Larry Summers On New Challenges Facing the World Bank

“The World Bank Will Need to Work Harder at Supporting Rather than Supplanting Private Sector Finance”

As the Bretton Woods institutions celebrate their fiftieth year, the question arises: What should be the future role of the World Bank and the IMF? How could they accelerate the grandiose economic reconstruction job in progress in Central and Eastern Europe and in the countries of the former Soviet Union? Lawrence H. Summers, Undersecretary of the U.S. Treasury for International Affairs, explained his views to Transition editor, Richard Hirschler.

[A. Whether there is a crisis or not, the World Bank can look back on fifty years of very substantial accomplishments. The thoughtful in the development business will recognize that it is a better world with the World Bank out there. The thoughtful will also recognize that it could have been an even better world with a better World Bank. The challenge now is to think about how the World Bank and the IMF can make their greatest contribution in the new world that has evolved, in part, through the activities of those institutions.

Q. What are the major challenges facing the World Bank in the new millennium?

A. To adapt to major changes in the world, including the emergence of vital private international capital markets and the end of the cold war. Many developing countries no longer consider it a great privilege to borrow money at mar-
The World Bank/PRDTE

market rates from the World Bank. Therefore, the World Bank's role—in respect to those countries—has to be different to what it was in the past. The World Bank will need to work harder at supporting rather than supplanting private sector finance, for example, through the use of the guarantee authority to ensure government performance, and by providing support for enterprises in the process of privatization. The World Bank has to concentrate more on those areas where private capital is going to move in only slowly. These include most importantly the social sectors in a range of countries. It also includes several countries that are still a bit adventurous for private investors, and where interest spreads are very high. Obviously, the transition economies belong to this group of countries.

Q. Would this new role transform the World Bank into a “bank of last resort,” bailing out the most desperate debtors?

A. I do not find the definition “bank of last resort” helpful, because it neglects the knowledge-transfer function of the Bank. It also fails to recognize that in many countries the Bank provides support for the social sectors, and it fails to recognize that there are areas of distinct competence for a senior lender like the World Bank, such as performance guarantees.

Q. What should the World Bank and the IMF do differently or better in supporting the transition economies in Central and Eastern Europe and the FSU?

A. Currently, these countries are undertaking the greatest economic reconstruction job in history. This calls for approaches that are different than the ones the international finance institutions (IFIs) have traditionally used. I applaud the innovation of the Systemic Transformation Facility (STF) in the IMF, which I think has been a helpful catalyst to reform, and would encourage innovative funding vehicles in the World Bank as well. The basic philosophy of IFI assistance to the transition economies is now well-established. Support must be measured with the pace of reform, in order to ensure that the incentive is given for reform, that resources are well used, and that the hand is strengthened of those who are most dedicated to reform in the transition economy governments.

This kind of support obviously has a crucial role in economic stabilization. It is also important to recognize that direct financial support is an alternative to inflationary finance as it can substitute for inflationary finance in government budgets. Stabilization cannot succeed without adjustments.

Another task to which the World Bank can make an impressive contribution is the enormous challenge of restructuring enterprises while still meeting basic social obligations in transition economies.

Q. What do you think of the IMF plans—to be announced at the Madrid annual meetings—to increase special drawing right (SDR) allocations, introduce a third tranche in the Systemic Transformation Facility, and raise annual limits for standbys and extended credits, primarily to help the transition process?

A. As a major shareholder in the IMF, the United States encourages the Fund to use the available resources as effectively as possible in supporting all member nations, and that includes the transition economies. We have taken the lead in encouraging increases in access limits and the provision of SDRs so as to fully integrate the transition economies into the world financial system.

Q. Your recent article in Challenge magazine warned that economic reform cannot endure without attention to the social aspects of the transition. How do you see that issue right now in Russia?

A. I think that austerity is no substitute for adjustment. It is crucial that Russia stabilize, but at the same time it is crucial that quality of life improve. We have to do our best to ensure an industrial renaissance in Russia and I am hopeful, with the current privatization going on, that progress is in the works. We have seen some favorable developments in real wages and consumer confidence and some improvements in the standards of living. But there is much more that needs to be done.

Q. What could be done to improve coordination of aid donors, including the World Bank and the IMF?

A. Whether in Johannesburg or Moscow or Kiev, armies of experts are sitting in hotel lobbies waiting for appointments. I was recently struck when a South African minister told me that he had been privileged to receive more than twenty World Bank missions in the preceding six months. Each mission head
felt it was imperative to meet the minister of finance. I think that all of us involved in assistance efforts need to think about dividing labor a bit more explicitly and perhaps coordinating our efforts better. It is not that duplication is always bad, especially when the task involved is that important. Think about the multiple engines that permit a plane to fly. But some greater coordination would be helpful. The G-7 recognized this need in Russia and set up a supportive coordination group headed by Michael Gillette, a former World Bank staff member. He had the chance to meet President Clinton and Secretary of Treasury Lloyd Bentsen during the Naples meeting of the G-7. This coordination group is intended to help the G-7 countries to work together and address common bottlenecks, such as tax problems, customs problems, or whatever is interfering with the support of the international finance institutions.

Q. Finally, what would you suggest to improve the World Bank’s organizational structure?

A. I was at the World Bank long enough to know that too much time has been spent discussing organizational matters—compared with discussing problems that need solving in the developing world. So I don’t want to do anything that would encourage more discussion along those lines.

**Quotation of the Month:** “The World Bank should be more open with current information about its own operations.”

The Bretton Woods Commission wants substantial reform in the sister institutions including the IMF, the World Bank, and the IFC. The commission wants the World Bank to be more open with current information about its own operations. The Bretton Woods Commission also wants the World Bank to be more active in informing and educating the public about development issues. The commission wants the World Bank to focus on short-term macroeconomic stabilization and avoid duplicating functions of the World Bank Group. The World Bank Group should be given a central role in coordinating macroeconomic policies and implementing monetary reforms. The World Bank Group should focus on the international monetary system and macroeconomic adjustment issues, and avoid duplicating functions of the World Bank Group. In practice, such duplication arises only in developing and transforming economies. The IMF should focus on short-term macroeconomic stabilization. If it determines that an imbalance is structural, its macroeconomic advice should become a part of a longer-term Bank Group adjustment strategy. The IMF and the World Bank Group should operate more closely with each other, sharing data, training, and research and ensuring the consistency of policy prescriptions. The Bank Group should depend on the IMF for macroeconomic analysis, while the IMF should depend on the Bank Group to ensure that macroeconomic adjustment does not cause unacceptable social and environmental costs.

**The International Monetary Fund**

- Should be given a central role in coordinating macroeconomic policies and in developing and implementing monetary reforms.
- Should focus on the international monetary system and macroeconomic adjustment issues, and avoid duplicating functions of the World Bank Group. In practice, such duplication arises only in developing and transforming economies. The IMF should focus on short-term macroeconomic stabilization. If it determines that an imbalance is structural, its macroeconomic advice should become a part of a longer-term Bank Group adjustment strategy. The IMF and the World Bank Group should operate more closely with each other, sharing data, training, and research and ensuring the consistency of policy prescriptions. The Bank Group should depend on the IMF for macroeconomic analysis, while the IMF should depend on the Bank Group to ensure that macroeconomic adjustment does not cause unacceptable social and environmental costs.

**The World Bank Group**

- Should pay more attention to its relations with the public. The World Bank Group’s reputation in many industrial countries is worse than it should be. As a leading development institution, it should actively inform and educate a wide public about development issues. The Bank should be more open with current information about its own operations. It should pay more attention to legitimate public concerns and address them with more commitment.
- Should direct official development assistance only at what the private sector cannot or will not do. The Bank and its affiliates should be careful to confine activity to those areas where markets fail in some way: where public goods must be provided, where poverty must be directly confronted, or where exceptional risks must be addressed.
- Should continue to address some very broad questions that affect national economic policymaking. In addition to its core interests in issues like human resource development, institution building, and economic regulation, the World Bank Group is also concerned with subjects like governance, military expenditures, and economic and social rights. These are not issues that private lenders and investors can address effectively. Traditionally, attention of this kind would have been viewed as infringing on national sovereignty. But in today’s post-cold war environment, it is right for the Bank and its affiliates to consider these issues when they bear on economic development.
- Should do more to speed the transformation from state to market. The World Bank Group still supports too many state-owned enterprises; the IFC is constrained by limited capital in the medium term, and MIGA remains very small.

**Excerpts from the Report of the Bretton Woods Commission:**
track record and the legal capacity to
invest in the private sector. The Bank
Group should accelerate the IFC’s
growth and be prepared to assign it
additional resources out of Bank in-
come or reserves, or with direct lending
from the Bank. MIGA, too, needs to be
expanded and strengthened. Like the
IFC, its capital should be increased
through borrowing from the World Bank
or by some other means.

*Should strengthen governance.* The
Development Committee needs to be-
come an effective forum in which to
provide direction to World Bank Group
policies. As in the IMF, the caliber and
seniority of executive directors must be
sufficient to guide staff and manage-
ment; shares in Bank capital and voting
power should be provided by its mem-
bers in accurate proportion to their eco-
nomic strength; and a senior external
advisory council, drawn from the pri-
ivate sector, should be established.

*Should give high priority to increas-
ing its own internal efficiency and
effectiveness.* The skills and experi-
ence of its people should be adapted to
its new private sector orientation. Less
staff time should be devoted to internal
matters.

*Should concentrate its assistance in
those countries where the need is
greatest.* This means a more aggres-
sive policy of graduation, from both IDA
and the Bank as a whole. IDA resources
should be devoted solely to the poorest
and least-developed countries, whose
institutional and technical capacity is
weakest. Bank resources should be
concentrated more intensively on lower-
income countries and economies in tran-
sition that lack ready access to interna-
tional capital markets.

**Excerpts from some background
papers of the report:**

The biggest weakness of International
Monetary Fund policies has been the
frequent absence of linkage between
the short-run and long-run effects of
reform. The Fund should concentrate
more on the long-term viability of
macroeconomic regimes and the re-
forms needed to achieve that viability.
Standby agreements usually concen-
trate on policy measures that aim at
restoring balances within one to three
years. But some structural reforms
necessary to achieve a stable
macroeconomic balance have a much
longer maturation period—in Eastern
Europe, for example, but also in many
other regions.

The Fund needs to adjust its lending
policies and conditionality such that
countries are encouraged to accom-
plish deeper fiscal reforms. The Fund
has been rather blind to institutional
issues and theories contained in public
choice theory, the property rights school,
and new institutionalism. The common
characteristics of these theoretical ap-
proaches is that they provide useful
tools for examining the question of
how existing economic regimes differ
from an “ideal” capitalist system.

The World Bank should be much more
aggressive in promoting market-oriented
reforms—much more active in promot-
ing privatization, in preparing state
banks for transfer to private ownership, and in
preparing the ground for the restruc-
turing of indebted state firms. Modifying
the mandate of the Bank to formally
shift its approach in favor of market-
oriented reforms would be a useful step.
This could impose a greater check on
the staff’s tendency to be “state enthu-
siasts.” (Kalman Mizsei)

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**The Volcker Report**

Fifty years ago at Bretton Woods, New
Hampshire, delegates from 44 countries
reached agreement on a framework for eco-
nomic cooperation following the Second
World War. Out of that conference came
the Bretton Woods system, which estab-
lished rules of conduct governing ex-
change rates and international payments.
Two new institutions were created: the
International Monetary Fund (IMF) and
the International Bank for Reconstruction
and Development (IBRD, or the World
Bank) to oversee and facilitate economic
cooperation and to provide international
financing.

The Bretton Woods Commission was con-
vened to review the Bretton Woods sys-
tem and its institutions, and set forth its
recommendations. The Commission, a
private, independent group of senior
people with experience in international
finance, development, and economics, and
in related areas of public policy, was es-
blished at the initiative of the Bretton
Woods Committee, a nonprofit American
organization dedicated to analysis of mul-
tilateral financial institutions and to pub-
lic education about their role and func-
tioning. The Commission, headed by Paul
Volcker, a former U.S. Federal Reserve chair-
man, completed its report (the Volcker Re-
port) in July 1994. The report was reviewed
at a conference held in Washington, D.C.
on July 21 and 22, 1994, the fiftieth anni-
versary of the original Bretton Woods con-
ference.

Further discussions on the recommenda-
tions are expected at the G-7 conference in
Halifax (Canada) in 1995.
Banking on Service Quality, Effectiveness, and Partnership—World Bank President Lewis Preston Outlines Criteria for the Next Fifty Years

The greatest success [of the institution’s founding fathers at Bretton Woods] was the flexibility they gave the World Bank, allowing it to become global in its membership. To evolve into the “World Bank Group” with the establishment of IDA and MIGA, to leverage about $10 billion in paid-in capital into more than $300 billion in loans and credits; to support over 6,000 operations in more than 140 countries—financing, but equally important, with objective advice.

A new development paradigm has emerged: one that emphasizes the role of the private sector—and the need to redefine the role of the public sector. World Bank–supported adjustment programs have helped to liberalize trade, free prices, dismantle state monopolies, and establish a climate conducive to private enterprise. Commitments by the World Bank, IFC, and MIGA now help catalyze nearly $25 billion in total private investment per year.

The World Bank Group can do even more to speed the movement from state to market—and will do more. Its efforts will complement—not substitute for—private capital flows. Through the judicious use of guarantees, for example, it will seek to encourage commercial banks back into project financing. IFC commitments, unconstrained by capital in the medium term, is set to grow by 12 percent a year—reaching $5 billion by the end of this decade. MIGA’s insurance portfolio already exceeds $1 billion. Strengthening our support for the private sector will be one of the hallmarks of the Group in the future.

For development to be broadly based and sustainable, other important challenges must not be neglected. This means support for:

- **Human Resource Development.** Programs for education, health, family planning, and support for the role of women in development must be expanded and made more effective. The World Bank’s investments in people have increased from an average of 5 percent in the 1980s to nearly 20 percent in fiscal year 1994.

- **Policy Reforms.** The capacity to adjust quickly to exogenous forces is the key to a country’s competitiveness.

- **Environmental Protection.** There are now more than 100 World Bank–supported environmental projects in 50 countries—representing $5 billion in commitments.

- **Government Efforts.** To provide effective regulatory frameworks, essential infrastructure, and more efficient public services.

The World Bank Group must maintain its role as a financier of development: providing resources itself and helping to mobilize other resources—public and private. The World Bank must also strengthen its role as an adviser on development and do more to share and apply its global experience. The combination of these roles is what gives the World Bank its comparative advantage. The emphasis accorded to each, however, will vary.

In some successfully adjusting middle-income nations, the World Bank’s financing will be relatively less important than its advice. Many of these countries are now able to attract large amounts of private investment. World Bank financing can still help them address issues such as human resource development and environmental protection. The World Bank can also be a catalyst in attracting the substantial private investment needed for infrastructure. Increasingly, these countries will rely on the capital markets.

In the low-income countries of Africa and South Asia, the Bank’s advice and, particularly through IDA, its financing will remain vital—to address basic development issues and to create an attractive environment for private investment.

The countries of Eastern Europe and the former Soviet Union offer yet another contrast. The World Bank’s technical advice is critical in supporting the transition to market economies with little private sector history or capacity. At the same time, World Bank financing will continue to be important in leveraging private flows to support key sectors.

Given this diversity among its clients, the World Bank of the future must place greater emphasis on specific country needs. It must also encourage a more sensible sharing of tasks with its partners. A new set of guiding principles will enhance its focus and effectiveness:

- Increased selectivity. The World Bank should not, nor should it be expected to, deal with every global problem, or every aspect of development in each borrowing country. Instead, it must focus on those areas where its involvement has maximum impact.

- Stronger partnerships—forced with all participants in development. By drawing upon the strengths of each participant the overall impact can be increased.

- Client orientation. World Bank-supported projects must match a borrower’s priorities, and there should be stronger borrower ownership of those projects.

- Results. Performance should be judged by development impact. A key element is increasing the participation of those affected by the operations designed to help them.

- Cost-effectiveness. Maintaining the World Bank’s high standing in the financial markets is essential to maintaining its cost-effective service to clients.

- Financial integrity. An international organization can ensure its credibility—and its continuity—only if it is well-managed and efficient.

Applying these principles will require further changes from the World Bank. Over the last several years, the Bank has been engaged in an effort to build a more efficient institution:

- Putting new emphasis on portfolio management and implementation.

- Streamlining business processes and costs.

- Taking steps to make the World Bank more open and accountable, including through expanded information disclosure and the establishment of an independent Inspection Panel. These measures point toward an increasingly flexible World Bank—one that is leaner, more agile, and more responsive to a rapidly changing world. There is still a way to go. The World Bank should not measure its success simply by the amounts it lends. The key criteria now must be the quality of its services, the effectiveness of the projects it supports, and the depth of its partnerships.

(Excerpts from Mr. Preston’s address to the Bretton Woods Commission Conference, July 21, 1994)
generally thought to have been productive. Indeed, the Polish case shows the value of allowing the Fund’s conditions for a standby to be discussed by a wider audience than just the Fund and the authorities.

The Fund’s role in Russia and the former Soviet Union has been more controversial. Its support for maintenance of the ruble zone, its slowness in lending to Russia, and its slowness in providing technical assistance were all special points of contention. The invention of the Systemic Transformation Facility shows the Fund’s ability to innovate creatively under pressure.

I judge that the Fund’s lending activities to developing countries in support of stabilization are frequently productive. Furthermore, the Fund’s ability to move large amounts of money quickly is extremely valuable to a country seeking to stabilize, as was to Argentina, Poland, and may yet be to Russia. On occasion, the Fund has lent when it should not have. Often this is a result of G-7 pressure rather than the wishes of the staff.

The Fund should make sure that it concentrates on short-run macroeconomic policy in Eastern Europe and the former Soviet Union. This is a crucial job, which needs all the Fund’s attention. It can contribute through its lending, its surveillance, and its technical assistance.

Should the Fund (and the Bank) exist at all? The answer is yes. Without the Fund, the poorer countries would have a much more difficult and costly adjustment to shocks. Should the agencies be merged? That suggestion should be rejected. Already the Bank stretches the capacity of management’s control. The merged institution would be larger and more difficult to control. It would also be extremely costly to make the change. However, the most important reason to reject a merger is that it would make the successor institution too powerful.

Both the Bank and the Fund are now extraordinarily powerful in the smaller member countries. What they say goes. Staff in both institutions is quite confident that it has the right answers, even when it disagrees with outsiders. The main check on each agency is the presence of the other, across the street, working on a similar issue. That check should remain in place. And it should be strengthened, by subjecting the analyses and arguments of the agencies, even with regard to proposed policies in individual countries, to far wider public scrutiny. (Stanley Fischer)

An enlightened group of governors could decide that it is high time to take more effective action and upgrade the governance system of the World Bank. Among other measures, they might consider strengthening the role of the governors, upgrading the board of executive directors, extending the tenure of executive directors, and redefining the functioning of the board.

[Some suggestions] to adapt the organization to new realities:

• Make the external clients more important than the internal ones. The main challenge—and recommendation—is to create the conditions that shift staff attention from pleasing the many constituencies and “clients” inside the Bank to meeting the needs of the real—outside—clients.

• Pay more attention to the marketing of ideas. Staff members that are effective in helping public officials in borrowing countries bring about desired changes should achieve more success and recognition than those whose main skills are writing technically sound reports and designing sophisticated loan conditions.

• Make the Bank’s research more “practitioner-friendly.” Worrying about how to disseminate effectively what the Bank knows should be as important as worrying about how to improve the current knowledge. Investing in the distribution of knowledge to developing countries and to practitioners should be as important as it now is to produce highly technical documents that are disseminated to authors’ peers in universities and research centers.

• Move staff to the field. Such heightened attention to clients would also mean spending more time with them and away from Washington. It might also mean that more resources, people, offices, and decisionmaking should be moved into the field and that clients should be nurtured, followed, and supported more consistently. (Moises Naim)

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Successful Privatization in Estonia: Unusual Features

Estonia has one of the best ever overall economic reform and, particularly, privatization records of any part of the former Soviet Union, with an estimated 50 percent of state-owned enterprises and business units transferred to private ownership or control by the end of May 1994. True, Russia has moved even faster on privatization; its divestiture over the past two years of almost 70 percent of its industrial sector has been nearly miraculous. But up to recently privatization has been about the only reform element working well in Russia; and since Russian privatization is mainly a transfer of controlling stakes of shares to insiders—workers and managers—questions remain as to whether these new owners can or will undertake restructuring to the extent and at the pace required.

In contrast, Estonian ownership transfer is taking place in a reformed macroeconomic environment, and it does not emphasize payoffs to insiders (except for allowing a discount to insiders at small-scale auctions).

Instead, Estonia has adopted a range of divestiture methods aimed at putting assets into the hands of those with the incentives and skills to use them wisely. The methods include:

• **Restitution** of homes, farms, and businesses expropriated during the communist periods.
• **Auctions** of small-scale business units.
• **A tender** process for medium-size and large firms thought to be of interest to foreign or domestic investors.
• **Lease arrangements** for parts or all of certain enterprises.
• **Joint ventures**, combining foreign private management and capital with government-owned assets.
• An **active bankruptcy process**, which liquidates insolvent, nonperforming state firms, and turns the assets over to private entrepreneurs.

A *voucher program* has also been introduced; voucher holders will soon be able to exchange these for shares in privatized firms, in investment companies that are being created, in housing, and in land.

These efforts had produced by the end of May 1994:

• 125 contracts signed through the tender process.
• Over 1,000 small business units auctioned off, representing about 85 percent of the small businesses originally designated for sale.
• 340 leases for all or parts (sometimes quite small parts) of enterprises.
• 200 joint ventures.
• An estimated 300 bankruptcy proceedings (most of which are thought to deal with state-owned entities).

Four tenders conducted by mid-May 1994 have generated $63.4 million in sales proceeds (with more to come as contracts in process are signed). Buyers have contracted to invest more than $30 million in the privatized firms and to guarantee more than 14,000 jobs. Between 30 and 50 percent of sales through tenders have gone to foreign investors, or to domestic purchasers with foreign partners or foreign financial backing. Very few of the privatized companies propose to maintain more than 500 employees, and only two have contracted to maintain 1,000 or more workers. Nonetheless, the tender program is quite important in a country of 1.5 million people. Bids on a fifth tender were submitted in late May 1994. A sixth tender, comprising about 40-50 companies thought to be of interest to foreign investors, is scheduled for the fall of 1994. Some smaller objects will be tendered domestically after that. All in all, the tender process should be completed by mid-1995.

A program of *trade sales* of up to 20 large companies, supported by the European Bank for Reconstruction and Development (EBRD), is in active preparation. The idea is that the tender process has worked well for medium-size and smaller firms, but some larger companies require detailed financial engineering or the hiving-off of ancillary or social assets. The EBRD will become the sell-side privatization agent for a group of firms, of which eight or nine have been selected. The plan is to undertake a minimal amount of cleanup, and sell these companies within twelve to eighteen months.

Yet another 20 large companies will be privatized through a *public offering*, supported by the PHARE program of the European Union. The intention is not simply to privatize but also to promote the Estonian equities market, provide the first opportunity for citizens to trade privatization securities (vouchers) for shares of firms, and divest the state's portion of a group of existing joint ventures. The Estonian Privatization Agency (EPA) will attempt to find a core investor to take a majority stake in several high-potential firms. The rest of the shares will be offered to the public, for vouchers, cash, or both. This method might later be used to privatize large infrastructure enterprises, such as the port, the airline, and utilities such as telecommunications.

**Factors Contributing to Success**

• **Good policy.** Successful policies have included termination of soft credits to enterprises, active implementation of the bankruptcy law, a currency board system that links money creation to hard
currency reserves and keeps inflation at modest levels, liberalized prices, an open trade regime, and the encouragement of foreign investment.

- **Good politics.** Leaders have so far persuaded the populace to tolerate the painful, but (it is hoped) temporary, adjustment.
- **Good history.** The country has strongly developed national and commercial traditions.
- **Good geography.** The small country—and size is important in and of itself—is close to Scandinavian and Finnish markets and investors.

### Topics Still under Discussion

**Sell, but when?** Several companies that were held back from previous tenders (by sectoral ministries), on the grounds that they could be sold more advantageously at a later date, are now in operational trouble—and two companies are bankrupt. A growing body of international experience supports the view that delaying privatization often results in deteriorated assets, decreased revenues for the state, and probably decreased welfare and efficiency for the economy.

**How to prevent breach of contract.** Signed contracts need to be monitored and enforced. Experience shows that monitoring timely repayment of installments is difficult, and keeping track of promised investments is extremely difficult. The EPA is setting up a Contracts Control Office, with five or six staff. The German Treuhandanstalt’s Office of Contract Control employs 500 specialists to monitor 17,000 contracts. Some 20 percent of the Treuhand’s contracts are reportedly in dispute. The ultimate weapon to deal with noncompliance is repossession of the business or object. The EPA has already repossessed a hotel whose purchaser made the downpayment but failed to make any subsequent payments.

**How to privatize leases.** Many of the 300 leases are contracted to last until 1999 or longer, and in most cases the annual payment is very small (in one case, the annual payment is 50,000 Russian rubles, US$25 at the present exchange rate). Leaseholders have better incentives than state employees to use the assets wisely, but full private ownership is clearly superior. Government policy is to fully privatize the leases, through auctions if possible, but through tenders if necessary. If no acceptable bids are received through the auction process, leaseholders might be allowed to purchase the company for a nominal sum.

**Alternative routes of foreign capital.** There are concerns over new joint ventures. One adviser to the government stated that the “big foreign money” is coming to Estonia via joint ventures and greenfields investments, not through the privatization process. It is clear that the government should do nothing that restricts or discourages legitimate foreign investment.

**Bankruptcies: some shortcomings.** In Estonia, bankruptcy aims solely at protecting creditors; there is nothing that resembles a Chapter 11 provision allowing the debtor a chance to restructure. Creditors with nonperforming loans appeal to the court, which appoints a trustee. The trustee reports to and is paid by the creditors, and receives as a fee a percentage of the sum recovered. As of mid-May 1994, 26 (mostly state-owned) bankrupt enterprises were liquidated, and over 200 bankruptcies were in progress. The bankruptcy process could incorporate more flexibility toward debtors, allowing them some room for maneuver. Reportedly, some “dirty games” have also occurred, due to the weakness of the courts, the fact that no government agency is monitoring bankruptcies, and the shortcomings of the accounting system. (For example, one creditor inflated its claims many times in the weeks between the announcement of the bankruptcy process and the first meeting of the creditors. In another case an impartial trustee was replaced by one willing to listen to a particular creditor, who ended up as the new owner of the firm.) A more active role for the courts, better monitoring by the Ministry of Justice, and the education of creditors so that they monitor one another could help prevent these irregularities.

**Vouchers: piece of cake or piece of paper?** There is growing concern that the total supply of assets tradable for privatization securities will be insufficient to meet the demand, even if the EPA intends to expand the sale of shares for vouchers. The conventional wisdom on vouchers is that the value should be the same for all recipients and that they should be exchangeable only for shares in companies or in investment funds. The Estonian scheme deviates from both suggestions. Each resident over the age of 18 receives “national capital” vouchers, with each voucher denominated at 300 kronas. The number of vouchers obtained varies. One voucher is gained for every year spent in school or work between January 1, 1945 and January 1, 1992. This rewards long-term residents and native Estonians more than recent immigrants. The total value of this type of voucher is estimated at 12 billion kronas. A second instrument, the “compensation” voucher, is issued to persons whose property was illegally expropriated, but cannot be returned. People who were deported during the Soviet era also receive compensation vouchers. These vouchers cover the total cost of the property at the time it was expropriated. The estimated total value of compensation vouchers, most of which have not yet been issued, is 8.5 billion to 9.0 billion kronas.
Total demand through vouchers is therefore estimated at around 20.5 billion kroons, or US$1.6 billion. Estonian vouchers are or will be exchangeable not only for shares in enterprises or investment funds, but also for housing (residential, not investment property) and land. On the supply side, a rough estimate is that housing will absorb about 6 billion kroons in vouchers, land a further 4.5 billion kroons, and enterprises 5 billion kroons, for a total of 15.5 billion kroons—leaving a surplus of artificial demand of over 5 billion kroons. And as noted, many if not most of the compensation vouchers will not be issued until special commissions resolve restitution claims, a process that could take years and might result in the issuing of vouchers long after the housing and enterprise stock has been claimed.

At the end of May 1994, the Estonian government approved a bill allowing complete tradability of vouchers among Estonian citizens and residents. The Bank of Estonia points out that making vouchers tradable will not significantly or enduringly contribute to inflation. Vouchers have for some time been partially tradable; pensioners have the right to sell their vouchers and family members can pass their vouchers on to one another. (In May, on the open market the price of a voucher varied between 50 and 200 kroons; the official rate is set at 300 kroons.)

What to do with enterprise debt?
The revenues being generated by sales of enterprises are not sufficient to cover the debts and liabilities of the privatized firms. The government has begun to clear some interenterprise debt by introducing cross-cancellation and improved accounting methods. Several

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**The Kroon Likes the Currency Board-like System**

Last December, the IMF estimated Estonian GDP growth in 1994 at 6 percent, the highest rate projected for any European country. The Bank of Estonia estimates that foreign direct investment constituted 9.5 percent of GDP in 1993. With a population of 1.5 million, Estonia has been attracting a larger private capital inflow than Russia. Moreover, unlike Russia, Estonia has not experienced a significant outflow of funds. Much of the credit for this state of affairs has been given to the introduction of the Estonian kroon in June 1992.

Estonia became the first former Soviet republic to abandon the ruble. The kroon was based on a currency board-like system, meaning that the emission of kroon currency is tied by law to the authorities’ holdings of gold and foreign currency, which must provide 100 percent backing for the kroon. The kroon is tied by law to the German currency at 8 kroons to the deutsche mark. In this arrangement, the money supply is determined in an almost automatic way, as under the gold standard. The danger that irresponsible or incompetent commercial banking practices could detach the broader money supply (M1 or M2) from the supply of cash has been avoided by relatively tough bank regulation. Several commercial banks have been suspended or closed. The number of authorized banks now stands at 21, down from about twice that number two years ago.

From January 1993 to January 1994, kroon M1 (nonbank cash and demand deposits) rose 99 percent; the kroon equivalent of M2 (M1 plus time and savings deposits) rose 115 percent; and broad money, including foreign currency deposits, rose 86 percent. By and large, however, the currency board-like system was judged to have worked well at the end of 1993.

In 1993, money supply grew much faster than GDP. (The Bank of Estonia’s estimates show real GDP in December 1993 at a level 20 percent above that in December 1992. For 1992 the IMF estimated a 32 percent year-on-year fall, and the Bank of Estonia a 10 percent fall.) The growth of Estonian official holdings of gold and foreign currency produced this fast monetary growth. (But it should be noted that the Estonian currency board rules do not require that all increases in reserves be fully matched by increases in kroon emission.)

Monetary expansion was one reason for the acceleration of Estonian inflation between December 1993 and March 1994. After a 4.1 percent month-on-month increase in consumer prices in December, inflation rose to over 5 percent a month in the first quarter. The very success Estonia has had in redirecting exports to the West, attracting foreign investment (about $160 million in 1993), and obtaining official aid disbursements (over $100 million) has itself been inflationary. Moreover, the change in kroon prices vis-a-vis foreign prices, with no offsetting movement in exchange rates allowed under the currency board arrangement, has produced a deterioration of the merchandise trade balance.

The currency board-like arrangement provides a self-correcting mechanism. Large capital inflows may boost the money supply, with inflationary consequences, but the subsequent price effects on imports and exports, producing (or increasing) a trade deficit, tend to reduce reserves and thus to reduce the money supply. This is what is happening now in Estonia. The broad money supply growth slowed in the first quarter, and M1 actually fell very slightly. That followed a widening of the trade deficit in the second half of 1993, and a consequent decline in reserves. The lagged result of this process is a drop in the monthly consumer inflation rate in May to 1.1 percent.

The currency board-like system’s other virtues are that the board facilitates low real interest rates, is exceptionally attractive to foreign investors, and is linked to strong fiscal discipline because of the legal prohibition on central bank lending to the government.

*Based on a recent report of Oxford Analytica, the Oxford (U.K.)-based research group.*
other options are under discussion: write-downs or cancellation of debts owed directly to the government or to state-owned enterprises (though the moral hazard issue could undermine future contracts); establishment of a state-owned debt fund that would receive both the revenues and the unpaid liabilities of privatization sales, and pay off the liabilities over time; creation of a consolidation bank on the Czech model to excise much of the bad enterprise debt of the banking system and replace it with government bonds. Ultimately, these debts will need to be assumed by someone. The government must decide who can and who should absorb these losses. An important argument in favor of forcing creditors to absorb some or all of the losses is that it would send a strong signal that the government will not bail out creditors (including utilities and other state-owned enterprises).

To sum up, privatization in Estonia is being carried out in a bold and relatively speedy manner, with the highly visible commitment of the government. Other postcommunist countries would do well to examine the Estonian program.

John Nellis
Private Sector Development Department
World Bank

What Postsocialist People Have in Mind
Instructive Surveys Monitoring Public Behavior and Attitudes

A market economy cannot be created without changes in people's behavior, and a democracy cannot be created by ignoring public opinion. Since spring 1991 the Centre for the Study of Public Policy (CSPP), based in Glasgow, Scotland, and led by Professor Richard Rose, has been developing a program of cross-national cross-time national surveys to monitor economic behavior—official and unofficial—and political attitudes in postcommunist societies. To date, 34 surveys have been completed in 8 countries of Central and Eastern Europe (also including Austria and Western Germany) and 15 in countries of the former Soviet Union.

More surveys are in the planning stage, with special reference to labor markets and social protection. Stratified national samples of representative adults over the age of 18 normally number about 1,000 respondents. Fieldwork has been carried out by established national research institutes, and all samples have been integrated into multinational data bases to facilitate comparative analysis across nations and time.

To identify trends in mass behavior—stability amid the turbulence of transition—the Centre's annual surveys compare what people are doing and thinking over time, reaching rural and urban Russia, from Murmansk to Vladivostok. The New Russia Barometer (NRB) Survey in January-February 1992 included 2,106 interviews (NRB I); in June-July 1993, 1,975 interviews (NRB II); and in March-April 1994, 3,535 interviews (NRB III), conducted in collaboration with the Paul Lazarsfeld Society, Vienna.

The latest New Russia Barometer Survey indicates that:

• Queuing has declined greatly. When the transition started in January 1992, 67 percent of Russians spent at least an hour a day queuing—and another quarter had another member of their family queuing for them. The arrival of the market has brought more goods into shops. Queuing has fallen dramatically; only 23 percent now spend an hour or more a day queuing. The chore has not disappeared because of problems of distribution arising from the lack of infrastructure of a national distribution system.

• Few Russians are doing without basic goods. The percentage of Russians reporting that they are constantly without necessities such as food, heating, and medical care is as low as in the United States. The response of the Russians is like that of people in a market economy during a recession: people do without trips to the cinema, postpone household repairs, make their clothes last longer, sometimes use cheap public transport, eat sausages on Sunday if they cannot afford steak, and sometimes have to make do with potatoes instead of meat.

• But most Russians say life was better before the Soviet collapse. When Russians are asked to compare their family's economic situation today with five years ago, a majority of respondents says it was better before the collapse of the old Soviet economy. Furthermore, the percentage saying so has risen from 56 percent in 1992 to 65 percent in 1994. Fewer than one in five Russians reports his or her family is better off because of the country's first steps toward the market.

When Russians are asked to rate the economic system overall, a majority gives a positive rating to the pre-1989 nonmarket economy. In 1994 only 14 percent viewed the present transition system positively, and only 44 percent were optimistic about the future.

July-August 1994
Multiple economies help Russians get by. At the start of transition in 1992, only a quarter of Russians said they could get by with what they earned in the official economy. Since then, this has fallen to 13 percent. But the proportion of households who can get by—that is, who do not need to borrow money or spend savings—has risen from 71 percent in 1992 to 82 percent in spring 1994. Russians rely on three types of economies—unofficial, illegal, and official.

The NRB surveys show that almost every household receives an income from the official economy, and almost every household also participates in economies that are "inflation proof": growing vegetables in a garden plot, for example, or exchanging help with friends. About half of the households also rely upon "tax free" income from the shadow economy.

Russians blame the people in power today, not foreigners or Jews. Russians find it far easier to blame people in power than to trust them. A majority blames Russia's economic problems on the government in general and on the promoters of reforms, President Yeltsin and his associates. (Most Russians do not think that their government represents them, and three-quarters of voters do not identify with a political party.)

Russians also blame the mafia and the nomenklatura and the breakup of the Soviet Union. Foreign governments are blamed by less than one-fifth of Russians and Jews by one in twelve.

No clear alternative to the present distrusted regime. When asked their views of alternative forms of government, three-quarters or more reject a return to the past, whether in the form of communist rule or rule by a czar. Even though the army is relatively trusted, nine-tenths reject the idea of it taking over government. The most popular alternative is "expert" government not "strong man" government.

What Are the Alternatives for Governing Russia?

Survey Alternative Percentage of respondents agreeing

Experts, not the government or parliament, should make the most important economic decisions 55

A strong leader should rule, unfettered by parliament and elections 43

The former communist system should be restored 23

The army should rule 10

The monarchy should be restored 9


More than three-fifths of respondents report that their family's living standard is worse today than before the economic transformation started. Only 15 percent feel better off. Fifty-one percent expect to be better off in five years, and less than one in six to be worse off.

Few people are doing without basic goods. Only 6 percent report being without heating often, 8 percent without food or medical treatment, and 9 percent without petrol for their car. One in six is having to make do by wearing worn-out clothes.

Multiple economies help people get by. Less than one in four earns enough from his or her regular job to meet everyday needs, but 68 percent say their household can get by without borrowing money or spending savings thanks to defensive strategies (growing their own food) or enterprising strategies (holding two jobs, one paying tax and one not). (See graph on next page).

People have sober expectations. Only 5 percent are content with their economic situation, and another 15 percent expect to be satisfied within five years. The majority is not sure whether it will ever be content. Only 39 percent approve of the transition economic system, 58 percent approve of the former Slovenian, and Croatia), with autumn 1991 as the starting point for monitoring trends. The use of comparable questions across time provides a unique data base for trend analysis of economic, social, and political behavior and attitudes. Between November 1993 and March 1994 more than 11,000 interviews were completed, with 1,000 respondents from each country, using nationwide representative samples.

The latest New Democracies Barometer indicates that:

The New Democracies Barometer (NDB) of the Paul Lazarsfeld Society, Vienna, conducts an annual survey in eight countries of Central and Eastern Europe (Hungary, the Czech Republic, Slovakia, Poland, Romania, Bulgaria,
The World Bank/PRDTE

Rating Economic Systems: Past, Present, Future

- 39 percent approving former nonmarket economy
- 74 percent approving new system
- 72 percent approving system in five years

<table>
<thead>
<tr>
<th>Country</th>
<th>Nonmarket Economy</th>
<th>New System</th>
<th>System in 5 Years</th>
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</thead>
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<tr>
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</tr>
<tr>
<td>Croatia</td>
<td>37</td>
<td>44</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: New Democracies Barometer.

nonmarket economy, and 72 percent expect to approve of the system in five years' time.

A generalized distrust prevails. Whereas only 37 percent approved of the former communist regime, 59 percent approve of the current pluralist system, and 78 percent expect the political system to develop favorably in the next five years. But only one in five trusts the parties, and only a quarter trust parliament. There is also a low level of trust in private enterprise, trade unions, and patriotic societies. Institutions enforcing law and order are more trusted than parties and parliament: an average of 47 percent trust the military, 36 percent trust the court, and 34 percent trust the police. But at the same time, only 14 percent say they would like to see a return to authoritarian communist rule, and only 8 percent would welcome a monarchy or military rule.

Brains are preferred over brawn. Expert rule is much more welcome than strong man rule: 68 percent would like to see major economic decisions made by experts, compared with 30 percent who endorse rule by a strong man unrestrained by parliament and elections. However, theoretical experts are not welcome. What people expect are economic policies that stop inflation and lead to gradual improvement of the national economy.

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Letters to the Editor

There Was No Consensus in 1980

In their interesting essay, “Living on Borrowed Time: Lessons of the Soviet Economy’s Collapse” (Transition, April 1994, page 1), William Easterly and Stanley Fischer refer to the outlook on future Soviet growth that was entertained by “leading experts” participating in a 1980 conference on “The Soviet Economy: Toward the Year 2000.” Such persons, we are told, “predicted an average annual growth rate of 3.15 percent between 1980 and 2000.”

Such an assessment was indeed, as Easterly and Fischer affirm, quite mistaken. But readers of Transition may be less than severely condemnatory of “leading experts” if it is explained that the cited growth is taken from one of twelve essays presented at the conference. Setting forth results of a bold, innovative attempt at a large-scale simulation of the Soviet economy, the authors, Daniel Bond and Herbert Levine (who was also, with me, co-editor of the conference volume), were altogether restrained in their claims for the outcome. They affirm that their approach is “more in the nature of ... prospective analysis than forecasting.”

One must read in this light the fact that the cited growth rate relates to a “base line projection” that is one of several scenarios elaborated. Among the others is Scenario A, yielding a negative nonfarm factor productivity growth, a GNP growth rate of 2.26 percent, and a per capita consumption growth rate of 0.69 percent.

Entitling their essay “An overview,” Bond and Levine necessarily sought to take account of other (mainly sectoral) conference papers. But it is no reflection on their work to say that not all participants accepted their findings. The alternative scenarios accounted for some but not all divergences. As is usually so in an academic conference, no consensus was sought and it is wrong to suppose that any materialized.

The “leading experts,” as Easterly and Fischer see it, not only erred on future growth; they also failed more basically to grasp “the roots of the Soviet economic collapse.” Western students of the Soviet economy have long recognized that there are different ways of accounting for the dramatic post-1950 slowdown in Soviet growth.

In their essay and in an underlying working paper, Easterly and Fischer argue in favor of one such approach stressing limited substitutability in Soviet conditions between capital and labor. The thoughtful case they make for that approach, vis-a-vis the usual alternative stressing declining total factor productivity, will have to be pondered in any future work in this field.

But each approach exposes in its way “roots of the Soviet economic collapse.” In either view, important additional sources of growth retardation have been the sharply declining growth of the labor force and of the capital stock. In either view, the Soviet leadership early on could have had reason enough to be concerned about Soviet economic performance, and to experiment with one or another reform scheme.

But the collapse itself presumably is to be identified especially with the drastic drop in output beginning in 1990. The cause of that is a large theme, but even on casual inquiry a major place must be accorded to developments only obliquely related to the sources of the post-1950 slowdown: the collapse of COMECON, the dissolution of the Soviet Union, and the need, with the end of the cold war, to downsize a swollen defense sector. Of course, the confusion and disorganization attendant on reform, especially the radical variety initiated in January 1992, must also have contributed to the collapse of output.

Abram Bergson

Currency Board—like Systems Are Not Currency Boards

We would like to update a report about currency boards (Transition, April 1994, page 5). Summarizing our views, the report stated that the Lithuanian parliament had approved an orthodox currency board system. At the time the report was written, the parliament had debated a draft law for an orthodox currency board system, but the law finally adopted by the parliament omitted many of the features in the draft law. Lithuania now has a currency board-like system similar to Estonia or Argentina rather than an orthodox currency board system similar to most past currency board countries.

In an orthodox currency board system monetary policy is extremely rule-bound. An orthodox currency board is merely a sort of exchange bureau. It does not have the power to sterilize flows in the balance of payments, impose exchange controls, affect interest rates, act as lender of last resort, or set reserve requirements for commercial banks. The central banks of Lithuania, Estonia, and Argentina, in contrast, retain some or all of these powers, and so retain considerable discretion in monetary policy. Since the purpose of a currency board is to remove discretion, we view currency board-like arrangements as undesirable. They are also potentially unstable because their rule-bound and discretionary elements are contradictory. In our work in all three countries, we have stressed the importance of strict monetary constitutions and have advocated abolishing the central banks as the best course of action.

Steve H. Hanke, Professor of Applied Economics, and Kurt Schuler, Postdoctoral Fellow, Johns Hopkins University, Baltimore, Maryland.
Lessons of Western Technical Aid to Central and Eastern Europe

Beneficiaries' Should Actively Participate

Since 1989 the United States has obligated nearly $1.5 billion under the Support for East European Democracy (SEED) act to the nations of Central and Eastern Europe to promote democracy and a market economy. In the initial phase, authorizing aid to Poland and Hungary, SEED outlined a wide range of grant aid programs, from privatization and economic restructuring to programs for democratization and environmental improvement, to be administered through the Agency for International Development (AID). Much of this aid was provided in the form of technical assistance, meaning the transfer of ideas and experience.

Chapters in Aid History

Because Poland, Hungary, and the former Czechoslovakia were generally considered the most likely to succeed among the transitional countries, it is important to examine how technical assistance has worked in these "model" countries. If the aid process is not understood, the problems in these countries might be repeated and even exacerbated further south and east in Bulgaria, Romania, and Albania, and in Russia and Ukraine. The story of grant aid to Central and Eastern Europe is as much a story of political and social impact as it is of economic impact.

The recent aid history of the beneficiaries can be divided into three phases:

- Euphoria after the collapse of communism, 1989–90. Many expected enormous Western support after the collapse of communism. In Poland, people were talking of billions of dollars in Western aid without qualifying that this included export credits, and loans that would have to be repaid. And the public at large did not realize that aid would consist primarily of technical assistance and that this would mean that people, not money, would be coming their way. All this paved the way for the difficult second phase.

- Frustration and resentment, beginning in 1991–92. Aid outcomes also suffered from donors' often unfulfilled promises. People in the region began to wonder where the money went. Hungary's chief aid coordinator in the former government, Bela Kadar, remarked in 1993: "The public learns from official statements that the Western world has transferred resources on the order of $40 billion to $70 billion so far, to promote transition in the postcommunist countries. One has to ask, 'Where have all these billions gone?'" 

- Reality check—recipients adapt as experience with donors grows. During a trip to Poland, Hungary and the Czech Republic in the spring and summer of 1994, I witnessed positive changes. Aid coordination officials are better skilled at working with the donor community and are more realistic about what aid can and can't do for them. Whereas previously it was possible to detect "who is who" by nationality, language, and style, now consulting groups, including accounting firms, are hiring more local citizens and expatriates who speak the language. Recipient officials seem better at identifying their needs and more selective about foreign (and local) advisers. The Czech government, for instance, has decided to use a minimum of foreign assistance, while the Poles and Hungarians have requested more capital assistance and less technical assistance. This generally has not been forthcoming from bilateral donors, the limited funds that have been allocated may not go very far in capital assistance projects.

However, although Poland, Hungary, and the Czech Republic appear to be adapting, it is by no means certain that this will be duplicated in countries whose aid experiences are just getting under way or being stepped up. In these nations the second phase in
recipients’ aid experience—frustration and resentment—may last years longer and have even greater political and social repercussions. Or the nations may not develop in ways that are favorable to the West.

Mixed Results with Privatization Aid

Assistance to privatize large state-owned companies has been overemphasized in the aid community. Other developments, such as the sale or liquidation of smaller state-owned enterprises on the local level and the considerable growth of private sectors, have tended to be the chief engines of restructuring processes. And the

Janine Wedel Takes a Critical Look at U.S. Assistance

Since 1989 the G-7 countries have committed nearly $35 billion in aid to Central and Eastern European nations. Although the programs have many similarities (for example, in various degrees they all support the privatization and economic restructuring of state-owned enterprises, as well as private sector development), they also differ widely reflecting the individual donors’ political and strategic agendas, experience with Eastern Europe, and cultural strengths.

*Overall strategy.* The SEED legislation that authorized aid to Eastern Europe established some twenty-five priority areas and called upon the expertise of some thirty-five federal agencies, many of them never before active overseas. This encouraged compartmentalization of U.S. assistance into a number of isolated areas. New entities were created both within the State Department and AID to manage aid to Eastern Europe and the former Soviet Union. But the SEED legislation did not consider the issue of coordination of federal agencies in the recipient countries (the State Department was given only a nominal “oversight and coordination” role). Although U.S. assistance was designed for the short term, a long-term commitment was called for if the United States was to have a real impact on the region.

*Location of decisionmaking.* Washington has been the center of decisionmaking for U.S. assistance, which has complicated coordination and implementation of policy. Initially, field representatives of USAID had no signature authority for disbursing funds; they served only as advisers to the U.S. ambassador in the recipient country and as a pipeline for information flow to AID’s Washington headquarters. Because AID’s field representatives had little authority, decisionmaking often was delayed. Since early 1993, with somewhat more authority and more staff, USAID field offices have more input into designing and approving projects than in the past.

*Donor relationship with recipient governments.* The target of U.S. assistance is almost exclusively the private sector, and private firms are the primary delivery mechanisms. USAID works more with nongovernmental organizations (NGOs) than do most other donors, and NGOs constitute a large part of U.S. assistance providers. The strength of U.S. assistance lies in programs that offer educational and networking opportunities for individuals and groups and in programs that target the private sector directly such as the Enterprise Funds. The way some programs are structured implies that it is better to bypass government bureaucracies and work directly with the private sector. Direct aid to the private sector makes sense when the goal is to promote private business, but in other program areas (for example, privatization and environmental improvement) relevant government bodies can hardly be ignored. The fundamental drawback of this approach, as the U.S. General Accounting Office has recently concluded, is that the U.S. assistance program "has lacked coordination in working with the host governments." First, U.S. assistance is not set up for optimal access to recipient governments or to local contacts. Second, the weakness of government-to-government links has led to a situation in which mechanisms to establish aid priorities and instruments have sometimes been lacking. In contrast, the European Union’s (EU) PHARE program is administered through Program Management Units directed by the recipient countries.

*Contracting procedures and recipient input.* Reflecting its political and administrative constraints, AID’s contracting procedures make it difficult for recipients to choose consultants, except from a very limited pool offered by AID. The PHARE program requires a geographical balance among its member states—an informal quota system to prevent countries from monopolizing contracts. This sometimes works against hiring the consultants with the most expertise. Recently, however, it has become possible to select some consulting firms not only from EU countries, but also from Central and Eastern Europe. Because AID is considered to be somewhat faster than PHARE, some recipients prefer AID when time is an important consideration, but select PHARE when flexibility and input are vital.
privatization of large companies (which has been the focus of many donors) has been much slower and more politically complex than anticipated. To further complicate the matter, it is very difficult to provide privatization aid effectively. Not only have desired goals often not been achieved, but unanticipated consequences have arisen for the following reasons:

• It is difficult to give effective and neutral aid in a politicized arena. Privatization is affected by the vested political and economic interests of different parties to the process, such as officials, factory managers, and employees. Aid-sponsored Western consultants full of good intentions have been sent to Central and Eastern Europe to “accelerate privatization.” They can assist in structuring privatization efforts, and in analyzing sensitive issues such as government regulation and the interface between government and private enterprise. But the conversion of state-owned enterprises can hardly be accelerated simply by bringing in outside consultants. Aid efforts have often been aborted when they focused on large industrial enterprises because such enterprises tend to be more burdened by national political agendas than smaller enterprises. Frequently, the recommendations of Western consultants on the payroll of aid agencies, on such matters as asset valuation of state-owned factories slated for privatization, cannot be implemented and, as one ministry in Poland put it, “go directly into the trash.” The politics and changing nature of privatization policies, combined with the time it takes to get contracts signed and consultants into the field, makes providing effective aid difficult.

• Some western consultants, with thin access to industry- or company-specific data, have sometimes been suspected of having conflicts of interest. Western law firms under contract to donor organizations to provide legal assistance to Central and Eastern Europe sometimes have clients, or are acquiring clients, who are already doing business in the region. A frequent area of contention is the relationship between the Western consultants’ valuation of properties and their clients’ investment interests. It is also claimed that Western consultants undervalue the Eastern Europeans’ high degree of skill and experience, the importance of trademarks, and the value of land. The point is not whether these complaints are valid in a given case. Rather, in a setting where the rules are often what one can get away with and where officials are ill-equipped to monitor activities (or have little interest in monitoring them), the involvement of aid-paid consultants may feed the perception among some groups that “foreigners have come to loot.”

• Aid-paid consultants’ recommendations often cannot be implemented. There is often a disconnection between consultants’ activities at the enterprise level and activities that lead

### Development Institutions' Assistance in Numbers

During the past four years international assistance to the countries in transition totaled nearly $16 billion, according to statistics presented by the UN Economic Commission for Europe. Total assistance was made up as follows (in US$ billions):

- Central and Eastern Europe 12.5
- Commonwealth of Independent States 2.8
- Baltic Republics 0.3

(A further $228 million was provided, though this figure is not broken down by country.)

Many agencies are involved: the World Bank, IMF, EBRD, and EIB, among others. The data do not show how much has been disbursed and how much remains to be paid over subject to the fulfillment of certain conditions. Some $5 billion of the total is under general headings, such as structural adjustment loans and restructuring loans, which are often tied to performance criteria.

The distribution of the aid is uneven and the criteria for determining distribution are obscure and seldom published. Listed in ascending order of per capita financial help, the list makes surprising reading (box table). Slovenia received $113 per capita, while Belarus got $21 and Ukraine only $0.7. These figures are also broken down by industry sector, with the largest allocations in energy ($1.7 billion), followed by telecommunications ($1.5 billion), extraction ($1.1 billion), agriculture ($1.0 billion), transport ($0.92 billion), and roads ($0.872 billion).

### Financial commitments by development institutions to transition economies, 1990–93 (dollars per capita)

<table>
<thead>
<tr>
<th>Country</th>
<th>Aid</th>
</tr>
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<tbody>
<tr>
<td>Ukraine</td>
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<td>Hungary</td>
<td>280.0</td>
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</table>

Total direct private investment in the region at the beginning of 1994 is estimated at $18 billion, or about one-tenth greater than aid commitments.

Adapted from the East-West Investment News, no. 1, spring 1994.
to investment. Western accounting firms, notably the "Big Six," have been designated by the major donors as prime agents of privatization. Although the strength of the Big Six is often seen in contacts with potential Western investors (as one enterprise manager put it, "the most important task of the Big Six is to find investors"), the link between technical assistance and investment too often is missing.

Key to Success: Long-term Programs with Long-term Advisers

The technical assistance model that has proven most useful involves long-term resident advisers who are integrated into specific institutions in the host country for several years and whose involvement was specifically asked for. It is also important that the tasks of prospective advisers are defined in advance, and that the advisers are screened both by the donors and the recipients. Such long-term programs avoid the redundancy and lack of continuity that often plague programs involving short-term advisers.

To sum up, privatization aid has proven difficult to implement effectively. It can be effective only if it is regarded in the recipient country as impartial and professional, and if it can accomplish something that firms in the recipient country cannot.

Janine R. Wedel


The Ruble Horrorscope—Gloomy Predictions of the St. Petersburg Press

From the Russian weekly St. Petersburg Press

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Polish Deputy Prime Minister and Finance Minister Grzegorz Kolodko's 1994-97 program, called "Strategy for Poland," foresees a steep decline in consumer price inflation, from 23.6 percent in 1994 to 16.1 percent in 1995, 12.0 percent in 1996, and 8.7 percent in 1997. The present unemployment rate of 16.6 percent (representing 2.93 million people) would fall only slightly to 14.0 percent in 1997. Kolodko's strategy anticipates annual GDP growth of about 5.0 percent for the next three years. Consumption is expected to grow at 3.5 percent annually. Investment growth is predicted to average 7.7 percent per year. Annual export growth is expected to be around 8.0 percent, with import growth at just over 5.0 percent, much in line with GDP growth. Little is said about instruments for raising investment and improving export performance, the program's critics note.

Poland's economic growth was 3.8 percent in 1993 (GDP amounted to 1,576 trillion zloty, or $2,227 per capita, putting Poland at a level just slightly lower than Malaysia or Mexico). Growth will be around 4.0 percent this year. Poland must keep on a high-growth track for exports if the medium-term strategy is to hold and international obligations are to be fulfilled. Exports in the first four months of 1994 increased by 12.2 percent to $4.9 billion compared to the same period last year, while import growth was only 0.5 percent, reaching $5.8 billion. The trade deficit is likely to reach $2 billion for 1994. Debt service obligations currently amount to an annual $2 billion, rising in the early part of the next decade to $8 billion annually.

A World Bank study claims that 5.5 million Poles, or roughly 15 percent of the population, live in poverty. Most affected are rural families with three or more children. Poland devotes 19 percent of its GDP to social spending, the study found, but a full three-fourths of those receiving benefits other than pensions are not poor by any definition. The study recommended that the government take steps to focus scarce funds on the truly needy.

Economic crisis across the former Soviet Union deepened in the first half of this year, with GDP falling 20 percent from 1993 levels, according to a recent review by the CIS Statistical Committee. The report, which covers all the former Soviet republics except the Baltics, noted that the fall in industrial output slowed in June (when output was measured at 4 percent above the level in May), although output is still well below 1993 levels. Belarus's GDP declined by 31 percent, followed by Kazakhstan (a decline of 27 percent) and Ukraine (26 percent). Russia's GDP dropped 17 percent. Inflation rates varied widely among the former republics, with Ukraine's monthly rate down to 1 percent in June, and a monthly rate of 3 to 5 percent for Kyrgyzstan, Moldova, Russia, and Armenia had monthly inflation of 40 percent in June, Azerbaijan and Belarus 30 percent, and Turkmenistan and Uzbekistan 20 percent, the review said.

The Russian Duma voted to raise the minimum monthly wage from 14,620 rubles ($7) to 20,500 rubles ($10). The increase, the first since December, directly affects only employees paid from the budget, but the minimum wage also serves as a benchmark for wages in other sectors. The average monthly wage in April was 175,000 rubles. The level of subsistence in Russia averaged 84,000 rubles in the second quarter, an increase of over 60 percent on the first quarter of 1994. Incomes in real terms in relation to necessary subsistence stayed at 2.25, just as in the first quarter.

In the fourth quarter of 1993, 29.4 percent of Russians had incomes below the subsistence level, and in the first and second quarters of 1994, respectively, the share has grown to 30.7 percent and 38.5 percent. Poverty has been growing rapidly in Russia, the Living Standards Center of Russia's Ministry of Labor reported. Although average purchasing capacity has been growing lately due to a dramatic increase in the purchasing capacity of the wealthier strata of the population, the purchasing capacity of the poorer segments has been declining even further. (Per capita incomes in Russia averaged a monthly 184,000 rubles in the second quarter, an increase of 52.1 percent on the previous quarter.) The ratio of incomes of the wealthiest 10 percent to the poorest 10 percent increased from 9 in the first quarter to 13 in the second.

Russia's industrial production declined by 11 to 13 percent in the third quarter of the year from the second quarter, estimated the Ministry of Economy. Production is expected to be down 25 to 28 percent from a year ago. As for the whole year, a GDP decline of 16 to 18 percent and a 25 to 27 percent drop in industrial production (including a decline of 42 to 44 percent in machine building) is expected. The labor ministry reported in mid-July that unemployment in Russia is nearing 10 million (about 13 percent of the active population), although only 1.3 million people are officially registered. If bankruptcy provisions are applied strictly, 5 million who now constitute the "hidden unemployed" could be added to the rolls virtually overnight. Monthly inflation had dropped from 22.0 percent in January to 4.8 percent in June, and to 6.0 percent in July.
Outstanding cumulative corporate debt in Russia has reached 112 trillion rubles, Statistics Committee Deputy Chairman Vladimir Dalin said. Thousands of Russian enterprises have been furiously churning out goods they are unable to sell and taking delivery of goods they cannot pay for. This practice has built up a mountain of interenterprise debt that presents a serious threat to the Russian economy. An emergency commission was established to address the issue. Under a new presidential decree, Russian companies saddled with huge inventories and debts will get easier tax terms for selling their goods.

Less foreign money has been invested in Russia this year than in Estonia, Russia's Deputy Economics Minister Yakov Urinson announced at a late-June meeting of the government's consultative council on foreign investment. Countries such as Hungary and Poland have also outdistanced Russia. Total foreign investment at the end of 1993 amounted to $2.7 billion, an increase of $1.4 billion for the year. But only $1 billion in new investment is expected in 1994. (Firms with foreign capital have created about 300,000 new jobs in Russia.)

Russian President Boris Yeltsin signed the 1994 budget into law on July 1. The budget provides for expenditures of 194.5 trillion rubles ($102 billion) and revenues of 124.5 trillion rubles ($65 billion). The deficit of 70 trillion rubles ($37 billion) amounts to 9.7 percent of GDP, under the ceiling proposed by the government. This proportion exceeds the target of 7.5 percent of GDP agreed upon with the IMF in March.

President Boris Yeltsin—faced with stiff opposition from the state Duma—opted to implement the second stage of Russia's privatization by decree. Critics charged that the postvoucher program—designed to attract 'strategic investors' with capital and management skills through direct sale of shares representing 20 percent of state assets—would sell off state firms "for only a fraction of their actual value." Postvoucher privatization is expected to generate revenues of 2.5 trillion rubles ($1.25 billion) in 1994. Employees will receive fewer preferential shares. To encourage investment, each enterprise will be able to retain 51 percent of the proceeds from the sales of its own shares.

The number of new shareholders in private business has reached 40 million in Russia. Over 84,000 small businesses (74 percent of the total) have been sold to private owners, and 21,000 larger firms (70 percent of the total) have been transformed into joint-stock companies. As of early June, 126 million of the total 148 million privatization vouchers distributed had been invested. Yeltsin extended the validity of unused privatization vouchers for a three-month period, beginning on September 1. The vouchers will be valid for use in the purchase of shares of state assets put up for auction during the next stage of privatization.

Russia's exports in the first half of 1994 amounted to $21.3 billion, while imports were set at $13.2 billion, according to trade ministry figures in mid-July. These figures reflect an increase of 10.4 percent in exports and 3.9 percent in imports in comparison with the first half of 1993. Oil exports rose by 11 percent, and gas by 15 percent. The ministry's statistics reflect a reorientation in Russian foreign trade: developed countries account for an ever-growing share of both exports and imports, while trade with developing countries, former CMEA countries, China, Korea, and the former Yugoslavia is still on the decline.

Russia's gas monopoly, Gazprom, again threatened Belarus and Ukraine with cutting off supplies as of September 1 unless they begin to pay back some of their debt. Ukraine owes Gazprom more than $950 million for past deliveries. The country has been paying only 10 to 20 percent of its obligations. Belarus Prime Minister Mikhail Chigir has agreed to pay off the country's $425 million debt to Russia for gas supplies by April 1, 1995.

Ukraine's State Coal Committee announced on August 15 that the country will import 15 million tonnes of Russian and Polish coal under barter arrangements in order to sustain its hard currency coal exports in the face of falling production. Coal output is expected to fall by a quarter this year to 100 million tonnes. The collapse of the Ukrainian coal sector poses a threat to the country's social and political stability, and raises questions about the future of Ukrainian energy policy.

Ukraine's President Leonid Kuchma plans to issue at least two decrees on hard currency earnings and exchange rates. Currently, enterprises are obliged to exchange half of their hard currency earnings with the state at a rate of 20,500 karbovantsy to $1, while the free market rate stands at about 45,000 karbovantsy to $1. As a result, companies have failed to declare their hard currency earnings or assets. Kuchma plans to gradually raise the official exchange rate until it reaches the free market level; the initial increase will reportedly be to about 24,000-26,000 karbovantsy to $1. It has still not been decided what share of hard currency revenue must be sold to the state. (Ukraine's debts to Western creditors and former Soviet republics is $6 billion, while its debts to CIS countries slightly exceed $4.3 billion.)
Three Economies—Three (near-) Success Stories

Eastern Germany: Rapid Reconstruction

Germany's recession is officially at an end, according to Economics Minister Guenter Rexrodt. Reconstruction of the eastern economy is progressing rapidly, he reported, with eastern Germany experiencing strong growth and a marked upturn in orders since January. The strong growth has persisted since 1992 (though it began from a very low base).

The 1994 growth is forecast at 7.5 percent (compared with 1 percent in the west). Industrial and construction orders since the first quarter show that the recovery is broadening out, and capital formation per head, which was 3 percent higher than in the west in 1993, is forecast to be 20 percent higher in 1994. In some branches (such as automobiles) the productivity gap between eastern and western enterprises is narrowing, as the best technology is incorporated. The shrinkage in employment is largely at an end. The unemployment rate fell to 15.4 percent in May, from 16.2 percent in April (still representing about 1.22 million workers).

However, it will be at least a decade before the economic basis for self-sustaining growth is achieved. The industrial base in the east is now too small to promote rapid, self-sustaining gains: of the 2.8 million industrial workers employed in the east in 1990, only 640,000 remain in their jobs; and the share of industrial employment relative to population is less than one-half that of western Germany. Unit wage costs remain 70 percent above the western level.

Economic upturn is heavily dependent on western support:
• Gross public transfers this year from west to east total DM200 billion, of which DM160 billion is paid by the federal government (including 41 billion from the social security funds) and DM40 billion through new borrowing by the Treuhandanstalt (the government agency in charge of eastern restructuring and privatization). Since this total is almost equal to eastern GDP, the scale of dependency is clear.
• The counterpart to this is a flow of imports of similar value. Eastern Germany has so far developed few internationally competitive export goods, and made up only 2 percent of total German exports in 1993.

The upturn is carried primarily by construction and regionally based consumer goods industries enjoying natural protection (food processing, building materials, printing), but the electrical and electronic engineering sector shows considerable vitality, reflecting the large public infrastructure expenditures in telephones, railway electrification, and electricity supply. In 1993, construction investment per head in the east was 6 percent higher than in the west and represented 32 percent of eastern GDP. Housebuilding leads the sector, heavily supported by tax concessions.

Slovenia: Industrial Policy Ticks

Slovenia appears to be in a good position to follow the pattern of the Polish recovery, with GNP and productivity growth following a period of sharp retrenchment.

• Industrial production in June was up 3 percent over May of this year and 15.2 percent over June 1993. For the first half of 1994, year-on-year growth was roughly 4 percent, with industrial production expanding at about the same rate as GNP.
• Growth in demand has been vigorous enough to mop up some unemployment; the overall rate in April stood at 14.5 percent, as compared to 15.4 percent in December 1993.
• Monthly inflation rose slightly in June to 1.6 percent—still lower than the April figure of 2.1 percent. Extrapolation of current trends would yield an annual inflation rate of 21 percent, 5 percent above the government target but 2 percent lower than in 1993.
• The balance of trade improved in the first half of 1994. If present trends continue, the balance of payments surplus will surpass the $200 million level recorded in 1993.

Privatization is progressing at a slow pace; according to a recent survey, only 49 out of the 300 top Slovenian companies are privately owned. The government argues that a radical acceleration of the process could destabilize the country's fledgling money markets. Certainly, foreign investor confidence has not been hurt by the pace of privatization: the total value of foreign investment in joint ventures in Slovenia (chiefly involving German and Austrian investors) is over $1 billion. On a per capita basis, this compares favorably with most other East European countries. Slovenian Prime Minister Janez Drnovsek promised in late June that privatization would be speeded up.

The state and the public sectors in Slovenia have been able to play a more positive role in restructuring than would have been considered feasible elsewhere in Eastern Europe. The old Iskra electronics company, for example, was broken up after independence into a large number of individual enterprises, with Iskra Holding, effectively a public sector company, continuing to wield some general managerial authority over the whole group. Some of the loss-maker enterprises landed in receivership while competitiveness improved at others.

The government last month set aside 353 million tolar ($2.8 million) for subsidies to tourism, and 541 million tolar ($4.3 million) to support small- and medium-size enterprises (SMEs), mainly through subsidized loans. Among the SME activities listed as priorities are technical services and business infrastructure. The Slovenian SME program thus exhibits significant elements of so-called strategic technology policy—the kind of policy that seeks to enhance technological potential by developing technological support services rather than by trying to pick winners. Slovenia has succeeded in developing an operational technology-industry policy, perhaps the only East European country to do so. The growing private sector might find it easier, however, to build up its own production and technological capabilities.

Czech Republic: Sweet Smell of Macro Success

The Czech government's report on economic developments in the first half of 1994 indicates a healthy and stable macroeconomic situation. Some enviable statistics include the following:
• The budget is—as always—in surplus, currently by around 15 billion crowns (about $500 million).
• Unemployment of 3.5 percent is almost the lowest in Europe. Although there are still too many oversized enterprises being kept afloat by easy bank credits, rapid privatization and property restitution have led to the creation of many small businesses
and the expansion of the service sector. The average number of employees per industrial enterprise has fallen from 1,665 in 1990 to 360 in 1994.

*Inflation remains manageable. It jumped to 20.8 percent in 1993, mainly because of the introduction of VAT, but is now an annual 9.4 percent.

*Gross domestic product grew by 3.5 percent in the first three months of 1994. Prime Minister Vaclav Klaus called this development "a breakthrough." Economy Minister Karel Dyba said that GDP grew mainly because of expanding trade and services as well as growth in the construction industry. Growth is likely to hover at around 1 to 2 percent this year following an accumulated 21 percent two-year drop in 1991-92 and virtual stagnation (-0.3 percent) in 1993.

*Since the split with Slovakia, the balance of payments has moved into surplus, chiefly as a result of rising exports to Western Europe and service sector growth. Trade has been quickly redirected following the collapse of the CMEA and the breakup of Czechoslovakia. Exports to developed countries rose by 9 percent, compared with the same period in 1993. (But the country had a trade deficit of 2.1 billion crowns [$70 million] at the end of March, due mainly to a sharp decrease of exports to Slovakia.)

*Official foreign exchange reserves by the end of July had risen to $5.3 billion, up from a 1993 average of $3.8 billion, and could reach $9 billion by the end of the year. The Czech national bank will repay all $471 million in outstanding debt to the IMF by the end of September, two years ahead of schedule. In a mid-August announcement the national bank claimed it has been mopping up funds through its open market operations in order to dampen the inflationary pressures generated by the capital inflow. Earlier this year, in an effort to restrain money supply (M2) growth, the bank repaid a $430 million IMF loan that was not due until 1995 and raised reserve requirements for banks from 9 percent to 12 percent.

*The government has not yet pushed through the kind of tough restructuring measures that created high unemployment and political instability elsewhere in Eastern Europe. As restructuring proceeds, unemployment could cause social and political tensions. The government predicts 6 percent unemployment by the end of this year, and economists say 10 percent is likely by 1995. The principal drawback to the Czech method of rapid privatization: corporate restructuring has tended to follow privatization rather than accompany it.

*The banking sector needs improvement. The Parliament passed an amendment to the law on banks, increasing regulatory powers of the central bank in supervising other banks and introducing a system of individual deposit insurance. The action followed a recent collapse of three major Czech banks.

*The system of revenue collection remains inadequate. The Czech Republic is one of Europe's most heavily taxed countries, with a top rate of income tax of 42 percent and a VAT of 23 percent. The result is large-scale tax avoidance. The tax burden discourages investment, especially as the government remains adamant in its refusal to grant tax privileges to domestic or foreign investors.

*The country suffered a 43 percent decline in direct investment by foreign firms in 1993. According to a report of the Czech national bank, the plunge in foreign direct investment from $1 billion in 1992 to $568 million in 1993 places the Czech Republic third in the region, behind Hungary and Poland. In the first half of 1994 the trend continued, with foreign direct investment falling to $300.5 million, 23 percent below the level in the first half of 1993. This shift, authorities claim, is in keeping with the Czech preference for raising capital in international markets rather than aggressively soliciting foreign direct investment and risking inflationary effects.


Russia and Belarus have postponed a planned monetary union. President Alexander Lukashenko of Belarus said Belarus's economy, with 40 percent monthly inflation compared to Russia's 5 percent, would be destroyed if the union took place now. Inflation must be brought closer to Russian levels, and Belarus needs to implement more economic reforms to prepare for the union.

The leaders of Kazakhstan, Kyrgyzstan, and Uzbekistan agreed at their summit in Almaty on July 8 to form a comprehensive defense and economic union. A new interstate committee of the presidents and prime ministers of the countries will be formed to oversee the standardization of laws. The leaders also set up a Central Asian Bank for Cooperation and Development, as well as a prime ministers committee responsible for coordinating finance and economic planning. All committees will be chaired by Kazakhstan for the coming year, followed by Kyrgyzstan and Uzbekistan, also for a year each. The union is open to other CIS states.

The Chinese economy grew by 11.6 percent in the first six months of 1994, while retail prices rose 19.8 percent and the consumer price index in the 35 biggest cities jumped 22.7 percent, according to a state statistical bureau. Added-value industrial output rose by 15.7 percent in the first seven months of the year. China's growth in fixed assets investment was expected to decline to 50 percent in August after rising 73 percent in July, the China Daily reported. A renewed push to export has lowered China's trade deficit. Exports from January to July surged 31.2 percent from a year earlier, while imports grew 19.0 percent. Japan remained China's top trading partner. China's foreign exchange reserves reached $31.8 billion at the end of June, a record. The country's foreign debt increased by 20.6
percent to $83.5 billion at the end of 1993.

The gap between rich and poor is expanding in China, according to Beijing's People's Daily. In urban areas the richest 20 percent earned 2.8 times more than the poorest 20 percent in 1992, up from 1.7 times in 1978. In the countryside the top 20 percent were five times richer than the bottom 20 percent in 1992, compared with 2.9 times in 1978.

Slovakia's private sector accounted for about 40 percent of the country's GDP, according to mid-June estimates of the Statistical Office. The service sector's share of GDP reached 43.1 percent compared with 33.9 percent for industrial production, 5.6 percent for agriculture, and 4.4 percent for construction. The average monthly wage was 5,581 (the exchange rate is 3 crowns to the dollar), 1.7 percent higher in real terms than in the first quarter of 1993. Consumption grew by 11 percent over the previous year. The trade deficit totaled 3.7 billion crowns, and the volume of foreign capital increased by 6.7 percent to 11.5 billion crowns. Real GDP is predicted to grow by 0.9 percent during 1994, unemployment to be 16 percent, and annual inflation to reach 14.7 percent. GDP for first quarter 1994 was 43.1 billion crowns, 3.6 percent higher than a year ago.

Albania will begin privatizing its main state-owned utilities this fall, and wants the participation of foreign investors. President Sali Berisha told the Financial Times that the sell-offs would include water, hydroelectric power generation, power distribution, and telecommunications. The main goal of the program was to achieve the quickest shift of ownership to the private sector and not to maximize revenues for the state. Albania has no stock exchange, but the president said he was keen to set one up soon.

Hungary's current account deficit was estimated at $2 billion-$2.5 billion at the end of May, while its trade deficit amounted to $1.5 billion. The central budget deficit stood at 190 billion forint. Finance Minister Laszlo Bekesi warned that without reversals of current trends, the current account deficit might reach $4 billion by the end of 1994. In the first half of the year, some four-fifths of the growth came from the increase in the country's external indebtedness. While the consumer price increase was only 17 percent, nominal personal incomes grew by 27 percent and the growth in social benefits was 33 percent, he said.

The servicing of Hungary's debts in 1994 amounts to over $3.5 billion, but half of this has already been paid, according to Frigyes Harshegyi, vice chairman of the National Bank of Hungary. Gross debts had reached $25.5 billion by the end of May, and foreign currency reserves stood at about $6.5 billion.

The 8 percent devaluation of the Hungarian forint in August is the first since 1990 to be justified mainly in terms of export competitiveness. Exports fell 17 percent last year. Export performance will also depend on the country's ability to continue to attract foreign investment. Total foreign direct investment in Hungary reached $6 billion at the end of April, the latest National Bank of Hungary figures show. The comparable figure at the end of 1993 was $5.5 billion.

Despite a fall in living standards, Mongolia's President Punsalmaagiin Ochirbat is optimistic about the future. He lists among the country's most important goals the freeing of prices and the exchange rate of the tugrik, privatization of state property, and the passage of laws on banking and foreign investment. With the government following a tight monetary policy, the annual rate of inflation has dropped from 160 percent in 1993 to 55 percent in 1994. But one in four Mongolians lives below the poverty line.

We appreciate the contributions from the RFE/RL Research Institute.

From the Russian daily Izvestia
Lending Down in FY94

New lending commitments by the World Bank totaled $20.8 billion in fiscal year 1994, which ended June 30. This compares with $23.7 billion in FY93 and $21.7 billion in FY92. Of the total for FY94, the World Bank, which lends at near-market rates, committed $14.2 billion for 124 projects. The International Development Association (IDA), which makes interest-free loans over long periods, committed $6.6 billion for 104 projects. The comparable figures for FY93 were $16.9 billion for 122 World Bank projects and $6.8 billion for 123 IDA projects. In FY94 World Bank gross disbursements were $10.4 billion, compared with $13.0 billion in FY93; IDA gross disbursements came to $5.5 billion, as against $5.0 billion. The overall decline in FY94 was partly due to the sharp increase in 1993 of private capital flow to developing countries, reaching $175 billion. This reduced the demand for adjustment support. Also, the recent replenishment of regional development banks made more funds available from them as the World Bank used co-financing to catalyze private sector funding. At $3.5 billion, commitments to Europe and Central Asia were almost the same as the $3.7 billion recorded in FY93.

MIGA Had Record Year

The Multilateral Investment Guarantee Agency (MIGA) issued a record 38 contracts in fiscal 1994, facilitating about $1.3 billion in direct private investment and creating some 7,800 jobs in 13 host developing countries. MIGA issued its first guarantees in Brazil, Bulgaria, Kazakhstan, Peru, Trinidad and Tobago, and Uzbekistan. The amount of coverage ranged from $400,000 for agribusiness in Cameroon, to $40 million for gold mining in Uzbekistan. These results bring to about $7 billion the amount of direct private investment MIGA has helped to attract in only five years of operations. (MIGA is the youngest member of the World Bank Group. It encourages private foreign investment in developing countries by providing insurance against political risks such as currency transfer, expropriation, and war or civil disturbance. MIGA also provides technical assistance to help countries attract foreign investment.)

Solid Outcome for FY94

The World Bank earned a net income of $1 billion and borrowed $8.9 billion in medium- and long-term funding during fiscal year 1994. The comparable figures for FY93 were $1.13 billion and $12.7 billion, respectively. On June 30, the end of the fiscal year, seven countries accounting for just over 2 percent of outstanding loans were in nonaccrual status (in other word, six months or more behind in debt servicing), among them small-Yugoslavia (Serbia and Montenegro) and Bosnia-Herzegovina. The standard semiannual variable lending rate fell from 7.43 percent in the first half of FY94 to 7.27 percent in the second half. In the first half of FY95 the comparable rate is 7.10 percent. The World Bank’s reserves-to-loans ratio was 13.88 percent at the end of FY94, within the target range of 13 percent to 14 percent.

Commodity Boom Should Be Short-lived

The present surge in commodity prices is likely to be much smaller and more short-lived than that of the 1970s, according to the World Bank’s latest quarterly report on Commodity Markets and Developing Countries. The differences between then and now include the decline in commodity imports into the countries of the former Soviet Union and Eastern Europe, who now lack the foreign exchange to maintain high levels of imports, and the relatively weaker economic position today—compared with the 1970s—of the oil-producing nations, once heavy importers of commodities. Many developing countries that had been large importers of raw commodities such as grains are now self-sufficient or even net exporters themselves, the report says. Nevertheless, the bank says, certain commodities that have risen strongly, coffee for example, may still have spectacular price increases to come.

Bullish View on Emerging Stock Markets

Among the developing countries’ emerging stock markets, Poland’s stock exchange led the way in 1993, soaring by 720 percent. Developing country markets have grown rapidly in recent years as liberalization and economic expansion have attracted international investors. (An emerging market is simply a stock market in a country with a 1992 per capita income of $8,355 or less.) Last year, helped by a record performance, these emerging markets became their own capital raisers. According to the Emerging Stock Markets Factbook 1993, produced by the International Finance Corporation, emerging markets were easily the fastest growing in 1994, measured by the increase in the dollar value of their indexes.

The capitalization of emerging market stocks topped $1 trillion in 1993, accounting for 12 percent of the value of world stock markets. The companies listed in these markets made up 44 percent of all companies on the world’s
exchanges. Investors placed a record of about $37 billion in emerging markets during 1993. (American investors made net purchases of about $13.6 billion in emerging markets, around a fifth of their net purchases of foreign equities in 1993.)

Noting that in early 1994 many developing markets fell back, the factbook says: “This correction process tends to be healthy for the development of markets because it leads to more realistic valuations and encourages long-term investment perspectives.” The future remains bright for emerging markets.

G-7 Backs IFI Reforms

Members of the G-7 meeting held in early July agreed to review the international financial system, including the role of the IMF, the World Bank, and the OECD. In its Economic Statement the G-7 said it was conscious of the need to renew and revitalize the Bretton Woods institutions, and to take on the challenge of integrating the newly emerging market democracies. It was agreed that next year’s summit in Halifax (Canada) would focus on what framework of institutions will be required to meet these challenges, and how existing institutions can be adapted and new ones established to ensure future prosperity.

G-7 Supports IMF Actions

The G-7 summit expressed support on three actions suggested by the IMF: the creation of a third tranche for the IMF’s Systemic Transformation Facility program; raising annual limits for standby and extended credits; and a special drawing right (SDR) allocation to 37 countries that joined the IMF since 1981.

G-7 to Ask for Debt Write-off

The G-7 summit agreed to ask Paris Club governments to write off up to two-thirds of the official debts of developing countries, British Chancellor of the Exchequer Kenneth Clarke reported. Up to now the Paris Club has granted maximum debt relief of 50 percent. The Paris Club will henceforth also consider reducing the entire stock of official debt, and not just selected maturities, according to Clarke. British officials said it was impossible to estimate how much debt might be written off under the agreement.

Fund Reports on FY94

The greatest part of the International Monetary Fund’s efforts last year was dedicated to help countries in transition to market economies, and it wants more resources to meet rising demands for assistance, especially from Eastern Europe. Standby and extended fund facility credit commitments fell 31 percent in fiscal 1994, the second consecutive year-on-year decline. The IMF lent 5.2 billion SDR ($7.6 billion), roughly the same as in the previous year. Russia was the main beneficiary with 2.2 billion SDR ($3.2 billion), followed by Argentina and South Africa, which each received 600 million SDR ($882 million), Poland with 400 million SDR ($588 million), and India with 200 million SDR ($294 million).

$3 Billion in Loans to China

The World Bank is expected to lend China about $3 billion to finance construction of 15 projects in the next fiscal year beginning in August, the China Daily reported. Pieter Bottelier, head of the World Bank mission in China, said part of the money will go to a housing project, a power plant, modernizing state enterprises, protecting the environment, and establishing a national taxation administration system. China was the Bank’s biggest borrower during the current fiscal year ending in July, with loans of $3 billion for 14 projects. The Bank’s accumulated lending to China since 1981 has totaled $19.4 billion.

Loan to Save Forests...

China is launching a $356 million plan to replace some of its forest cover, protect environmentally important woodlands and watersheds, and boost the productivity of commercial forests. To help fund the program, the IDA approved a $200 million credit in early June. (China is the third-largest timber consumer in the world and depends on forests for almost half its rural household energy needs. The country, which loses about half a million hectares of forests a year, has only 0.11 hectares of forest cover per person, compared to a world average of 0.77 hectares.)

... Build Highways, and ...

China plans to construct a controlled-access, four-lane expressway stretching 340 kilometers between the Beijing region and Xinxiang, the third-largest city in Hebei Province. A $380 million World Bank loan for the project was approved in early June. Improvements on National Highway 107 will connect Beijing to Hong Kong, and National Highway 310 will run east to west from Lianyungang to Urumqui.

... Provide Clean Water

A $110 million Bank loan approved July 26 will improve water quality in the Hun and Taizi rivers in northeastern China to a standard that is environmentally safe, usable, and sustainable in five major cities of Liaoning Province. The prov-
ince has a population of some 36 million who depend mainly on the Hun and Taizi River Basin for water.

**Commercial Housing Market in China**

A Chinese government pilot project, backed by a $275 million World Bank loan and a $75 million IDA credit, will establish commercial housing markets in four cities (Beijing, Chengdu, Ningbo and Yantai). In each city the projects will introduce autonomous, for-profit companies providing housing for consumers (who will take over housing now owned by enterprises); rents that cover housing costs; cash wage increases to compensate for higher rents; market-based housing finance to provide long-term mortgage loans for renters and builders; and policy reforms to guide commercial housing management and finance institutions. A workable mortgage system will be established. The funds will finance about half of each eligible home loan made by competing banks. Employers and workers will pay health care, pension, and unemployment contributions into independently managed pools, which will in turn provide benefits to the workers.

**Bulgaria Wins $1.5 Billion Aid Package**

Bulgaria has secured external financial and technical support worth $940 million for 1994 and provisional pledges of another $620 million for 1995 to back its market economy reforms. Nine key donor countries and several international financing bodies took part in a two-day meeting in Paris of the World Bank-sponsored Consultative Group for Bulgaria.

**Aid Shower for Kyrgyzstan**

Donor nations and agencies pledged aid worth $550 million for Kyrgyzstan and urged the former Soviet republic to quicken the pace of agricultural reform and strengthen its social safety net. The World Bank, which chaired a twoday meeting in Paris with Kyrgyz government ministers, said in a statement that the new aid included $340 million for balance of payments support. The IDA approved a credit of $17 million to strengthen the ability of government agencies in locating poor and unemployed people and helping them with direct assistance, job counseling, and training. Another $18 million IDA credit will help to develop telecommunications in Kyrgyzstan. The IMF will support the reform program with a three-year loan of about $104 million under the enhanced structural adjustment facility.

**IMF Credit for Slovakia ...**

The IMF on July 22 approved $263 million in credits for the Slovak Republic to help economic reform and stabilization. Slovakia has made important progress in steadying its economy since becoming independent at the start of 1993, but more needs to be done to reduce the budget deficit, the IMF said. The credits include a $169 million standby credit, and $94 million under the STF facility.

**... Standby to Poland**

The IMF in early August approved a $791 million standby credit for Poland to be extended over the next nineteen months in support of the government’s economic program. Part of the credit ($315 million set-aside) will help Poland finance its recent deal with commercial creditors. The credit may be increased if Poland completes a debt-restructuring arrangement with commercial banks.

**... and Negotiations with Ukraine**

An IMF mission arrived in Ukraine August 15 to help the government work out a program to stabilize the economy. The Ukrainian government pledged last month to work with the IMF over the next two months to clear the way for Kiev to receive a $700 million loan from the Systemic Transformation Facility. (The G-7 offered more than $4 billion in aid over two years to Ukraine in return for a commitment to economic reform, and an additional $200 million to close Ukraine’s Chernobyl nuclear power plant. The G-7 proposed a five-year action plan for the closure of the plant. This supplements a $616 million EU package.)

**GEF Restructuring**

The Global Environment Facility, at its first council meeting, appointed a new chairman, Mohammed El-Ashry. During its three-year pilot phase, the GEF committed about $1 billion for 100 projects in Africa, Asia, Latin America, and the postsocialist countries of Central and Eastern Europe in four areas: biodiversity, international waters, global warming, and ozone depletion. The GEF has just over $2 billion to spend in developing countries over three years.

**World Bank Lends $1.2 Billion to Russia**

The World Bank at the end of June announced new loans to Russia worth more than $1.2 billion to help the country modernize its economy. These loans bring to $1.5 billion the Bank’s total lending for Russia in 1994.

- A $500 million loan will help upgrade production in the oil and gas industry (Russia received a similar loan of $610 million for the oil sector in June 1993.)
- $200 million will contribute to industrial restructuring.
- $240 million will support individual farmers to acquire the skills and materials they need to grow and sell their produce and help create a nationwide market information system on about 50
commodities and materials. Pilot projects in selected areas will set up fruit and vegetable mini-wholesale markets and cold storage and other facilities.

+$80 million will improve the land registration system for farms and other private property. 

+$200 million (along with $100 million from the European Bank for Reconstruction and Development, will be available to 20 qualified Russian commercial banks, which will use it to make loans for at least one year to private enterprises. The banks—located in nine cities across the country—are being paired with international banks in the West to sharpen their lending and accounting skills.

Kazakhstan’s Oil and Gas Development

To shore up the efficiency and long-term financial health of Kazakhstan’s oil and gas industry—specifically, to promote foreign investment and improve management and training in that sector—the World Bank provides a $15.7 million technical assistance loan.

IMF Approves Credits to Viet Nam

The IMF approved an additional Systemic Transformation Facility credit of $17 million to Viet Nam. The country will also be able to draw $34 million from a $205 million standby loan that was approved by the Fund last October. The IMF’s credit was made after it consulted with the governments over economic plans that call for an 8 percent growth rate, 7 percent inflation, a decrease in the budget deficit, strengthening of tax revenues, and reduction of government expenditures.

IMF Names Stanley Fischer as First Deputy Managing Director

The IMF Executive Board endorsed an increase in the number of IMF deputy managing directors from one to three. Stanley Fischer (MIT economist and former World Bank chief economist), as first deputy managing director, will have broad responsibilities across the whole range of issues facing the institution and will exercise comprehensive oversight. His appointment takes effect on September 1.

Algeria Invests in Water Supply

Algeria plans a comprehensive $170 million restructuring of its water and sewer works. The program, which will decentralize management of urban water utilities and rehabilitate existing water and sewerage infrastructure, is backed by a $110 million World Bank loan approved in June. The repairs will cut pollution and enable Algeria make the most of its limited water for years to come.

Mozambique to Receive IDA Credit, IMF Loan

IDA approved end-June a credit of $200 million to help Mozambique expand its fledgling recovery. Under the program the government will accelerate reforms in four areas: budget and aid management, monetary policy, commercial banking, and privatization. (The privatization program, which has already converted more than 250 small- and medium-size state enterprises to private companies, will include some larger industries—probably the once-lucrative cashew nut processing plants, tea and sugar estates, and a cement factory.) Another $30 million credit will support the development of the Pande gas field. Mozambique is due to receive the first half of a $42 million loan from the IMF.

Georgia on Their Mind

An informal donors’ meeting on Georgia, convened in Paris in mid-July, discussed that country’s economic reform program, external financing, and technical assistance priorities. An IDA credit of $10.1 million will help Georgia build stronger institutions in the financial sector (introducing higher accounting and auditing standards). Improvements in economic management will include policy reforms, modernized tax and customs administration, and streamlined treasury operations.
Conference Diary

Institutional Investor Summit
September 28, 1994, Madrid, Spain

As a major event of the third annual World Development Congress, managers of major pension funds and investment portfolios will analyze strategies for maximizing performance in the changing global economy. Asset allocation practices, country and market analysis, and risk management will be discussed. The agenda includes a session on investment opportunities in the East European "mini-markets."


IMF-World Bank Annual Meetings
October 2-6, 1994, Madrid, Spain

The 49th Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund will be preceded by a special conference on September 29-30 to commemorate the 50th anniversary of the Bretton Woods Conference.


Telecommunications in CEE—The Investment Opportunity
October 24-25, 1994, London

This practical seminar for suppliers, users, and operators wishing to do business in Central and Eastern Europe and the former Soviet Union is organized by IBC Technical Service, Ltd., in association with Interconnect Communications, Ltd. The conference agenda includes in-country evaluations from Hungary, Poland, Bulgaria, Russia, and Latvia; and progress reports on privatization, investment criteria, liberalization, and foreign assistance possibilities—as these relate to the telecommunications sector.


Emerging Capital Markets and Project Financing in Russia: Year-end Update
November 17-18, 1994, New York

The fall 1994 Business Development Forum organized by the Geonomics Institute will be held in New York at the Yamaichi International (America), Inc.'s conference facility at Two World Trade Center.

Information: Robyn Young, Senior Program Officer, Geonomics Institute, 14 Hillcrest Avenue, Middlebury, Vermont 05753, tel. (802) 388-9619, fax (802) 388-9627.

Enterprise Behavior and the Process of Exit in Transitional Economies: Downsizing, Restructuring, and Bankruptcy
December 16, 1994, Stoke-on-Trent, United Kingdom.

The conference is organized by the Centre for European Research in Economics and Business (CEREB), Staffordshire University Business School, and the Centre for Social and Economic Research (CASE), Warsaw. A provisional list of contributors includes Leszek Balcerowicz (Warsaw), Irena Grosfeld (Paris), Iraj Hashi (CEREB), Jan Mladek (Prague), Jacek Rostowski (London), Valdas Samonis (Toronto), and Miklos Szanyi (Budapest).

Information: Iraj Hashi, CEREB, Division of Economics, Staffordshire University, Stoke-on-Trent, ST4 2DF, U.K., tel. (44-782) 412-515, fax (44-782) 747-006.

ICCEES Fifth World Congress
August 6-11, 1995, Warsaw, Poland

The International Council for Central and East European Studies (ICCEES) will hold its fifth World Congress in Warsaw, Poland. Local hosts for the congress will be the Institute of Political Studies and the Institute of Philosophy and Sociology of the Polish Academy of Sciences.

Information: ICCEES President/Program Chair John D. Morison, School of History, University of Leeds, Leeds LS2 9JT, United Kingdom.

Technology Transfer and the Transformation of Chinese Firms
September 5-6, 1995, Saint-Malo, France

The conference will be organized by the Euro-China Research Association in Management (ECRAM); the Centre d'Etudes et de Recherches sur l'Entreprise, la Technologie, les Institutions et la Mondialisation (CERETIM), University of Rennes 1; and the Reforme et Ouverture des Systemes Economiques (post)-Socialistes (ROSES), University of Paris I and Grenoble II; and the China Europe Management Institute (CEMI), Shanghai. It will be held at the Institut Universitaire de Technologie de Saint-Malo, Ille et Vilaine, France.

The conference will focus on technology transfer and the transformation of state-owned firms in China.

For information: Xavier Richet, ROSES, Université Paris I, 90 rue de Tolbiac, 75634 Paris Cedex 13, France, tel. (33-1) 40 77 18 48, fax (33-1) 45 84 78 89.
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 information for publications of the World Bank, write: The World Bank, P.O. Box 7247-8619, tel. (202) 473-1155, fax (202) 676-0581; or visit the World Bank bookstores, in the United States, 701-18th St. NW, Washington, D.C., or in France, 66 avenue d’Iena, 75116, Paris.

IMF Working Papers


CEPR Discussion Papers, London


To order: CEPR Discussion Papers, 25-28 Old Burlington Street, London W1X 1LB, tel. (4471) 734-9110, fax (4471) 734-8760.

CSER (Center for Social and Economic Research) Working Papers, Warsaw


Marek Dabrowski, Two Years of Economic Reforms in Russia: Main Results, Studies and Analyses no. 9, 1993, 32 p.


János Gács, Trade Policy in the Czech and Slovak Republics, Hungary and

July-August 1994


Jan Klacek, and M. Hrnčir, Macroeconomic Policies: Stabilization and Transition in Former Czechoslovakia and in the Czech Republic, Studies and Analyses no. 15, 1994, 38 p.


To order: CASE Research Foundation, 00-585 Warszawa, ul. Bagatela 14, tel/fax (48-2) 628-65-81 or (48-22) 29-43-83.

WIIW Publications


To order: Vienna Institute for Comparative Economic Studies, P.O. Box 87, A-1103 Vienna, tel. (431) 782-567, fax (431) 787-120.

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Other Working Papers


The share of local government in overall tax revenues in Latvia accounts for only 8.7 percent while expenditures make up 22.7 percent of the total. Over 60 percent of local government revenue is financed from the national budget, and expenditures of these funds are strictly regulated.

Soon the central budget will be unable to meet the needs of the state and local governments. A stringent austerity program is needed, including prioritization of resource distribution to bring the government's pledges to increase social welfare in line with financial realities. Pressure on the budget would be relieved, and the social fairness of budget expenditures improved, if the state and local governments stopped subsidizing the residents' utility fees. But the low income of residents prevents adoption of this proposal. On the resource side, the tax system needs to be re-evaluated—social outlays are universal but because of the state's inadequate tax collection system, only a certain segment of the society is taking the heat of taxes.

To order: Institute of Economics, Associate of Lithuanian Academy of Sciences, Jasinskio 9, 2600 Vilnius, Lithuania.

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Ljubinko Jankov, Monetary Policy and Inflation in Croatia, Reform Round Table Working Paper no. 10, Institute for Development and International Relations (IRMO), Zagreb, Croatia, 1994, 26 p.

Vera Tadic, Agricultural Reform in Croatia, Reform Round Table Working Paper no. 11, Institute for Development and International Relations (IRMO), 1994, 24 p.

To order: IRMO (Institute for Development and International Relations), UL, Li Farkasa Vukotinovica br. 2, P.O. Box 303, 41000 Zagreb, Croatia, tel. (385-41) 454-522.

Privatizing electricity utilities seems an attractive way of reducing foreign public debt but requires raising tariffs and creating a credible system of price regulations, currently lacking in many East European countries. The ultimate benefits of proper regulation and eventual privatization result from upsetting the present unsatisfactory equilibrium with underpricing and underinvestment, and should include improved efficiency in power generation. There are difficult choices to make over the form of regulation, the design of dispute resolution procedures, and whether to separate generation from transmission, few of which are urgent.


To order: Center for Agricultural and Rural Development (CARD), Iowa State University, 578 Headly Hall, Ames, Iowa 50011, tel. (515) 294-1183, fax (515) 294-6336.


Leading Hungarian policy experts have come out with the following recommendations:

- In order to channel more personal savings into privatization, the dumping of government securities must be restricted.
- A customer-friendly network of local banks must be established, where local bankers and small entrepreneurs can prepare business plans together.
- The corporate tax should be decreased to 30 percent and the minimum tax be eliminated.
- Capital investments, especially the application of advanced technology, must be promoted with tax allowances and accelerated depreciation.
- The social security system must be reformed; the mandatory social security contribution, which entitles contributors to basic services, should be decreased to between 15 and 25 percent (from the present 40 percent).
- Venture capital companies (following the successful example in some Asian countries) and regional or sectoral companies should be formed to promote investment in small enterprises.
- In order to boost the land market, a new system of land valuation and registration must be developed and adhered to. A workable mortgage finance system requires the establishment of an up-to-date, legitimate land registry system.
- A national network of mortgage loan and land loan banks must be established, with the overriding mandate to serve the needs of the entire agricultural community.
- One-stop offices should be created to house, under one roof, representatives of the various agencies, authorities, and banks involved in privatization, thus facilitating the establishment of new enterprises.


International Agriculture and Trade Reports, Former USSR—Situation and Outlook Series, United States Department of Agriculture, Washington, D.C., May 1994, 97 p.

Economic reforms and tight financial constraints in the countries of the former Soviet Union (FSU) have caused significant reductions in import demand for a number of agricultural commodities since the demise of the USSR in 1991. Total FSU imports of grain, which averaged over 40 million tons in the 1980s, fell to an estimated 20.5 million tons in 1993/94, the lowest in over fifteen years. However, even with the sharp drop in grain imports, the FSU remains among the world's largest grain buyers.

The value of U.S. agricultural exports to the FSU in fiscal 1993/94 is forecast at $1.3 billion, down about 17 percent from fiscal 1992/93, and about 50 percent from fiscal 1991/92. The fiscal 1993/94 forecast would put the value of U.S. agricultural exports (primarily grain and oilseeds) to the FSU at its lowest point since fiscal 1986/87, likely placing the FSU as the seventh largest buyer of U.S. farm products.


New Books


The authors give a detailed portrait of recent sweeping changes in Hungarian industry. Rich statistical material is provided to support performance analysis and policy assessment for the 1980s. The book presents case studies of six Hungarian firms for the period 1989–92, with attention to their business (survival) strategies, based on interviews with managers.

Andrés Solimano, Osvaldo Sunkel, and Mario I. Blejer, eds., Rebuilding Capitalism: Alternative Roads after So-
The postsocialist transitions in the East, and the abandonment of state-led development (dirigisme) in the South, constitute one of the most important global phenomena to unfold at the end of this century. "The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized, and controlled interventionism," observed Karl Polanyi in 1944. Mark Twain's aphorism, "Nothing so needs reforming as other people's habits," is also relevant to these developments. Both epigrams hint at the controversies that surround the "rebuilding" of capitalism in countries that once destroyed private entrepreneurship. The volume examines the topic from several perspectives, looking at a broad cross-section of transition experiences. Specifically, the authors deal with five major topics:

1. Initial macroeconomic and structural conditions in postsocialist economies.
2. Principal reform strategies.
3. Role of the state vis-à-vis the market.
4. Social costs and political economy considerations.
5. Economic response to reform (indicators, such as inflation, growth, wages, unemployment, and so on).


Eighteen authors, all prominent scholars, provide an overview of the activity of the former Hungarian government and assess—in the genre of social reporting—its impact on society.

They discuss various issues such as the problems related to public finances, the relationship between the government and economic advocacy organizations, the impact of government policy on the educational system, the media, the cultural institutions, and social and welfare conditions.

Newsletters


To order: Elizabeth Burkard, Project on Economic Reform in Ukraine, Kennedy School of Government, 79 JFK Street, Cambridge, Massachusetts 02138, tel. (617) 496-8816, fax (617) 493-1635.

The Ukrainian Legal and Economic Bulletin, a monthly compendium of current legal, government, and economic information regarding Ukraine, for government, business, and international organizations.


From the Budapest monthly, Hungarian Economy
Bibliography of Selected Articles

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