong movement from negative to positive real interest rates. This, in turn, can impede borrowers' ability to repay loans, with an adverse impact on the quality of the banks' loan portfolio. In Latvia, before stabilization took hold in 1992, inflation was running at more than 500 percent and real interest rates were significantly negative. As a consequence of tight monetary policy, by mid-1993 both real deposit and lending rates had become highly positive. Through 1994 and into 1995 the rate of inflation fell further, and real interest rates rose again, though temporarily.

**Particular circumstances.** During 1993 and 1994 selling Russian metals and other commodities to the West proved very profitable for traders and financing banks, as prices remained well below world market prices. Latvian banks used the high-return opportunity and charged high interest rates on financing. When Russian prices increased to near world levels, financing opportunities began to dry up, and banks scrambled to find equally profitable, though perhaps riskier, lending outlets. Thus, Bank Baltija—and possibly other banks—bid for Lat deposits at high interest rates. This strategy backfired as market interest rates fell, exposing Baltija to significant net interest margin pressures.

**Banking Crisis Impact**

The effects of the banking crisis were wide-ranging. Decreased liquidity caused by the loss of deposits (money supply in real terms declined by 17 percent during the first five months of 1995), along with other results of the crisis (adverse wealth effects, shaken economic confidence), prevented the 5 percent real growth expected for 1995: (growth was close to zero for the year). Net international reserves of the Bank of Latvia declined from a high of $466 million at the end of 1994 to $369 million at the end of June 1995 as the Bank of Latvia intervened to maintain the lat's parity vis-à-vis the special drawing right (SDR).

**The budget.** A severe budgetary crisis in 1995 has been worsened by the banking crisis in two ways. First, the lost liquidity of enterprises has reduced their ability to pay taxes. The expected budget deficit of $80 million for 1995 has ballooned to $140 million, or about 3 percent of GDP. Second, the fall in liquidity of the banking sector led to a decline in the banks' demand for short-term treasury bills. Their outstanding stock from a peak of about $115 million in early March 1995, shrunk to almost half that level just three months later.

**Other banks.** Although there were some confidence-related runs on a number of banks, the banking sector as a whole remained relatively immune to the crash of the Baltija, since the interbank market—a possible channel for contamination—accounted for only 6 percent of total bank liabilities (at end-April 1995). Some stronger banks have benefited significantly from the difficulties elsewhere in the sector. Unibank, for instance, has continuously gained deposits.

**Politics.** In the elections last fall, the ruling centrist parties, most of which were associated with the banking collapse, lost power. Gaining seats were the parties at the extremes of the political spectrum, some of which had strongly criticized the government's handling of the banking crisis. While the banking crisis may not have been the primary cause of a shift in voter sentiment, it was certainly a contributing factor and an element in political campaigns.

**Dealing with the Aftermath**

Corrective measures in the wake of the banking crisis have included financial

reparations and strengthening of banking regulation and supervision:

**Compensation.** To rekindle confidence in the banking sector, the former government decided to compensate household depositors who lost funds in the failed banks, up to $1,000 per depositor. The new government will only pay compensation to the extent that there are proceeds from the bank liquidation process.

**New banking legislation.** The Bank of Latvia developed, and the government approved, a new banking law in an effort to rebuild shattered public confidence in the banking system and to strengthen the legal and institutional framework. The new commercial banking law, already enacted, gives the Bank of Latvia a broad range of enforcement powers for supervising the banking system, such as cease-and-desist authority and the power to remove bank management or fine banks—provisions typically found in effective banking laws, but absent from the 1992 Latvian banking laws, which mandated either moral persuasion or revocation of licenses, but did not leave room for other, intermediate sanctions.

**Tighter supervision.** Supervision of the Bank of Latvia has been reinforced, and its organization restructured. The central bank has moved to tighten prudential regulations; it is requiring banks to establish internal control departments and has contracted with foreign accounting firms to supplement the work of onsite examiners. Some banks have been forced to close. At present, of the thirty-nine banks permitted to operate, only fourteen are authorized to accept household deposits. The other twenty-five have restricted licenses.

*Alex Fleming is Principal Financial Economist and Samuel Talley is Consultant at the World Bank.*
Using World Bank Credit Lines for Bank Rehabilitation: Pioneer Practice in the Baltics
by Alex Fleming

In the FSU and beyond, the World Bank has been asked increasingly to assist in the restructuring of banking systems. In the past, the World Bank has largely supported bank restructuring and recapitalization efforts through structural adjustment loans, if the eligible member country puts in place a restructuring program, and if domestic currency counterpart funds are used for recapitalization.

In the Baltics a new approach to recapitalization is being used, developed in the context of the $35 million Enterprise and Financial Sector Restructuring Project for Latvia. It is now also being replicated under the Private Agricultural Development Project for Lithuania.

Preconditions for using a credit line for a recapitalization program are:
• A strong argument for the bank (or banks) concerned to remain operational.
• A strong business plan.
• A government committed to the bank's revival.
• An effective institutional development program to strengthen the bank.
• An established timetable for the privatization of the bank.

The core problem of insolvent banks in the FSU is that their loan portfolios contain a significant proportion of nonperforming loans. Some are the product of directed, politically based lending decisions and some have resulted from the economic distress borrowers have experienced as a result of transition. In either case, the result is that an intolerably large proportion of the bank's assets produces no earnings, cannot be repaid when due, and thus has no value. If Western accounting principles are applied to such a bank, with appropriate capital deductions (reserves and writeoffs) for these bad loans, the result is insolvency—an excess of the bank's liabilities, primarily deposits, over the fair value of its assets (see stage I of the figure on page 10).

An insolvent bank can continue to operate for a period, so long as it does not become illiquid, that is, if the revenues and repayments from its good loans provide a cash flow sufficient to discharge the bank's liabilities as they fall due. This will occur if the magnitude of the bad loans is small in proportion to the total assets. It can also occur if the holders of the bank's liabilities are willing to defer collecting the amounts that are due them. In the FSU this commonly occurs in state-owned banks, because the state, as the bank's dominant creditor, and state-owned enterprises, as the major depositors, for political reasons do not call on the bank to make payment on its liabilities or to pay out deposits. The situation, however, is not sustainable over a long period of time, because the bank has no way to generate profits sufficient to fill the gap created by its bad loans. In the end, an insolvent bank has no value and cannot be privatized.

In this situation, the government typically has only two options: either liquidate the bank, or recapitalize it, replacing the bad assets with good assets. In the simplest terms, for a 100 percent state-owned bank, the recapitalization can be done by transferring cash to the bank in exchange for its bad loans. This allows the bank to use the cash to earn revenues (that is, make new loans) and eliminates the need to spend management time to collect on bad loans.

Few transition governments can afford to make such cash payments all at once, which is where the World Bank can assist. While, in theory, the World Bank could lend the government money to pay over to the insolvent bank, in reality, there is a timing problem since the situation is usually too urgent to wait for the World Bank to process a loan. In such a case, the government can make its payment in the form of government bonds, which immediately take their place as earning assets on the commercial bank's balance sheet (see stage 2 of the figure on next page). To provide sufficient value to fill the balance sheet gap, the government bonds are usually high-yield-
ing, medium-term obligations. The World Bank funding, in contrast, is much longer-term, and carries a much lower interest cost (although an exchange risk is involved for the government). In the Latvia Enterprise and Financial Sector Restructuring Project a standard World Bank credit line was used, in part, to gradually replace one expensive government obligation (the government bonds held by the commercial bank) with a lower-cost obligation (the government’s obligation to repay the World Bank loan).

This replacement is accomplished when the commercial bank locates a subloan project acceptable under World Bank standards and funds that subloan with a World Bank loan disbursement under the line of credit. Initially, the disbursement is made to the government. It is then transferred to the commercial bank, in exchange for an equivalent value of the original government bonds (see stage 3 of the figure). In this way the government is redeeming its bonds, in precisely the same way in which bridge financing is redeemed in a typical construction project. The commercial bank then transfers the funds received from the government to its sub-borrower, which creates an earning asset on the bank’s balance sheet.

To clarify the mechanism it is useful to compare it with a traditional credit line. Such a credit line will be disbursed through the government and onlent to a participating bank. The onlent funds would appear as a liability on its balance sheet—a liability to the government—and then flow through the balance sheet as a subloan to an enterprise on the assets side of the balance sheet. In contrast, and as illustrated in the attached figure, the recapitalization technique described above creates an asset on the balance sheet of the bank involved, but there is no corresponding liability. The liability to the bank is directly with the government.

There are several advantages to this approach:

• It is consistent with World Bank lending principles in providing resources for completely new investment or associated working capital. Filling a gap in the balance sheet of the bank undergoing recapitalization, it is not refinancing existing loans for productive assets. The bonds on the bank’s balance sheet simply perform a bridging function enabling the bank to generate income until the subloan comes onstream.

• The budgetary pressures associated with recapitalization are amortized over a longer timespan than would be possible using normal government revenues.

• As privatization is the ultimate goal, it is important to remove the government commitment to the bank as quickly as possible. The recapitalization method described above permits the government to take bonds off the balance sheet rapidly.

• The technique provides for recapitalization of a bank simultaneously with restoration of the bank’s lending capacity.

### Bank Recapitalization

**Stage 1**

**Government**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Loans: 30</td>
<td>Deposits: 70</td>
</tr>
<tr>
<td>Good Loans: 70</td>
<td>Borrowings: 30</td>
</tr>
</tbody>
</table>

**Commercial Bank**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Loans: 30</td>
<td>Deposits: 70</td>
</tr>
<tr>
<td>Good Loans: 70</td>
<td>Borrowings: 30</td>
</tr>
</tbody>
</table>

**Stage 2**

**Government**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Loans: 30</td>
<td>Bonds: 30</td>
</tr>
</tbody>
</table>

**Commercial Bank**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gov't Bonds: 70</td>
<td>Deposits: 70</td>
</tr>
<tr>
<td>Good Loans: 70</td>
<td>Borrowings: 30</td>
</tr>
</tbody>
</table>

**Stage 3**

**World Bank**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loans: 30</td>
<td></td>
</tr>
</tbody>
</table>

**Government**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Loans: 30</td>
<td>Bonds: 30</td>
</tr>
</tbody>
</table>

**Commercial Bank**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>WB subloans: 30</td>
<td>Deposits: 70</td>
</tr>
<tr>
<td>Good Loans: 70</td>
<td>Borrowings: 30</td>
</tr>
</tbody>
</table>

**World Bank Sub-borrowers**

Source: World Bank
Enterprises all over the world are flexing their muscles to participate in lucrative Bosnia reconstruction projects. Contracts for goods and works, worth billions of dollars, are being awarded to lucky bidders. Mr. Naushad Khan, responsible for supervising World Bank procurement procedures for Bosnia, was interviewed by Transition editor Richard Hirschler.

Q. What major information sources would you recommend to interested bidders?

A. General Procurement Notices, published in the UN publication "Development Business," provide the most essential information about the Bosnia-Herzegovina reconstruction projects; these list the required goods, works, and services, and give names, addresses, and phone and fax numbers of the local project managers in Bosnia. These local project managers are the best source of information. World Bank task managers can also supply important details. And there's a new source of information: the World Bank will soon set up a Bosnia Reconstruction Home Page—a Web site on the Internet—with major details about available business opportunities, and further Email addresses and phone and fax numbers of World Bank task managers and other officials dealing with the Bosnia reconstruction projects. The World Bank has just released a summary of twenty reconstruction projects approved as of April 30, 1996 (see table).

Available from Jennifer Keller, World Bank, Room no. H 10-096, (202) 473-1448, Email: J.keller@worldbank.org.

World Bank Projects in Support of the Priority Reconstruction Program in Bosnia and Herzegovina, as of April 30, 1996 (US$ million)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Cost</th>
<th>WB Group Support</th>
<th>Approval Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust Fund-supported Projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Recovery</td>
<td>160</td>
<td>45</td>
<td>February 29, 1996</td>
</tr>
<tr>
<td>Emergency Farm Reconstruction</td>
<td>50</td>
<td>20</td>
<td>March 28, 1996</td>
</tr>
<tr>
<td>Water, Sanitation, and Solid Waste Urgent Work</td>
<td>70</td>
<td>20</td>
<td>March 28, 1996</td>
</tr>
<tr>
<td>Emergency Transport Reconstruction</td>
<td>152</td>
<td>35</td>
<td>March 29, 1996</td>
</tr>
<tr>
<td>War Victim Rehabilitation</td>
<td>30</td>
<td>10</td>
<td>May 14, 1996</td>
</tr>
<tr>
<td>Emergency Education Reconstruction</td>
<td>33</td>
<td>10</td>
<td>May 14, 1996</td>
</tr>
<tr>
<td>Emergency District Heating Reconstruction</td>
<td>58</td>
<td>20</td>
<td>May 14, 1996</td>
</tr>
<tr>
<td>IDA-supported Projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition Assistance Adjustment</td>
<td>110</td>
<td>90</td>
<td>June 1996</td>
</tr>
<tr>
<td>Emergency Electric Power Reconstruction</td>
<td>140</td>
<td>30</td>
<td>June/July 1996</td>
</tr>
<tr>
<td>Emergency Landmine Clearing</td>
<td>70</td>
<td>15</td>
<td>June/July 1996</td>
</tr>
<tr>
<td>Demobilization Support and Local Public Works</td>
<td>43</td>
<td>15</td>
<td>June/July 1996</td>
</tr>
<tr>
<td>Microbusiness/Local Initiatives</td>
<td>25</td>
<td>15</td>
<td>Summer 1996</td>
</tr>
<tr>
<td>Demobilization Support and Training</td>
<td>20</td>
<td>7</td>
<td>Summer 1996</td>
</tr>
<tr>
<td>Emergency Natural Gas System Rehabilitation</td>
<td>58</td>
<td>15</td>
<td>Summer 1996</td>
</tr>
<tr>
<td>Emergency Housing Repair and Reconstruction</td>
<td>140</td>
<td>15</td>
<td>Summer 1996</td>
</tr>
<tr>
<td>Essential Hospital Services</td>
<td>95</td>
<td>15</td>
<td>Fall 1996</td>
</tr>
<tr>
<td>Education Reconstruction</td>
<td>60</td>
<td>20</td>
<td>Fall 1996</td>
</tr>
<tr>
<td>Transport Reconstruction II</td>
<td>158</td>
<td>20</td>
<td>Fall 1996</td>
</tr>
<tr>
<td>Emergency Forestry</td>
<td>35</td>
<td>15</td>
<td>Fall 1996</td>
</tr>
<tr>
<td>Water Management Rehabilitation</td>
<td>80</td>
<td>15</td>
<td>Fall 1996</td>
</tr>
</tbody>
</table>

The World Bank/JPRDTE

Procuring Bosnia Emergency Projects

Procurement procedure of the World Bank has been customized to the emergency projects under the Bosnia Reconstruction Program (see page 11).

**Procurement for Goods:**

- **International competitive bidding** (simplified) will be used for procurement packages estimated to cost more than $5 million each. For every project a General Procurement Notice will be published in the United Nation's "Development Business." It will cover procurement packages and consultant services to be procured, and invite interested eligible suppliers, contractors, and consultants to send their inquiries to project implementation agencies in Bosnia and Herzegovina. Suppliers, responding to this notice, will receive the World Bank’s standard bidding documents. The General Procurement Notice will also be published in the local press, followed by specific adds for individual contracts. The period allowed for submission of bids may be reduced to four weeks. Bid and payment currency will be limited to one currency widely used in international trade.

- **Limited international bidding (LIB),** tendering by invitation, will be used for procurement packages estimated to cost $2 million to $5 million each. If the number of suppliers is limited, all should be included in the tender. Dispatch of bidding documents and receipt of bids should be done by the fastest means of communication, such as fax machines. (Project implementation agencies and procurement agents will be required to put in place a mechanism to ensure transparency and fairness and to avoid any manipulation of bids received by fax.) LIB contracts of less than $5 million—related to the list of suppliers and technical specifications—will require prior approval by the World Bank.

- **International shopping** will be used for procuring equipment and materials of standard specification commodities, estimated to cost $200,000 to $2 million per contract. Procurement is based on comparison of price quotations obtained from at least three suppliers in two countries.

- **National shopping** will be used for contracts for goods available in Bosnia and Herzegovina up to an estimated cost of $200,000 per contract with at least three quotations.

- **Direct contracting** will be used for proprietary items, for reasons of compatibility and standardization, in any other justified case. All direct contracting packages should be identified in the procurement plan for each project and be preapproved by the Bank. Any direct contracting during project implementation will need prior Bank approval. Existing contracts will not be extended.

**Procurement for Works:**

- **International competitive bidding** packages will use the World Bank’s standard bidding documents for works. The advertisement procedure will be the same as for goods. Given the dispersed nature of works (repairs to roads, and the like) and the lack of interest from foreign contractors, national competitive bidding is proposed for contracts amounting to $1 million to $5 million per contract. However, interested foreign contractors will be allowed to participate in the bidding. Contractors will be requested in the local press to express their interest for a general prequalification. The prequalified contractors will be listed in a registry that will remain open for additions or deletions during the course of project implementation. The prequalification criteria shall be approved by the World Bank. Bidding documents will be sent to prequalified contractors who will be allowed four weeks to submit their bids. Deutsche marks will be used as the currency of bid pricing and contract.

- **National competitive bidding** (simplified) will be used for works contracts estimated to cost up to $1 million per contract. These works will be procured under lump-sum, fixed price contracts awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation shall include a detailed description of works, including basic specifications, the required completion period, a basic form of agreement acceptable to the bidder, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

- **Direct contracting for works.** Any direct contracting not identified in the procurement plan will be subject to the Bank’s prior approval.

**Procurement for Services:**

Consultants will be procured in accordance with the bank guidelines, including provisions related to both competition and sole-sourcing. The sole-sourcing packages will be identified and justified in the procurement plan for each project. Direct contracting during project implementation will need the World Bank’s prior approval. Procurement documentation for consultant contracts procured competitively and exceeding $2 million each will be subject to the Bank’s prior review. Followup assignments will be permissible to the extent that this will be indicated in initial terms of reference.

March-April 1996
Secondhand equipment, such as buses, can be procured through sole-sourcing with the Bank's prior approval, provided the equipment is appraised by an independent agency to confirm that the used equipment being considered will meet the criteria for quality, technical requirements, and economic value, and that spare parts and service for the equipment will be available for the operation of the equipment.

The Bank has prepared several standard procurement documents, which are required to be used in Bank-financed projects. These include:

- **Standard bidding documents:**
  - Prequalification (for Goods/Works), Goods (ICB), Works, Commodities, Textbooks, Pharmaceutical (ICB), Supply and Installation, Procurement of Computer Systems (Single- and Two-Stage), and Standard Evaluation Report for (Goods/Works). These documents are organized in fixed and variable parts; changes specific to a procurement action are made only in the variable sections. Other documents to facilitate document preparation and expedite procurement: Works (NCB), Simplified NCB (Works), Shopping (Civil Works), and Shopping (Goods).

- **Consultant standard documents:**

Lack of institutional capacity in Bosnia and Herzegovina requires that procurement agents and construction managers be responsible for the whole process of procurement. Sole-sourcing may be accepted if justified. The agent's contracts would cover "door to door" services, including bidding, contracting, verification/inspection, certification, and preparation of withdrawal applications.

What You Always Wanted to Know about Procurement—But Were Afraid to Ask

World Bank-supported projects cover a variety of development activities, in a range of sectors, including agricultural projects; infrastructure projects to construct ports, roads, water systems, and power plants; and projects in education, environment, finance, law, population, health and nutrition, urban and rural development, industry, information systems, telecommunications, and privatization. Bank-supported projects range from the complex and equipment-intensive to those in which training skills and specific knowledge are the principal resources transferred (see chart on page 14 for a breakdown of lending by sector).

Annually, World Bank fund borrowers award some 30,000 contracts (about 70 percent are for goods and equipment, 20 percent for civil works, and 10 percent for consultant services). Small and medium-size companies, as well as large ones, can profit from business generated by the World Bank.

**Business Opportunities and the Project Cycle**

Project identification, preparation, appraisal, implementation, supervision, and postevaluation constitute the project cycle. Depending on the nature and complexity of the project, it will take one or two years—sometimes longer—from the time a prospective project is identified until a loan is approved. By following where each project is in the cycle and understanding what takes place during each stage, consultants, civil works contractors, and suppliers can identify business opportunities and develop marketing plans. The bidding process typically begins at the preparation stage, although some procurement may occur this early (for example, contractor's prequalification). Consulting services may be procured at almost any stage in the project cycle, but the need is greatest in the preparation and implementation stages, when consultants may be used by borrowers to begin identification and preparation of projects, to draft bidding documents, to supervise procurement and contract execution, or to provide other technical assistance.

**Identification**

Only governments can propose projects for World Bank assistance but identification can come from several sources, including Bank-sponsored identification missions, other multilateral development agencies, and sometimes even private sponsors. A list of all identified projects is published in the United Nation's "Development Business." Each identified project is the subject of a World Bank Project Information Document (discussed later). Contractors, suppliers, and consultants should contact borrowing countries during the project identifica-
tion stage to express interest in supplying goods, works, or services for a specific project. They should obtain as much information as possible on what goods and services will be needed and when, and on how to submit bids and proposals. However, a potential private investor may contact either the International Finance Corporation (IFC) for additional financing, or the Multilateral Investment Guarantee Agency (MIGA) to guarantee an investment.

**Preparation**

Preparation of a project entails developing an identified idea into a detailed proposal that considers technical, economic, financial, social, environmental, and institutional aspects of the project. The goal is to determine the best method of achieving a project's objectives by comparing the relative costs and benefits of alternatives. Usually, consultants are hired by the borrowing country to assist with feasibility studies, design analysis, environmental impact assessments, and other aspects of project preparation. But the Bank frequently helps arrange financing for consulting services during this phase.

**Appraisal**

After project preparation has been completed by the borrower, the Bank reviews the proposals and undertakes a full-scale project appraisal. This is a comprehensive review of the technical, economic, financial, and institutional aspects of the proposal. It is conducted by Bank staff under the guidance of a task manager, sometimes with the aid of external consultants. The types of works, goods, services, and equipment necessary for the project are reviewed during appraisal. The procurement procedures and schedule are also determined at that stage. The complete financing plan is examined to ensure that cost estimates are accurate and that sufficient funds are available to complete the project.

At this stage bidding documents will normally be prepared. In certain circumstances, to hasten a project's future implementation, procurement may start. After the appraisal report is issued and reviewed, formal loan negotiations take place between the Bank and the borrower. These agreements, including procurement arrangements, are then formalized in loan documents that are submitted to the Executive Directors of the World Bank for approval.

**Implementation and Supervision**

After the loan is approved, funds are available to implement the project and purchase the items, works, and expertise needed. Construction activities, equipment, and supplies are generally purchased during the implementation stage. Implementation of the project is the responsibility of the borrower, as is procurement of goods and services. Though the World Bank is not a party to any procurement contract, procurement procedures—as reflected in the loan's legal documents—must be followed before funds may be disbursed. The Bank supervises project implementa-

**World Bank Average Annual Lending by Sector**

<table>
<thead>
<tr>
<th>Percent</th>
<th>US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Rural Development</td>
<td>18.9%</td>
</tr>
<tr>
<td>Transportation</td>
<td>15.9%</td>
</tr>
<tr>
<td>Energy</td>
<td>13.4%</td>
</tr>
<tr>
<td>Education</td>
<td>10.4%</td>
</tr>
<tr>
<td>Multi-Sector</td>
<td>6.9%</td>
</tr>
<tr>
<td>Urban Development</td>
<td>6.2%</td>
</tr>
<tr>
<td>Water Supply and Sewerage</td>
<td>4.7%</td>
</tr>
<tr>
<td>Population, Health, and Nutrition</td>
<td>4.3%</td>
</tr>
<tr>
<td>Industry</td>
<td>3.4%</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>3.4%</td>
</tr>
<tr>
<td>Environment</td>
<td>3.2%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

*Source: World Bank.*

14 March-April 1996
tion and the procurement process to ensure that these procedures are followed and that the process is transparent, fair, and impartial. Once the project is completed and the loan is fully disbursed, the Bank undertakes an independent evaluation, comparing actual with expected results, and applies the lessons learned to future projects.

The borrower prepares bidding documents. They must include instructions to bidders, evaluation criteria, conditions of the proposed contract, and a detailed description of the goods or works to be procured. Bidding documents must be made available to everyone who asks for them and pays the borrower's fees, if any.

To help with a bid preparation, the Bank has developed Standard Bidding Documents (SBDs) that are to be used by the borrowers. By using the SBDs, borrowers can considerably accelerate the preparation process. Suppliers and contractors should also be familiar with these SBDs. The Bank monitors the procurement process to ensure that its guidelines are followed. Bank staff review bidding documents for most contracts before they are issued, the borrower's evaluation of the bids, and the proposal for contract award. Smaller contracts are reviewed ex-post. When the contract is awarded, the Bank reviews it to ensure that it corresponds with the bid.

Bids and Pieces

When a firm learns that procurement is about to occur, it should write to, or have a representative or agent visit, the borrower and ask to receive the bidding documents as soon as they are available. Interested bidders should send the borrower the fee specified for the documents. Embassies will sometimes purchase documents on behalf of companies.

After a firm receives the bidding document, it should carefully examine the provisions and requirements to decide whether it can submit a competitive, responsive bid. The bidder should be certain that it understands both the commercial and technical requirements, and follows them in bid preparation. No assumptions should be made regarding bidding terms and conditions. Any questions or doubts should be clarified with the purchaser before preparing the bid. If a company decides to bid, it must follow precisely the instructions spelled out in the document and submit its bid by the required time and date to the specified place.

For any contract to be eligible for financing from a World Bank loan, the procurement must be completed in accordance with the procedures set out in the loan agreement, which incorporates those in the Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits." For each loan, there are additional specific agreements between the Bank and the borrower on carrying out procurement, which may include the criteria for packaging the contracts; the various methods of procurement to be used; the thresholds within which those methods apply; and the rules for prior and ex-post review of specifications, bid documents, and contract award decisions.

ICB and Other Methods

Since specific procurement rules and procedures differ depending on the type of project, the World Bank has four basic concerns that govern its procurement policies:

• To give all qualified bidders from the Bank's eligible countries an equal opportunity to compete for Bank-assisted contracts.

• To encourage development of local contractors and manufacturers in borrowing countries.

• To promote transparency in the procurement process.

Experience has shown that these objectives can best be achieved through an international competitive bidding (ICB) process with a margin of preference given to domestic goods, plants, and, under certain conditions, domestic contracting services in developing countries. The bidding procedure for goods and works is similar, although the evaluation criteria differ. In the case of civil works, for instance, the price and sometimes the completion period may be considered. When goods are purchased, technical factors such as capacity, maintainability, fuel efficiency, and after-sales service may be considered in addition to price.

Public notification for each project, ICB is achieved through a General Procurement Notice for goods and works, which appears in the United Nations publication "Development Business." The notice gives general information about the procurement to be carried out. Borrowers are required to keep information on those who express interest in bidding for the project and to notify them when specific bids are announced. Invitations to bid for specific contracts will also be advertised in at least one major local newspaper. Further, for large specialized contracts invitations will be advertised in "Development Business" and in well-known technical magazines, newspapers, and trade publications of wide international circulation. Borrowing countries are also invited to provide copies of advertisements to Bank mem-
ber country representatives—usually commercial officers or attaches—located in their country.

In the comparison of bids, manufactured goods with a minimum of 30 percent domestic content—raw materials, components—are afforded a margin of preference equal to the applicable customs and import tariff, or 15 percent of the cost, insurance, and freight (CIF) price of the imported goods offered by the competitor, whichever is less. In the case of domestic civil works contractors, the margin of preference is 7.5 percent over the price of the competing foreign contractor. This preference is available only to low-income countries. The bidding documents will clearly indicate any preference to be granted and the detailed bid evaluation procedure.

All Bank-assisted ICB contracts must be awarded to the lowest evaluated responsive bid, based on the evaluation criteria set forth in the bid documents. The lowest evaluated bid may not necessarily be the lowest priced bid. Other factors may also be taken into account, such as quality, durability, availability of after-sale service and spare parts, training, and even maintenance and operating costs. These factors will be clearly conveyed in the bid documents. There is no quota system that links the award of contracts to the size of contributions or share of membership by a country in the Bank.

Where ICB is not the most economical and efficient method of procurement (for example, the amount of the purchase may be small, the goods or works may be urgently needed, or there may only be a few suppliers), more appropriate methods of procurement should be used. The more common forms are:

- **Limited international bidding (LIB)**, in which suppliers or contractors of specialized goods and services participate by invitation rather than in response to an advertisement.

- **National competitive bidding (NCB)**, when the type of goods or scope of work is unlikely to attract foreign competition. A similar method of procurement may also take place in projects where local communities or local non-governmental organizations (NGOs), or both, could participate in order to increase the utilization of local know-how and materials or to employ labor-intensive and other appropriate technologies. Procurement procedures are broadly consistent with ICB procedures.

- **International and local shopping** (generally soliciting at least three bids) for purchasing low-value, off-the-shelf items.

- **Direct purchase**, normally on a negotiated basis, when proprietary equipment can be obtained from only one supplier.

---

**Consultants in the Middle Ages**

From the magazine *Hungarian Economy*
Although the primary focus of the Bank's lending is on specific project investments, a notable amount (around 20 percent) is distributed through structural adjustment loans (SALs) and sectoral adjustment loans (SECALs) for country adjustment operations in reforming economic and fiscal policies and addressing balance of payments problems. Most SALs provide foreign exchange to finance general imports. The funds are made available to public and private sector entities to purchase imported goods and services, and are not linked to the procurement of particular inputs needed to implement specific investment projects. They may also be used for payments of goods already procured or delivered within a certain period. Certain items, such as luxury goods, military supplies, environmentally dangerous materials, and other commodities, are prohibited, and are specified in the loan agreement. In the case of SECALs, funds may be allocated to purchase particular categories of goods related to a specific sector.

Procurement is usually conducted through established procedures of the public sector, provided these have been examined and found acceptable to the World Bank, or through normal commercial procedures in the private sector. In large contracts—generally exceeding $5 million—simplified ICB procedures are followed. Potential suppliers should track these operations in order to identify both the types of goods and products that the borrower envisions procuring and the procurement procedures that will apply.

The wide variety of projects involved provides a broad scope of opportunities, which range in value from a few to millions of dollars.

For procurement of goods: vehicles, machinery, tractors, farm implements, fertilizer, transport equipment, electrical machinery and plants, industrial facilities, mining equipment, hardware, telecommunication systems, satellite communication systems, school textbooks, furniture, spare parts, and raw materials.

For procurement for civil works: construction of ports, highways, schools, hospitals, housing, railways, bridges, irrigation works, water supply and sewerage facilities, and power plants.

For procurement of services: design and feasibility studies, supervision of installation and construction, environmental assessment studies, monitoring of management activities, aerial photography and mapping, oil and gas exploration, financial services, and auditing assistance.

Procuring Consultants

As with procurement of goods and works, the consultant selection process is entirely the borrower's responsibility. The Bank's role is to ensure that only capable firms are considered for selection, that the selection process is equitable, and that the chosen firm or individual is able to provide the required services. The same rules of eligibility apply: consultants from all member countries are eligible for consideration to work on any project financed by the World Bank.

Procedures for competitive selection of consultants include a series of steps to be undertaken by the borrower and reviewed by the Bank. These include preparation of a description of the assignment (terms of reference), a budget, the selection process to be followed, preparation of a shortlist of firms to be invited to propose, and the letter of invitation (LOI) to submit a proposal. The shortlist, not containing more than six firms, should reflect both competence and diversity, and ideally should have no more than two firms from any one country, at least one from the borrower's country, and one from a less-developed country. If requested by the borrower, the Bank will provide a long list of firms for consideration for the shortlist. The borrower evaluates the proposals, including consideration of alternative methodology, and negotiates the terms of the contract. The winning proposal and the draft contract are also reviewed by the Bank.

To assess the qualifications of firms and to assist borrowers in establishing a shortlist, the Bank maintains a computerized roster of consulting firms interested in doing business on Bank-assisted projects, called the Data on Consulting Firms (DACON) system. (There is no similar registration system for manufacturers and other suppliers of goods or contractors for works.) Consulting firms are not required to register, and registration does not signify Bank endorsement of the firm's qualifications or Bank approval of the firm's appointment for any specific project. The information contained in DACON is purely descriptive, not evaluative. Registration with DACON can benefit a consulting firm, however.

Opportunities for consultants are available in many areas. In the early stages of project preparation, for instance, consultants may be required to prepare feasibility studies, environmental assessments, engineering and project design, and cost estimates. During the implementation phase, consulting services are frequently necessary to prepare bidding documents, evaluate bids, and supervise construction and installation. Consultants are also used to conduct studies in such areas as marketing, distribution, export opportunities, sector master plans, and investment. There are also opportunities to prepare feasibility studies for follow-on projects and to provide all types of training needed by the borrower.
If a consulting firm accepts a contract to provide services on a project, it cannot bid to supply goods because the firm would have prior knowledge that might give it an unfair advantage over other bidders. The Bank does not object, however, if the firm accepts an assignment for a project and—in a follow-on assignment—prepares bidding documents, evaluates the bids, and supervises the contract for the borrower. Likewise, in a turnkey contract, consulting firms and suppliers may be associated in a joint venture.

Information Sources—Where, Who, What?

The United Nations publishes a biweekly called "Development Business," which is available by subscription. "Development Business" carries information on business opportunities generated through the World Bank, regional development banks, and other development agencies. The text of "Development Business" is also available through an on-line service called Scan-a-Bid.

"Development Business" includes the following information:

- **Monthly Operational Summary (MOS)** is a monthly report (also available as a separate subscription) listing all of the projects being considered for financing by the World Bank.

- **General Procurement Notices (GPNs)** are issued by the borrower for projects that contain ICB, generally around the time of project appraisal, and at least eight weeks before bid documents are available. This is the earliest public notice of procurement, and is the time for companies to contact the borrower if they are interested in supplying the goods or services listed in the notice. Publication of GPNs in "Development Business" is mandatory.

- **Specific Procurement Notices (SPNs)** are invitations to bid for specific items or works. SPNs describe the item(s) being procured and give details about purchasing bid documents, deadlines for submitting bids, and other requirements. Publication of SPNs in "Development Business" is mandatory for large contracts. SPNs are also published in the local press of the borrowing country.

- **Major Contract Award Notices** identify the successful bidders for contracts that have recently been awarded. This information is useful in identifying successful firms for possible collaboration on future contract competitions.

Information about the Bank's activities is available at the Bank's Public Information Center (PIC), (Web: [http://www.worldbank.org/html/pic/PIC.html](http://www.worldbank.org/html/pic/PIC.html)). The PIC offers a complete set of Project Information Documents (PIDs), Environmental Data Sheets (Eds), staff appraisal reports (SARs), a summary of postevaluation reports (OED Precis), and a catalog of Bank documents. Facsimile and Internet users worldwide may select and request the documents they need. PIDs are provided free of charge, either in electronic form or as hard copy.

The World Bank also provides regular business briefings at its Washington headquarters and its Paris office. These briefings cover the Bank's financing activities, methods of operation, procurement policies and procedures, and procedures for selecting consultants. The next seminars in 1996 are scheduled for Thursdays, June 6, July 11, September 5, October 10, November 7, and December 5. Interested companies can also obtain supplemental information on specific projects from the Bank's operational staff and from the Executive Director's office.

Each project is handled by a task manager who has overall responsibility for the project from inception to completion, including monitoring, procurement, and consultant selection. The task manager is selected from the professional staff based on experience and professional training. The task manager can answer specific questions about a given project and is therefore a useful source of information for interested suppliers. Each region has a procurement adviser in the office of the vice president who monitors procurement activities, reviews documents, and provides advice and assistance to the task managers on procurement matters.

The Procurement Policy and Coordination Unit, (Web: [http://oprl/html/opr/procure/contents.html](http://oprl/html/opr/procure/contents.html)) located in the Operations Policy Department, is responsible for developing policies and guidelines on procurement and consultant selection and ensuring that they are properly and consistently followed by borrowers and suppliers. Business Affairs Services, which provides information to the business community, and the DACON Center, which handles consultant registrations, are part of this unit.

The Bank's resident missions in the borrowing countries may provide useful information on Bank activities and business opportunities in the respective countries. The single most useful tool in identifying individuals in various positions in the organization is the World Bank Group Directory. It can help companies locate and direct their inquiries to the right person or persons within the Bank, as well as the IFC and MIGA. It also provides the addresses of resident missions.

Purchasing Power Parities

Purchasing power parities (PPPs) are the rates of currency conversion that eliminate the differences in price levels between countries. As such, they are an important tool for cross-country comparative analyses of macroeconomic aggregates, such as GDP per capita. They can be particularly useful when making international comparisons of price levels and real income between economies that have high rates of inflation such as those that have been experienced in the majority of the transition economies.

International price and volume comparisons between OECD countries and transition economies are undertaken within the framework of the European Comparison Program (ECP), which is organized and coordinated by the Austrian Central Statistical Office, Statistics Finland, Eurostat, and the OECD, in consultation with the Economic Commission for Europe. The ECP was established in 1980. To date, four comparisons have been completed, with an increasing number of countries participating in each.

Per Capita Indexes for GDP, 1993

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>48</td>
<td>28</td>
</tr>
<tr>
<td>Czech R.</td>
<td>44</td>
<td>13</td>
</tr>
<tr>
<td>Hungary</td>
<td>31</td>
<td>16</td>
</tr>
<tr>
<td>Slovakia</td>
<td>30</td>
<td>9</td>
</tr>
<tr>
<td>Russia</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td>Belarus</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td>Poland</td>
<td>24</td>
<td>10</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>22</td>
<td>6</td>
</tr>
<tr>
<td>Croatia</td>
<td>20</td>
<td>11</td>
</tr>
<tr>
<td>Estonia</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Lithuania</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>Romania</td>
<td>19</td>
<td>5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>Latvia</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Moldova</td>
<td>11</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Austria=100.
a. Using PPP conversion.
b. Using nominal exchange rate.

The most recent comparison, covering twenty-four OECD countries and fifteen transition countries of Central and Eastern Europe and the former Soviet Union, has just been completed, with 1993 as the reference year. Selected results from this comparison are available as a special annex in the quarterly publication *Short-term Economic Indicators, Transition Economies*, number 1/96, published in mid-February.

Excerpted from the Transition Brief, a quarterly published by the OECD. (Web site: http://www.oecd.org/sge/ccet/trans.htm)

"Statues of Lenin—buy, buy, buy!"

From the *World Press Review*
Two articles in the November-December issue of Transition focused on economic crime in Russia ("Russia Fights Crime and Corruption," by Michael Gray, and "Quotation of the Month: Criminal Financial Dealings Dramatically Increased in Russia," by Aleksander Zhilin). Both represented typical views on the Russian criminal scene: one, the views of a legal professional, and the other, the views of a journalist. But there are few (if any) studies that investigate the root causes of economic crimes in the transition economies. In our view, protection (racket), fraud, money laundering, and other crimes—certainly widespread in today's Russia—should be perceived as economic phenomena, not just as legal, moral, and law enforcement problems. Correspondingly, ways should be found to understand, cope with, and eventually uproot these crimes.

The textbooks fail to describe the effect of widespread economic crime and corruption on economic life. The continued operation of the criminal element, with its threat of violence, can substantially alter the behavior of enterprises and individuals, and in the process the rules of the economic game. The influence of criminal forces undermines market efficiency, and may undermine democracy, in the transition economies. Understanding the extent of economic crime, its development from petty to larger scale crimes and corruption, as well as "industrialization" of economic crime into organized crime—this is what economists focus at present.

Money laundering—a major headache for American law enforcement along with drug trafficking—is a principal topic of Michael Gray's article. But in Russia the classical money laundering—transformation of drug money into legal revenues—is still a secondary problem. Primary attention should be focused on fighting crimes in the formal economy.

Western theory focuses mainly on economic analysis of entry decision—in other words, what conditions motivate individuals to shift their lawful behavior to criminal acts. And that is the basis for Michael Gray's evaluation of Russian legislation on economic crime. He applauds the new laws for attempting to create a structure that makes possible the effective enforcement of the legal prohibitions. True, this is a major task for the Russian legal and enforcement agencies. But in the transitional economies a successful strategy against economic crimes must aim at isolating criminals and this, in the long run, will require a stable society. In the short run the first priority should be to establish clear property rights; otherwise, legal initiatives will set precedents for exemptions rather than bowing to established general rules.

Historically, any serious weakening of a state and its legal institutions has led to a deterioration in public safety. Government (read law enforcement agencies), to be effective, need the support of the public, of those who are most concerned with protecting their income and property interests. Therefore it is extremely important to develop a strong ownership function. Michael Gray's call for better laws is timely, but clearcut property (commercial) regulations should take precedence, while tough criminal laws should play only a supporting role.

Liberalization and privatization of an economy without there being a clear and enforceable legal and institutional framework in place, may weaken the ownership function, leaving a system in which there is no clearcut control of privatized assets by formal owners. This can encourage the criminal element to profit from loopholes in the law, appropriating the incomes of households, enterprises, or even whole industries.

On the other hand, if privatization were carried out with adequate transparency, public supervision, and focus on corporate governance, it will ensure the support of property owners and entrepreneurs, with clearly defined legal rights, who could become increasingly supportive of law enforcement agencies. This, in turn, would safeguard the civil and criminal code. A growing number of entrepreneurs would discourage costly backstage agreements and payments of "protection fees."

At present, to require "financial institutions to report all suspicious transactions (with suspicious clearly defined by the law)," as proposed by Michael Gray, would not be immediately effective in curbing crime. Privatization, as it has been conducted to date, has involved transactions with large amounts of cash. Cash plays a major role in other transactions as well. Indeed, about 40 percent of the working capital used in the Russian economy in 1993 was cash (the level was only 20 percent in 1992). Recording these cash transactions is extremely difficult. Beyond such accounting problems there is the fact that, according to some Russian estimates, about half of all foreign investment in Russia has been financed from money.
Transition of "dubious" domestic origin (but not necessarily derived from organized crime).

As to the increasing criminality in the financial sector, presented in Alexander Zhilin’s article, the claim that "shadow capital" in circulation in Russia, equals "legal government funds," means little without clarifications. Enormous amounts of cash circulated in the economy, much of it absolutely untraceable. No one knows, whether it is "legal" or "criminal" money. And how does one define money that has origins in the "gray" zone but has made two or three legal rotations?

The same reasoning can be applied to the crime rate. The numbers may actually be higher than thought, because of underreporting. What is crucial, especially for crime in the financial sector, is not the number of cases but the financial damage done. For example, in 1994 St. Petersburg registered the most fraud cases of any Russian city (with 2,062 cases, it surpassed Moscow by 100). But only 2.8 percent (57) of the incidents were classified as cases of "skilled" fraud. The other 97 percent were basically crimes of petty theft. "Skilled" crimes should also include the 1994 champion of economic crimes: the pyramid schemes. Reported damage in 1994 from this type of fraud totaled 20 trillion rubles, or $9.1 billion (3.2 percent of Russian GDP in 1994).

Ninety-five percent of Moscow banks and their affiliates are controlled by criminal kingpins, according to Mr. Zhilin, who quotes interior ministry experts. While it is true that organized crime has tried to control the financial and banking sectors—still the most profitable sectors in the Russian economy—many of Russia’s large banks are resisting these pressures. This is why, as Mr. Zhilin himself acknowledges, "banking appears to be one of the most dangerous occupations in Russia."

"Criminal financial dealing dramatically increased in Russia," Mr. Zhilin states. This is true, but not necessarily just because of maffia connections. The financial and banking sectors grew rapidly in the past several years, but mechanisms to account for their financial flows were missing. Thus, it is not clear that the share of criminal activity in banking and finance has risen in recent years. The public is still focusing very much on these sectors because of the large amount of funds misappropriated in the past.

With the development of institutions and regulations, the number of crimes (though not necessarily the amount of financial damage) presumably will drop. In Russia in 1994 the relatively new banking sector accounted for 80 percent of all crimes committed in the financial sector, but the growth rate is slowing—banking crimes increased fourfold between 1992 and 1993, but "just" doubled between 1993 and 1994. Criminal dollars at one stage or another have to go through a bank to become "legal" dollars, and Russia is no exception.

In our view, the fast and relatively unrestricted growth of banks helped the development of Russia's market economy. Unfortunately, legislation to regulate corporations, securities, and the like, and to facilitate much-needed institution building, was delayed. These shortcomings—fallout from the Big Bang—have hindered assets redistribution. The Russian government—with the support of its business sector and the general public, as well as the benefits of international experience and assistance—could solve these problems.

From the Washington Times
The World Bank/PRDTE Book of the Month: Leszek Balcerowicz: Socialism, Capitalism, Transformation

A Review by Martin Schrenk

After two decades of theoretical work on the defects of the Polish variant of "real socialism," in the fall of 1989 Leszek Balcerowicz was given virtually free hand to translate his vision of an alternative economic system into a bold political program. His intellectual determination is matched by the political courage with which he guided Poland's transition through its most difficult initial period. After all, a "radical" or "Big Bang" (terms he prefers over "shock therapy") approach to transition from real socialism to full-fledged capitalism had never been tested before.

Although Poland still faces serious problems, the economic feasibility of its traverse from socialism to capitalism is no longer seriously questioned. This dual success propelled Balcerowicz to the position of celebrated spokesman for the radical approach to transition. As its policy prescriptions—radical macroeconomic stabilization, rapid microeconomic liberalization, and initiation of privatization at the most rapid pace possible—have by now become the current orthodoxy, they will not be discussed in the remainder of this review.

The opening statement of the book—coming as quite a surprise—sides with the institutionalists. It points out that "[the book] deals with human behavior and its outcomes under both stable and changing institutional conditions. It belongs to a growing body of research which takes institutions as the central variable and tries to explain this change or their impact. These [institutional] problems were pushed into the background by the expansion of conventional neoclassical economics [that] brought to economics rigor in reasoning from assumed premises, but at the cost of practical relevance."

The introductory chapter then proceeds to identify four problems for the rest of the book: first, the definition of a sound analytical framework for studying institutions and human behavior; second, the "compatibility problem" that arises if institutional arrangements originating from different systems coexist; third, the "performance problem," that is, the economic outcomes of different institutional arrangements; and fourth, the "institutional dynamics," or the forces that govern institutional change. A conceptual framework for addressing these problems is presented, reflecting the concerns noted above—and stimulating the expectations of the reader.

Unfortunately, the rest of the book does not quite live up to the expectations raised by the introductory chapter. For instance, most chapters in part 1, dealing with the legacy of central planning, are hardly deploying the sophisticated conceptual framework of the Introduction.

Vintage Arguments—Vintage Splits

The central proposition of the book is that the radical approach to system transformation works in all conceivable cases, whereas its converse—a "gradualist" or "evolutionary" approach—cannot possibly work in the long run. A few common sense observations about this proposition are in order.

The message is not new, nor is it universally shared. Even the "gradualists" agree that instantaneous change from one system to the other would minimize the incidence of—what Balcerowicz calls—the "compatibility problems." But they doubt whether it is a feasible option, as the socialization of actors is rooted considerably in institutional factors—such as beliefs in stylized facts, and the role of unwritten rules in shaping codes of behavior and organizational routines. This makes the actors resistant to instantaneous change, they argue.

Most analysts would probably also agree that there may be an optimal path of transition for each particular country (as to speed and sequence) that is feasible given the country's economic, sociopolitical, and cultural conditions. But they tend to disagree on the relevant sets of conditions, and the selection of facts and choice of assumptions depend on their philosophical predisposition. All arguments seem to have been made by now, and mere repetition clearly offers diminishing returns for advancing the state of knowledge or convergence toward a consensus.

Similarly, all transition countries have by now chosen their specific path somewhere on the scale between the two polar cases (shock therapy and incremental change) and moved some distance down the respective path of transition. The superiority of one or the other strategy—provided one could prove it persuasively at this juncture—is immaterial for practical purposes. Entering a specific transition path creates...
path-dependencies that make a country unable to backtrack to the initial point and try another route. And broad-brush predictions of ultimate success or disaster are exercises in prophecy. In short, at this juncture it is too late to influence transition strategy choices and too early to judge outcomes.

Nonetheless, reading many of the passionate assertions, one cannot help asking oneself the question "and what about China?" China is hardly ever mentioned, and if it is, then to emphasize that it does not provide useful lessons. China and Viet Nam are "specials" (whereas all other transition countries are presumed to be of basically the same kind). Like other proponents of the radical approach, the author also seems to subscribe to the presumption that China's path is unlikely to be sustainable.

Diminishing Political Capital

The author stresses time and again that radical changes of the economic regime are possible only during a limited period of "extraordinary politics", when radical changes of the political regime, carried by a spirit of revolutionary enthusiasm and accompanied by readiness to assume sacrifices for the sake of a better future, release "political capital," that is an essential resource for the completion of system change. Once it is exhausted, "normal politics" returns, and organized opposition reduces the scope for further progress to incremental changes.

This potentially powerful political economy argument—the ultimate justification of "radical reform" for its advocates—would have deserved further development. Arguably, the destruction of political capital in the process of transition is rather due to the growing disillusionment with outcomes that do not match the exaggerated expectations—fueled, if not created, by the proponents of radical economic reform. Worse yet for the exhaustion of political capital is the sudden emergence of conspicuous inequities in the distributions of income, consumption, and wealth early on in the process. The author acknowledges this dimension, but dismisses it as the manifestation of "envy," suggesting just another distorted perception inherited from the past.

Envy and Social Acceptance

Envy is conventionally defined in economic discourse as the response of an individual to the impossibility of trading in his bundle of efforts and rewards for that of another individual. Envy, thus, reflects a perception that there is lack of "fairness." Only in the neoclassical framework of methodological individualism and individual utility maximization—the narrowness of which the author rejects in his advocacy of the institutional approach—can envy be dismissed as irrational or irrelevant.

Arguably, the concern with depletable "political capital" is economically relevant also in the long run, because the economic efficiency of a society is linked to a perception of sociopolitical legitimacy of its elite, a connection frequently referred to as "political sustainability." Such legitimacy includes a communal consensus on the fairness of the distribution of economic pains and gains of transition.

Clearly, economic transition involves serious distibutional dilemmas. An efficient capitalist market economy requires efficient ownership, which is by definition highly concentrated. Reliance upon traditional textbook virtues—such as diligence, frugality, and thrift—for the creation of a "fair" distribution of wealth from an egalitarian initial position within a few years is not a serious proposition. On the contrary, rapid economic transition is inevitably and transparently a rough-and-tumble affair from which insiders are perceived to emerge as the "winners" on the basis of shady, if not illegal initiatives, at the very same time that median incomes are falling drastically.

Free initial distribution of assets in pursuit of some form of "peoples capitalism" is increasingly perceived as a populist move to mobilize additional "political capital" for the government, and unlikely to make a sustained difference. The process of rapid economic appropriation of assets is therefore unlikely to produce a complementary social acceptance. "Social capital," thus, is in the final analysis equivalent to the capacity of society to maintain a political momentum supportive of transformation through its potentially explosive phase without losing the political legitimacy of the new order in the process. In several transition countries we are beginning to see the limits at this political sustainability, with unpredictable ramifications. Readers who hoped for a thorough discussion of these vital questions on the basis of the inspiring introductory chapter, are in for a disappointment.

Martin Schrenk is Consultant, Transition Economics Division, the World Bank.


To Our Readers,

Our reader's Survey, published in the January-February 1996 Transition issue, received overwhelming response. In the next issue we will report the results.

Many thanks for your enthusiastic responses and helpful suggestions.

The Editor
**Quotation of the Month: "We Will Adopt a Package Designed to Regulate Foreign-controlled Enterprises."**

*If Zyuganov Wins...—Predictions of a Communist Banker-Entrepreneur*

Vladimir V. Semago, Communist Deputy, Central Committee Member, and Banker-Entrepreneur, was interviewed by Yevgeny Krasnolobov, correspondent for Moscow’s Open Radio. The interview was published in Prism, a biweekly publication of the Jamestown Foundation on the Post-soviet States. This article is excerpted from the interview.

Q. Aren't you worried that the voters you are counting on to bring you to power will eventually force you to take a different path? Those who vote for Zyuganov are often equally willing to back Anpilov. [Viktor Anpilov was的状态 of the Communists—Working Russia—for the Soviet Union Party. The editor.]

A. All our neighbors could become our allies. We will try to cooperate with all countries. The Cold War is over. We intend to convert and reorganize our defense industry, which will become a normal segment of our economy.

Q. What will actually change for foreign investors if the Communists come to power?

A. There will be more order. We will adopt a package designed to regulate foreign-controlled enterprises. It is definitely better to play by the rules, even if they are not perfect, than to play without any rules at all. A good example is the earlier cooperation between the former Soviet Union and the West; all countries traded and cooperated with us. A reasonable policy, based on common sense, is always beneficial. It would not be right to try to revise all foreign investments in Russia, but certain deals, such as appropriations of enterprises' controlling shares in violation of the law, should definitely be investigated. This is up to the Prosecutor’s Office. Our people have every right to file lawsuits in the courts against illegal privatization maneuvers. Such legal proceedings are beyond the competence of political forces and movements, including my party.

Q. Is it true that your party has compiled a blacklist of foreign companies to be excluded from Russian businesses?

A. Why compile such a list? I repeat, we advocate handling the economy on the basis of common sense, not of settling scores with anybody. We do not have a blacklist of state officials either, although the latter believe we have drawn one up. We are ready to cooperate with them, including the most high-ranking ministerial officials, if they act for the good of the country. We are against assigning to every post politically like-minded people.

Q. If you come to power, which countries will you consider as Russia's allies and which as adversaries?

A. I would like to remind you that foreign companies appeared in Russia when Vladimir Lenin offered them concessions. The last concession dates back to 1947. Later, in 1986-87, the Central Committee of the Communist Party approved the revival of the cooperative movement and, with some limitations, allowed the operation of private firms. All these were initiatied by the Communists. If we did that in 1987, why would we destroy it now, in 1996? The democrats claim that the versatile economy, based on many forms of ownership, is their brainchild. In fact, they have simply ruined the country with their ill-advised and unprofessional actions. We want to improve the situation, based on common sense and consolidation of the society. We want to achieve economic expansion without appealing to ideology and without any political action. We want our people to live in normal conditions.
Q. What practical steps do you consider appropriate to deter NATO's expansion?

A. I do not believe that any practical measures are required or that we should seek to build up a new military bloc. We should rather use economic levers of influence. For example, if the Baltic States decide to join NATO, we can reconsider our economic policies toward them. Probably, this will make them change their mind. However, if NATO countries agree to provide everything necessary to these states to help them in their economic development, then let it be so.

Q. How many Communists stand on a similar platform?

A. Many, perhaps the majority, understand the realities of the modern world, and share social-democratic values such as pluralism in ownership.

The Jamestown Foundation can be reached by (E-mail at Long@jamestown.org) or fax (202) 483-8337. Postal mail: The Jamestown Foundation, 1528-18th St., NW, Washington, DC 20036.

Milestones of Transition

Becoming a monolith—as the Communist Party was in Stalin's time—would mean the end of the party. A monolithic party that rejects change or innovation is a bad idea. Rather, a party should be a living organism that grows and evolves over time. The possibility that orthodox communist ideas will prevail and ultimately determine our course, cannot be completely ruled out. But while in 1917-18 the civil war helped the orthodox wing to gain the upper hand, the present circumstances favor a social democratic trend.

Foreign direct investment in Central and Eastern Europe almost doubled last year to nearly $14 billion, as the region began to compete more strongly with other emerging markets, in Asia and Latin America. The sharp increase resulted mostly from the sell-off of big stakes in energy and telecommunications utilities in Hungary and in telecommunications in the Czech Republic.

IMF Bulgaria mission chief Ann McGirk arrived in Sofia on May 8, just as the leva dropped significantly against the U.S. dollar (on May 9 the exchange rate dropped to 112.84 leva to $1). The Bulgarian National Bank acknowledges it is powerless to arrest the decline because of its tiny foreign reserves ($670 million on April 30) and massive imminent foreign debt payments. Bulgaria's external debt totals nearly $11 billion, with more than $1 billion due this year. According to a World Bank official, Bulgaria must act quickly to close its loss-making firms and restructure its heavily indebted banking system or lose the trust of international lending institutions. A proposed program calls for shuttering more than 100 debt-ridden state companies with more than $80 million in total annual losses and 17,000 employees. A further 58 state firms—including the national airline, the railways, and oil refineries—would be downsized or placed on a strict rehabilitation regime.

Hungary plans to privatize two of its largest banks, Kereskedelmi Bank Rt and Magyar Hitel Bank Rt, by the end of this year, Privatization Minister Tamas Suchman announced. Smaller state-owned banks will be sold off by the end of 1997 at the latest. Generating cash is less important than boosting the banks' capital, Suchman added. Hungary has injected more than 300 billion forints [$2 billion] into the banks over the past few years through a bank consolidation program introduced by the previous government. Hungary is to sell state assets worth over 300 billion forints this year.

In Hungary the first two months of 1996 saw the pace of imports overtake that of exports, turning around an export-oriented trend that had lasted several months, the Central Statistics Office (KSH) reports. Exports came to $1.8 billion from the beginning of the year through February, which at current prices is 5.5 percent more than during
the same period in 1995. Imports totaled $2.4 billion, an 11 percent increase. The upshot was a trade deficit of $630 million for the period, $145 million more than a year earlier. The KSH accounts for the deficit by pointing to the high energy imports necessitated by the unusually long winter. Consumer prices showed an annual increase of 27.6 percent in the first quarter of this year, while real wages declined by 5.9 percent during the period. Gross public savings came to 2,200 billion forints at the end of February, 3.6 percent higher at current prices than two months earlier.

Hungary on March 29 became the twenty-seventh country to join the Organization for Economic Cooperation and Development (OECD). The Czech Republic became the first former communist country to join the OECD, last December. Poland is expected to join later this year.

Poland liberalized capital flows linked to direct investment as of April 1 and plans further dismantling of capital barriers for early 1997, deputy finance minister Krzysztof Kalicki announced. The next step, planned for January 1, 1997, will be easing curbs on portfolio investment giving Polish citizens the latitude to buy stocks on international markets. The move will require a bill upgrading the current law on public trading in securities. The liberalization aims to facilitate Poland's entry into the OECD later this year. The risk of capital outflow from Poland as a result of the liberalization is thought to be low: economic growth and the attractiveness of the Polish market encourage the flow of capital into Poland, with much less flowing out.

Russia signed a long-term rescheduling agreement with the Paris Club that includes the repayment of $40 billion over twenty-five years with a six-year grace period. Russia has been struggling to meet its international debt obligations since it assumed responsibility for $103 billion of debt amassed by the Soviet Union. It was due to repay $8 billion to sovereign creditors alone this year. The Paris Club deal will considerably ease the burden, giving Russia a six-year grace period on principal repayments and phasing its remaining obligations over twenty-five years. Russia will continue to make annual interest payments which will amount to $2 billion this year. Russia's payments under the agreement would total about $2 billion in 1996 compared with $1 billion paid in 1995.

Russia's monthly inflation in April was 2.2 to 2.4 percent compared with 2.8 percent in March. The economy will grow by about 6 percent a year in 1997 and 1998, Russian Central Bank Chairman Sergei Dubinin told the EBRD annual meeting in Sofia. Annual inflation this year will not exceed 20 to 25 percent, he said.

The Russian Duma in mid-April approved a land law that sharply restricts land privatization (bars foreigners from owning land and puts a two-year moratorium on the resale of land that was given free to farm workers). The law directly challenges an earlier decree issued by President Boris Yeltsin, on March 7. The decree would have made it easier for the 12 million former collective and state farm members to claim personal land shares from their farm and to sell the land or bequeath it to their heirs.

In March wage arrears directly attributable to Russia's federal government amounted to 8 trillion rubles, whereas total wage arrears were 24 trillion rubles. This is partly the result of a slowing of inflation, which reduces nominal profits and therefore the profits tax collected by the state.

Russia's government spent 6 trillion rubles ($1.2 billion) on the economic and social reconstruction of Chechnya in 1995, ITAR-TASS reported on March 31. There are no reliable figures for military outlays, but the operational costs of the 40,000 or so troops in the breakaway republic can be assumed to have been several times that amount.

Russian President Boris Yeltsin issued a decree on 8 April ordering the government to grant a six-month loan of 4 trillion rubles ($818 million) to the Pension Fund. The state owes pensioners more than 6 trillion rubles in overdue payments. Russia's national pension fund needs an immediate bailout to cover a shortfall of nearly 13.8 trillion rubles ($780 million). The fund depends on payroll taxes for revenue, but widespread tax evasion has substantially reduced collections in recent months. In February and March the federal government's tax income reportedly fell below 5 percent of GDP. Federal Tax Inspectorate Chairman Vitaly Atyukhov warned that officials are drafting a presidential decree that will make ministers and department chiefs personally responsible for meeting tax collection targets.

President Yeltsin, with continued emphasis on social issues in advance of Russia's presidential elections, decreed the partial restoration of savings wiped out by inflation as a result of the economic reforms begun at the end of 1991. The decree orders the government, the central bank, and Sberbank to draw up within three months a federal program to repay savings devalued between 1991 and 1995. The total Sberbank debt is estimated at 800 trillion rubles ($160 billion) in current prices. Compensation payments will begin to be paid in 1997 in a process that will take decades to complete.
President Yeltsin has decreed that supporting small businesses should become a government priority in Russia, Finansovye izvestiya reported on April 9. The decree promises 500 billion rubles ($102 million) for investment credits to small businesses, and $200 million worth in guarantees to foreign companies that open credit lines to small businesses in Russia. The Federal Fund for Small Business Support should receive 5 percent of the privatization revenue annually, which means that in 1996 small companies should get 707 billion rubles (in 1995 small businesses received 50 billion rubles from this source). Small businesses in Russia repeatedly complain that high taxes and interest rates make it difficult for them to survive.

According to Russian government statistics, 33 percent of Russia's industrial enterprises operated at a loss in 1995, while for agriculture the figure was 57 percent.

The Russian government has scrapped all export tariffs except those on oil and gas condensate, which will be phased out on July 1. About 140 of 680 voucher investment funds set up during Russia's first wave of privatization have collapsed, the State Property Committee reported. The remaining funds have assets of 2 trillion rubles and have paid average dividends of 70 percent to their 25 million shareholders.

Ukraine's budget deficit totaled 114.3 trillion karbovanets, or 6.9 percent of GDP, in the first quarter of this year as revenues reached only 17.7 percent of target. More than 40,000 Ukrainian enterprises have outstanding bills amounting to $980 million. Thirty percent of all electricity consumption and fifty percent of heating has been supplied without payment, according to Ukraine's Energy Minister Oleksii Shecherbostov. Power has been cut to 7,000 factories that have failed to pay their electricity bills. Inflation in April was 2.4 percent, Ukrainian Radio reported on May 7. This is the lowest rate of inflation Ukraine has seen in recent years. But at the same time, real incomes in the first quarter of 1996 fell by 19 percent.

Czech real gross domestic product (GDP) rose 5 percent year-on-year for the fourth quarter of 1995, putting GDP for the year 4.8 percent higher than in 1994, when growth was 2.6 percent, the Czech Statistical Bureau reported. The government has forecast GDP growth of 5.5 percent for 1996.

The Czech Republic recorded a trade deficit of 8.7 billion crowns ($322 million) in February, bringing the total for the year so far to 15.3 billion crowns ($562 million). Compared with the first two months of 1995, imports rose 23.5 percent to 112.2 billion crowns ($4.15 billion), while exports increased by 19.2 percent to 96.9 billion crowns ($3.59 billion). Officials said February's figures were positive, with exports of machinery and motor vehicles rising significantly. Last year's trade deficit totaled a record 96.7 billion crowns ($3.58 billion). Czech industrial production in February rose 14.1 percent over the same month in 1995, while average wages in industry for the period rose 19.9 percent over February 1995.

The Slovak parliament in March approved a law on the protection of private savings deposits based on compulsory contributions by financial institutions. The law, which goes into effect on July 1, 1996, is aimed at setting equal conditions for the protection of private savings in the whole banking sector. Institutions will contribute a one-time 1 million crowns ($33,300) upon joining the fund, adding up to 0.3 percent of overall savings deposits annually. In addition, the National Bank of Slovakia will make a downpayment of 100 million crowns to the fund.

The economies of Eastern Europe excluding the CIS are expected to grow by 5 percent this year, an EBRD report forecasts. The EBRD said some parts of Eastern Europe and the Baltic region are beginning to be underpinned by the same factors that have supported high growth in Southeast Asia. This year Poland will become the first country in the region to reach its pre-1990 level of output, to be followed next year by Slovenia. Output in most other countries in the region is likely to return to pre-1990 levels during the next two to three years.

EBRD shareholders, at the institution's fifth annual meeting in Sofia, voted unanimously in favor of doubling the bank's capital to $25.2 billion. It was agreed that the bank should give a higher priority to the least-developed countries it serves, including those of the former Soviet Union. EBRD President Jacques de Larosière announced that the bank would increase its focus on the development of the private sector in Central and Eastern Europe. This replaces the emphasis in the bank's early years on utilities and infrastructure projects. The bank will also focus on the modernization of capital markets in Eastern Europe. (In its five years of operation, the EBRD has used 80 percent of its capital base to approve 368 projects worth $10 billion. De Larosière called 1995 a "very good year" for the EBRD, with profits reaching $9.4 million, up from $1.2 million the year before. The bank exceeded its 1995 targets for both loan and investment commitments, with 85 percent of the projects approved by its board going to private sector undertakings. It approved 134 projects worth $3.6 billion, a 19 percent increase over 1994.)

We appreciate the contributions of Open Media Research Institute's Daily Digest.
The G-7, Ready for a "New Partnership?"

The G-7 countries are planning to use the June summit in Lyon as a launching pad for a "new partnership" with developing countries, with the aim of building political support for reform of the UN, news agencies report. France's President Chirac, chairman of the summit, is inviting for the first time the leaders of the World Bank, IMF, and WTO to attend a special lunch session of the G-7 heads of government, at which the future of the UN's economic organizations will be discussed. The goal is to eliminate the overlap between global organizations. UNCTAD and UNIDO are seen as immediate candidates for reform. G-7 expects to unveil a plan for dealing with the debts owed by highly indebted poor countries to the World Bank and the IMF. Under the plan, countries that already qualify for bilateral debt reduction through the Paris Club will also be given access to a scheme repaying debts to the World Bank and the IMF.

Task Force Proposes Changes

An intergovernmental task force has recommended modest changes in the way the World Bank and regional development banks do business. The proposals, discussed in Washington during the April Joint Meetings of the IMF and the World Bank Development Committee, are designed to make the development banks more effective and accountable, establishing common benchmarks to measure their performance. These banks should promote health and education in transition economies and developing countries, and instead of using syndicated loans, should expand multilateral insurance coverage to commercial banks and others, through MIGA. They need to focus on smaller, riskier projects, to avoid competition with the private sector. If that happens, shareholder nations in these organizations should provide additional resources, the task force's report suggests, according to Reuter.

Donors Agree on IDA Replenishment

Representatives of more than thirty donor countries have agreed on new funding for the International Development Association (IDA). A donors meeting in Tokyo on March 19 endorsed a package that will allow concessional lending of $22 billion to poor countries over the next three years. New contributions from donor countries should total about $11 billion, with the rest coming mainly from past donor contributions, repayments of IDA credits, and contributions from the World Bank itself. The three-year package begins with a one-year interim fund of about $3 billion running from July 1996, with decisionmaking and procurement limited to contributing donors and developing countries. The United States will not contribute to the interim fund; instead, it will pay $934 million due to fulfill its commitment to IDA's tenth replenishment, which ends in June this year. IDA's beneficiaries are seventy-eight poor countries, which have a total population of more than 3 billion.

Bosnia Joins World Bank

Bosnia and Herzegovina has joined the World Bank Group, effective February 25, 1993. The date membership of the Socialist Federal Republic of Yugoslavia (SFRY) was terminated. This brings the number of World Bank members to 180. Bosnia has also joined two Bank affiliates, the IDA, which has 159 members, and the International Finance Corporation (IFC), with 166 members. Bosnia joined the IMF on December 20, 1995.

Donors Pledge Another $1.23 Billion to Bosnia

Donors on April 12-13 pledged $1.23 billion in reconstruction aid for Bosnia and Herzegovina, bringing total aid funds committed by the international community to Bosnia to $1.83 billion for 1996. The pledges were made at a meeting in Brussels chaired by the European Commission (EC) and the World Bank and attended by representatives from fifty countries and thirty international organizations. An earlier donors conference last December pledged $600 million in aid as part of a three-to-four-year planned reconstruction program that will cost an estimated $5.1 billion. Adding to the $150 million it pledged at the December meeting, the World Bank approved a further $160 million in new commitments for this year, bringing its total commitment to $310 million. World Bank President James Wolfensohn urged the creation of employment for the 300,000 soldiers who will soon be demobilized.

Upgrading Social Services in Russia

The World Bank on April 30 approved a $200 million loan to Russia in support of social services in the Novosibirsk and Rostov oblasts. The Community Social Infrastructure Project will finance the rehabilitation of schools and hospitals and the repair of water supply and sanitation facilities. Earlier, on March 28, another $350 million was approved to help finance a four-year program of urgently needed bridge works on federal roads in Moscow and five oblasts, to be procured under international competitive bidding.
IMF Disburses Tranches of New Russian Loan

The IMF decided in early May to go ahead with the second $340 million loan payment to Russia, following the disbursement of a similar amount in early April after Moscow acted to put its economic reform program back on track. Some $4.1 billion will be disbursed to Russia in the first year of the program, with declining amounts thereafter. The new loan is being awarded under the same terms as the previous one-year, standby loan, that is, by means of monthly tranches; the progress of Russian economic reform will be continuously monitored by IMF officials. (The $10.1 billion, three-year Extended Fund Facility loan to Russia was approved on March 26. Russia already has $10.8 billion in outstanding IMF credits.)

Mass of China Projects

In March-April the following China projects were approved by the World Bank:
- A $100 million IDA credit for the Third Basic Education Project. The project will affect nearly 5 million children and will support the program goal of making primary education universal by 2000.
- A $250 million loan that will support the Second Shanghai Sewerage Project.
- A $210 million loan for the Second Shanxi Provincial Highway Project (to build about 259 km of high-grade highways and about 4,100 km of rural roads).
- A $100 million IDA credit to combat poverty in China's Shanxi province (to increase farm production, improve rural roads, and help poor and disadvantaged women earn income). The project is expected to benefit around 3 million rural people in the region.
- A $150 million loan in support of a $327 million Animal Feed Project, to increase livestock production.
- A $440 million loan for the Henan thermal power project, including investment, power sector reform, and institutional development.

IMF Standby to Ukraine

The IMF signed an accord with Ukraine for a new standby credit worth $900 million. The loan will support Ukraine's efforts to reduce both the government budget deficit and inflation while stepping up the privatization of state enterprises. It will be disbursed in nine monthly tranches of $100 million to allow close monitoring of the authorities' performance. The aim of the reform program will be to halt the decline in GDP and cut inflation. The budget deficit will be reduced to 3.5 percent of GDP this year, from 5 percent in 1995, and privatization will be speeded up.

IMF Approves Second Annual ESAF Loan for Viet Nam

The International Monetary Fund (IMF) on March 1 approved the second annual loan for Viet Nam in an amount equivalent to about $178 million under the three-year enhanced structural adjustment facility (ESAF). (A total of about $535 million was approved on November 11, 1994.) The loan will support the government's 1996 macroeconomic and structural reform program and will be disbursed in two equal semianual installments, the first of which is available immediately. Viet Nam's Deputy Prime Minister Phan Van Khai, speaking to the National Assembly, said the budget deficit was 4.3 percent of GDP last year. He blamed the deficit on problems with tax collection and evasion.

Donors Pledge $210 Million for Mongolia

Donors have pledged at least $210 million in assistance to Mongolia for 1996, with the precise figure to be determined by bilateral negotiations now in progress, the Mongolia Assistance Group announced after meeting in Tokyo in late February. The fifth donors meeting, cochaired by the Japanese government and the World Bank, and attended by delegates and observers from twenty-four countries and eight international organizations, expressed concern over persisting high levels of inflation and urged further reforms of the banking system and the restructuring of state-owned enterprises.

Curing Bulgaria's Health Sector

The World Bank on April 9 approved a $26 million loan to infuse money into Bulgaria's ailing health sector. The project will shore up the health ministry's management and information activities and support primary health care, emergency medical services, and the blood transfusion network. In Bulgaria life expectancy has not increased since 1970. Infant mortality is on the rise, maternal mortality is twice the level of the OECD countries, and the abortion rate is one of the highest in the world. It is estimated that by 2025 more than 21 percent of the population will be older than 65 years.

New IMF Reporting Standards

Finance ministers attending the spring meetings of the World Bank and IMF approved tough new economic reporting standards designed to avert future Mexican-style financial problems. The new IMF standards, endorsed by the IMF's Interim Committee, are designed to improve the quality and timeliness of financial statistics ranging from inflation and unemployment to currency reserves and trade deficits.

The Worsening Environment—A New Report

The world population should jump 50 percent to 8.3 billion by 2025, with two-thirds massed in congested cities, according to a report recently released by

Support to Algeria

The World Bank approved on April 25 two loans to Algeria. A loan of $300 million will support the Algerian government's goal of achieving an open, market-based economy through macroeconomic stabilization and rationalization of public expenditures, public enterprise reform, and private sector development. Another $50 million will finance a new social protection system. This safety net project includes a labor-intensive public works scheme to be carried out mainly by small private enterprises.

Loans to Georgia

On April 25 the World Bank approved a $14 million IDA credit for Georgia that will help to reorient the health system toward cost-effectiveness, modernize the health financing system, rehabilitate selected facilities and equipment, and develop human resources. Another $65 million IDA credit will support Georgia's economic growth and its fight against poverty. The IMF approved a three-year loan totaling about $246 million under the enhanced structural adjustment facility (ESAF) in support of the government's economic and structural reform program during 1996-98. Within this medium-term strategy, the program for 1996 aims at an annual growth rate of 8 percent, an inflation rate of 20 to 25 percent by year-end, and an external current account deficit of 7.1 percent of GDP.

Conference Diary

Migration, Development, and Politics
May 31-June 5, 1996, Mont Sainte Odile, France

Organized by the European Science Foundation.
Information: European Science Foundation, tel. (3388) 767-135, fax (3388) 366-987.

Babson College and GEA College Fifth Annual Conference
June 3-8, 1996, Portoroz, Slovenia

Organized by the Babson College and GEA College in association with the Ministry of Economic Affairs of Slovenia. Topics include: Entrepreneurship for emerging economies; Trends in entrepreneurship in Central and Eastern Europe; Strategies for developing and promoting entrepreneurial firms; Establishing entrepreneurial training centers; Practicum for entrepreneurship educators; Teaching entrepreneurship (cases, research and writing).
Information: Mrs. Tatjana Trebec, GEA College, Centre for Entrepreneurship Education, Dunajska 156, 61113 Ljubljana, Slovenia, tel. (38661) 66-475-7008, fax (38661) 1688-213, (E-mail: viljem.psenicny@guest.arnes.si) or (jordan.berginc@guest.arnes.si).

Transformation, Geography, and Identities
June 11, 1996, Birmingham, United Kingdom

Organized by the University of Birmingham, School of Geography/Postsocialist Areas Research Network
Information: Louise Jackson or Nick Lynn, School of Geography, University of Birmingham, Edgbaston, B15 2TT, United Kingdom, tel. (44121) 414-6869, E-mail: (jacksonl@css.bham.ac.uk or (n.j.lynn@bham.ac.uk).

36th European Congress of Regional Science Association
August 26-30, 1996, Zurich, Switzerland

Organized by the Regional Science Association. Topics include: Federalism; Subsidiarity and regions; Regional dimension of environmental policies; Regional and national planning in the new European context; European integration and the future of border regions; Regional labor markets.
Information: Angelo Rossi, ERSA - Congress 1996, ORL-Institute, ETH Hoenggerberg, CH-8093 Zurich, Switzerland, (E-mail: ersa96@orl.arch.ethz.ch). (Internet: WWW page: http://www.orl.arch.ethz.ch/FB Oekonomie/congress).

Contribution of Management Education towards the Development of Market Economy: The Case of EURO-CIS Cooperation
September 2, 1996, Moscow, Russia

Organized by the European Foundation for Management Development, Academy of National Economy, Moscow.
Information: Anna Lysenko, Academy of National Economy, Vernadsky Ave. 82, 117571 Moscow, Russia, tel. (7095) 434-0563, fax (7095) 420-2065.

Sixth International Conference on Applied and Business Demography
September 19-21, 1996, Bowling Green, Ohio, United States

Organized by the Bowling Green State University. Topics include: Demographic analysis of retirement plans; Spatial
analysis; Emerging consumer markets; Internet resources; GIS technology; Training needs; Population estimates and projections; Demonstration of software; Merging traditional and nontraditional data sources; Immigration (legal and illegal); Health care reform and minority health; Demographic studies and research in HBCUs; Aging populations; Mortality; Morbidity issues; Demographic analysis for human resource management; Demographics and credit institutes.

Information: K. V. Rao, Conference Director, Department of Sociology, Bowling Green State University, Bowling Green, Ohio 43403, United States, tel. (419) 372-7240, fax (419) 372-8306, (Email: adconf96@bgsu.vax.bgsu.edu).

The Role of Business and Innovation Centres as Catalysts for Regional Development and Small and Medium Enterprise Promotion
October 9-12, 1996, Kierzkz near Poznan, Poland

Organized by the Polish Business and Innovation Centres Association (PBICA). Topics include: Entrepreneurship development in rural areas; Transfer of technology in small businesses; Problems facing small and medium firms.

Information: Polish Business and Innovation Centres Association, ul. Polanka 3, 61-131 Poznan, Poland, tel. (4861) 771-751, ext. 43, fax (4861) 771-751, ext. 43.

Restructuring Transitional Economies in the 90's: Enterprise Behavior and Financial Intermediaries—Adjustments in Emerging Markets Environment
October 10-14, 1996, Sofia, Bulgaria

Organized by the East-West Economic and Financial Centre.

We appreciate the contributions of the Cooperation Bureau for Economic Research on Eastern Europe, (Email: diw334tr@db0diw11.diw-berlin.de).
New Books and Working Papers

The PRDTE unit of the World Bank regrets that it is unable to supply the publications listed.

World Bank Publications

To receive ordering and price information for publications of the World Bank, write: World Bank, P.O. Box 7247-8619, Philadelphia, PA 19170, United States, tel. (202) 473-1155, fax (202) 676-0581; or visit the World Bank bookstores, in the United States, 701-18th Street, N.W., Washington, D.C. or in France, 66 avenue d'lena, 75116, Paris. (Email: books@worldbank.org) (Internet: http://www.worldbank.org).


Volume 1 analyzes recent developments in debt and nondebt financial flows, and summarizes statistical tables for selected regional and analytical groups. Volume 2 provides statistical tables for the 136 countries that report public and publicly guaranteed debt under the Bank's Debtor Reporting System.

Foreign direct investment in developing countries in 1995 rose by 13 percent, reaching $90 billion, to become the single largest source of development financing. In East Asia, China was by far the largest recipient of FDI in 1995, attracting $38 billion. In Eastern Europe and Central Asia, FDI increased by almost 50 percent to $12 billion, while FDI in Sub-Saharan Africa, fell by one-third in 1995, to $2 billion. The growth of private capital flows continued to dominate total net flows to developing countries at $167 billion, or 72 percent of total flows. Some twelve mainly middle-income countries account for more than three-quarters of total private capital flows to developing countries. East Asia attracted 59 percent of all private flows, while Latin America's share declined to 20 percent.

Official development assistance in 1995—$33 billion in grants (excluding technical cooperation) and $14 billion in concessional loans—was much the same as in 1994. Sub-Saharan Africa continued to be the largest recipient of concessional flows, with 36 percent of the total compared to 16 percent for Europe and Central Asia, and 13 percent each for South Asia, East Asia, and the Middle East and North Africa.


This sixth annual study focuses on the effects of globalization on developing countries and the growing divide between fast- and slow-integrating economies. The ratio of trade to GDP fell in some 44 out of 93 developing countries in the past ten years. Two-thirds of total FDI went to just eight developing countries; about 50 countries received little or none. The link between growth and integration is clear. Openness to external trade and investment is often the necessary first step to solid, sustainable economic development. The book concludes that countries embarking on trade liberalization in the current environment are likely to be rewarded despite the adjustment costs involved. Commodity-reliant countries should enhance productivity and develop nontraditional commodity exports, while maintaining economic stability.


The book provides the latest social data for 191 economies. It includes estimates of fertility, mortality, illiteracy, access to health care, and shares of GDP for selected social expenditures. This edition has been organized to highlight statistics on poverty. Priority Poverty Indicators (PPIs) are presented on the first page of each country table. Other indicators covering human resources, natural resources, and expenditures and investment in human capital are presented on the second page of each country table. The PPIs are used for monitoring levels of poverty and related trends and, with the other indicators, provide a framework for assessing human welfare in low- and middle-income countries.

Comparative data for countries are presented for three periods: 1970-75, 1980-85, and the most recent estimates available, generally between 1989 and 1994. The comprehensive individual country reviews are completed by a concise table of selected indicators for quick cross-national and regional comparisons.


The World Bank began incorporating anthropological and sociological knowledge into the design of some of its development projects. The author argues against three biased development models—the "technocentric," "econo-centric," and "commodity-centric"—and examines the academic origin of such biases. Theory and applied research can be linked by drawing on a social science perspective in formulating development policies and actual development programs, the study concludes.


Misha V. Belkindas and Olga V. Ivanova (eds.), Foreign Trade Statistics in the USSR and Successor States [in Russian], no. 18, 1996, 225 p.

Policy Research Working Papers


Governments should not be afraid of aiming too high in embarking on a stabilization program or any other component of transformation. Most postcommunist governments do the opposite: dilute the program so much it becomes ineffective. Granting concessions to, and bargaining with, various pressure groups does not produce the expected political results or increase social acceptance of reform, warns the author. To order: Chris Rollison, Room N9-054, tel. (202) 458-4768, fax (202) 522-1152, (Email: crollison@worldbank.org).


Rapid growth in Poland's nonagricultural sectors, combined with real appreciation of domestic currency (caused either by large current account surplus or significant capital inflows), may jeopardize farmers' relative income position. But Poland should avoid price supports until it joins the EU's Common Agricultural Policy; rather, efficiency in agriculture should be increased, and farm employment reduced. Older farmers should be encouraged to retire, and nonagricultural jobs in rural areas promoted. The paper proposes feasible scenarios for integrating Polish agriculture into the European Union between 2005 and 2010.

To order: Witold Orlowski, Room H11-093, tel. (202) 473-7270, fax (202) 477-1692, (Email: worlowski@worldbank.org).


The authors analyze general government spending and revenues in twenty-six former socialist economies for the period 1989-94. Rather than uniformly converting to a Western European norm, these reforming economies have followed a variety of patterns. Whether a country drifts toward heavy government spending or is able to check fiscal expenditures will depend on its success at general economic reform and especially at dealing with the pressures for social protection. After having investigated spending patterns, and the sustainability of revenues required to cover current government spending, the authors conclude that in the foreseeable future, fiscal accounts will remain under pressure in most transition economies. The private sector should get involved in rationalizing and providing social services, the paper suggests. To order: Cielito Pelegrin, Room H11-123, tel. (202) 458-5057, fax (202) 477-1642, (Email: ceplegrin@worldbank.org).


Payments problems still constrain interstate trade among the CIS countries. Effective stabilization measures could improve the prospects of currency convertibility among CIS countries, and solid institutional arrangements would permit payments and settlements through correspondent bank accounts. Stronger commercial banks, liberalized foreign exchange markets, extended use of letters of credit, and other mechanisms to increase the security of trade transactions could definitely help.

As considerable progress has been made toward convertibility, schemes for multilateral clearing arrangements or a payments union fade away. Trade deficits are likely to persist in such countries as Belarus and Ukraine. If surplus countries such as Russia and Turkmenistan develop transparent means of trade financing, recipient countries' ability to pay can be taken into account. To order: Maria Luisa de la Puente, Room H3-063, tel. (202) 473-1206, fax (202) 477-3274, (Email: mdelapuente@worldbank.org).

Deborah Mabbett, Social Insurance in the Transition to a Market Economy: Theoretical Issues with Application to Moldova, WP no. 1588, April 1996, 35 p. To order: Louis Biely, Room H3-145, tel. (202) 473-6280,

Experiments in privatization abound, from extensive efforts at sales to strategic owners (as in Estonia and Hungary), to programs based primarily on insider buyouts (as in Russia and Slovenia), to innovative mass privatization programs involving the creation of large and powerful new financial intermediaries (as in the Czech and Slovak republics and Poland). Each approach has inherent advantages and risks. But if the objectives are to sever the links between the state and the enterprise, to school the population in market basics, and to foster further ownership change, the initial weight of evidence seems to favor significant reliance on voucher privatization, especially given the difficulty most countries have finding willing cash investors. This is the period of "primitive capital accumulation" in the postsocialist world, as one Hungarian observer noted. Formal programs may lay important ground rules, but uncertainties of every type overwhelm most formal efforts at privatization. To order: Michael Geller, Room N7-078, tel. (202) 473-1393, fax (202) 522-0056, (Email: mgeller@worldbank.org).

**Discussion Papers, Technical Papers**


**IMF Working Papers**


Alain Ize, *Capital Inflows in the Baltic Countries, Russia, and Other Countries of the Former Soviet Union: Monetary and Prudential Issues*, IMF WP no. 96/22, 1996.

Some FSU countries faced significant capital inflows during the first half of 1995. But most central banks were concerned about the potential impact of exchange rate appreciation on competitiveness. The inflows thus had a significant inflationary impact. Large sustained capital inflows, however, could increase the fragility of financial systems and magnify the costs of bank restructuring in coming years. Sustained capital inflows could also boost the volume of bad loans, given the poor financial situation and limited management capacity of most banks in the region and weak bank supervision.


No one knows what enterprises or industries may be viable in the new market environment or what their returns will be. Activities with negative value may be kept alive until they prove to be losers, owing to an option value to shutting them down in the future. Further, some viable activities will be shut down because of poor returns in an early trial period. These inefficiencies are due to incomplete public information, and this type of uncertainty distinguishes growth in transition economies from that in market-oriented economies.


In the prereform period, the Baltic states enjoyed not only living standards higher than those in the countries of the former Soviet Union (FSU) but also the lowest degree of income inequality, relative to those countries. The present widening of income differentials is largely explained by a significant increase in the dispersion of earnings owing to more pronounced wage differentials, increased unemployment, and lower participation rates. The redistributive effects of social assistance and tax policies have been only marginal.

Some major characteristics of the price liberalization and convergence process in Kazakhstan:
- Decontrol of prices was piecemeal, with an initial period of rapid progress followed by phases of stagnation and even reversal.
- Sporadic price liberalization and price convergence, which progressed only in periods of tight fiscal and monetary policy and macroeconomic stabilization.
- Incomplete price liberalization and convergence. Prices of energy products and of many mainly energy-based services are still below the levels in comparable market economies, notwithstanding sharp increases in relative domestic terms.


**OECD-CCET Publications, Paris**


**WIIW Publications, Vienna**

To order: The Vienna Institute for Comparative Economic Studies (WIIW), Oppolzergasse 6, A-1010 Vienna, Austria, tel. (431) 533-6610, fax (431) 533-6610 50.


Strong foreign penetration of the Hungarian economy brought about a serious dichotomy between the foreign and the domestic sectors. Foreign capital concentrates on specific industries, is located in a few privileged regions, and attracts mainly the younger and more educated part of the workforce. Areas with a long industrial tradition located in the west of the country benefit more than eastern regions. Education policy is focusing on training elites with foreign language skills, while general public education suffers from organizational and financial shortcomings. Therefore,
closer integration of the foreign sector into the domestic economy should receive priority in policymaking. The dichotomy will be overcome partly by spillover effects in the wake of economic growth. In addition, infrastructure investment and regional policy instruments should be implemented. Labor toward more affluent regions should be encouraged. The budgetary means for such expenditures, however, seem to be neither adequate nor well-placed.


---

**Leuven Institute for Central and East European Studies Publications, Leuven**

To order: The Leuven Institute for Central and East European Studies, Deberiotstraat 34, B-3000 Leuven, Belgium, tel. (0032) 1632-6583, fax (0032) 1632-6599, (Email: valentijn.bilsen@econ.kuleuven.ac.be).


---

**Institute of Developing Economies Publications, Tokyo**

To order: Institute of Developing Economies, IDE Spot Survey, 42 Ichigaya-Hommura-cho, Shinjuku-ku, Tokyo, 162, Japan, tel. (03) 3353-4231, fax (03) 3226-8475.


**Goskomstat Rossi (Russian Statistical State Agency) Publications, Moscow**

To order: Computing Center Goskomstat Rossii, 39 Myasnitskaya Street, Moscow 103450, Russia, tel. (7095) 207-4971, fax (7095) 200-2288, (Email: stat@infocenter.csv).
Interstate Statistical Committee of
CIS Publications, Moscow

To order: Interstate Statistical Committee of the CIS, 39, Myasnitskaya
Street, Moscow 103450, Russia, tel. (095) 207-4237, fax (095) 207-
45092, (Email: statpro@sovam.com).


External Economic Activities of the
CIS Countries in 1994: Statistical

Finance and Prices in the CIS States
during 1994 and the First Half of
1995: Statistical Handbook, 1995,
94 p.

* * * * *

Other Publications

Jiri Havel, Changes in Governance
Structure of Czech Enterprises
1989-1994, Reform Round Table WP
no. 20, December 1994, 12 p.

Zbynek Revenda, Reform of the
Central Bank of the Czech Republic,
Reform Round Table WP no. 21, Febru-
ary 1995, 15 p. Sponsored by Interna-
tional Center for Economic Growth—
ICEG.

To order: Universitas Carolina
Pragensis, Institute of Economic Stud-
ies, Faculty of Social sciences,
Charles University, Smetanovo náb.
6, CZ-11001 Praha 1, tel. (422) 248-
10804, fax (422) 248-10987.

Jan Adam, Why Did the Socialist
System Collapse in Central and East
European Countries? The Case of
Poland, the former Czechoslovakia,
and Hungary, Macmillan, London, 1996,
245 p. To order: St. Martin’s Press,
175 Fifth Avenue, New York 10010,
United States, or The Macmillan Press
Ltd., Houndsmills, Basingstoke,
Hampshire RG21 2XS, United King-
dom.

Zoran Anusic, Zeliko Rohatinski, Velimir
Sonje, and others, A Road to Low In-
fation: Croatia 1993-1994, The
Government of the Republic of
Croatia, May 1995, 173 p. To order:
National Bank of Croatia, Trg Burze
3, 10000 Zagreb, Croatia, tel. (3851)
4564-652, fax (3851) 441-684.

C. Fred Bergsten, and II SaKong (eds.),
Korea-United States Cooperation
in the New World Order, Institute for
International-Global Economics, Wash-
ington, D.C., February 1996, 123 p. To
order: Institute for International Eco-
nomics, 11 Dupont Circle, N.W.,
Washington, D.C. 20036, United
States, tel. (202) 328-9000, fax (202)
328-0900.

Iliana Zloch-Christy (ed.), Bulgaria in
a Time of Change, Economic and
Political Dimensions, Vermont, 1996, 221
p. To order: Ashgate Publishing Com-
pany, Old Post Road, Brookfield,
Vermont 05036-9704, United States.

The editor suggests the following policy
measures in order to push the Bulgarian
economy out of the present deadlock:
• Bold support of the private sector, along
with the new legislative framework,
aggressive privatization policy, encour-
agement of foreign investment, control
of external debt management, and pur-
suit of full membership in the European
Union.
• Reversal of the bureaucratic inertia
and elimination of corrupt bureaucratic
structures. Enlargement of the private
sector and broadening of the autonomy
granted to state-owned firms, to create
a self-perpetuating environment in which
the power of the old (communist-style)
bureaucratic structures will be dimin-
ished.
• Clear procedures to draw up and imple-
ment legislation, with accountability to
the public.

Cuba in Transition, volume 3 of the
Proceedings of the Third Annual
Meetings of the Association for the
Study of the Cuban Economy, 1993,
340 p. To order: Association for the
Study of the Cuban Economy (ASCE),
6321 Walhonding Road, Bethesda,
Maryland 20816, United States, tel.
(301) 229-8921, fax (301) 229-8921.

Eduardas Vilkas, Institutions of Pub-
lic Finance in Lithuania, Institute of

Natalija Kazlauskien and William H.
Meyers, Trade and Trade Policy
Development in Lithuania, Baltic
Report no. 95-BR21, October 1995, 15
p. To order: Center for Agricultural
and Rural Development, Iowa State
University, 578 Heady Hall, Ames,
Iowa 50011, United States, tel. (515)
294-1183, fax (515) 294-6336.

Andrzej Kondratowicz, Wojciech
Maciejewski, and Leszek Morawski,
Polish SMEs 94: Empirical Re-

Jan Winiecki, Foreign Investment
in Eastern Europe, Adam Smith Re-

To order: Adam Smith Research Cen-
tre, Bednarska St. 16, 00-321 War-
saw, Poland, tel. (4822) 621-4707,
fax (4822) 628-0614.

Joseph C. Kun, In Search of Guar-
antees, the Elusive NATO: Is Enlarge-
ment in Sight? The Potomac Papers,
McLean, November 1995, 32 p. To or-
der: The Potomac Foundation, 1311
Dolley Madison Boulevard, Suite 2-
A. McLean, Virginia 22101, United States, tel. (703) 506-1790, fax (703) 506-8085


Zhen Quan Wang, Foreign Investment and Economic Development in Hungary and China, Centre for Central and East European Studies, United Kingdom, October 1995, 371 p. To order: Ashgate Publishing Limited, Gower House, Croft Road, Aldershot, Hampshire, GU11 3HR, United Kingdom, tel. (44171) 1252-331-551, fax (44171) 1252-317-446.

* * * * *

Newsletters

Croatian International Relations Review, a quarterly publication of the Institute for Development and International Relations. To order: IRMO, Ul. Lj. Farkasa Vukotinovica 2, P.O. Box 303, Zagreb, Croatia, tel. (3851) 4554-522, fax (3851) 444-059, (Email: ured@mairmo.irmo.hr).

Monitor—Central European Health and Environment, a publication of the Central European Center for Health and the Environment (CECHE), chairman Sushma Palmer. [From the latest issue: Richard Peto, "The Smoking and Health Tug of War: Death from Tobacco in Central Europe." Men in Central and Eastern Europe have the highest death rates in the world from tobacco use. Tobacco-related death rates in women are also beginning to rise and within a few decades will account for a substantial proportion of deaths in middle-age women. Of every ten men age 35 in Central Europe, five will die before age 70, and 40 percent of these deaths will be from tobacco. In contrast, in Western Europe, only ten men age 35, three will die before age 70, and a third of these deaths will be from tobacco. In contrast, in Western Europe, only ten men age 35, three will die before age 70, and a third of these deaths will be from tobacco.]

To order: Mauerstrabe 93, 10117 Berlin, Germany, tel. (4930) 308-53440, fax (4930) 308-53443, or in the United States., 2311 M Street, N.W., Suite 301, Washington, D.C. 20036, tel. (202) 331-3330, fax (202) 872-9084.

NewsNet, a newsletter of the American Association for the Advancement of Slavic Studies (AAASS), provides news of the profession, opportunities for employment, sources of support for research, and current scholarly work in the field. To order: NewsNet Editor, AAASS, 8 Story Street, Cambridge, MA 02138. United States, tel. (617) 495-0679, fax (617) 495-0680, (Email: aaass@hcs.harvard.edu).

Press-Dajdzest, a monthly Russian-language publication that gives a broad overview of the Ukrainian papers' coverage of important issues in Ukraine, foreign politics, economic issues, foreign politics, and move-ments of regions, nationalities and human rights. To order: Ukrainian Information Center, P.O. Box 1282, 1200 BG Hilversum, Netherlands, tel. (3135) 683-8727, fax (3135) 683-3646.

Russian and Euro-Asian Economics Bulletin, a monthly publication by the Centre for Russian and Euro-Asian Studies, University of Melbourne. To order: CRE-AS, University of Melbourne, 135 Barry Street, Carlton VIC 3053, Australia, tel. (613) 9344-5956, fax (613) 9344-5959, (Email: email%soviet@ipc.unimelb.edu.au) (Internet: http://www.arts.unimelb.edu.au/dept/russcent/welcome.htm).


The McKenna Law Letter, a publication covering current developments in the law. To order: McKenna & Co., Mitre House, 160 Aldersgate Street, London, EC1A 4DD, United Kingdom, tel. (44171) 606-9000, fax (44171) 606-9100.
Bibliography of Selected Articles

Postsocialist Economies


Central and Eastern Europe


Central and Eastern Europe: Environmental Issues Are Critical Fac-


The Improvement in the External Position of Central and Eastern European Countries. European Economy (Germany) 2:1-16, February 1996.


Nell, J. Croatia Stabilizes the Kuna. Central Banking (United Kingdom) 6(3):46-51, 1996.


Slovenia Introduces Value-Added Tax as Part of System Reform. OECD Transition Brief (France) 2:11, 1996.


CIS and the Baltics


Epstein, G. Don't Believe All You Read about Russia's Economy: They're Doing Better Than They Say. Barrons Weekly (United States), December 18, 1995.


Morvant, P. The Changing Face of Poverty. Open Media Research In-
Bibliography of Selected Articles

Institute Transition (Czech Republic) 2(1):56-61, January 1996.


Africa


China


Cuba
