World Bank Efforts in Bosnia—Conflict-Solving Through Reconstruction

World Bank involvement in the reconstruction of Bosnia has been significantly stepped up since the December donor meeting in Brussels agreed to mobilize a $500 million aid package in war-torn Bosnia over the first quarter of 1996. This is to be followed by a longer-term, $5 billion program. The Bank recently opened a field office in Sarajevo, headed by Director Rory O'Sullivan. World Bank delegations to the Bosnian capital are arriving in rapid succession to assess damages and design reconstruction programs. Central and East Europe Department Division Chief Michel Noel, who is directly involved in the Bosnia reconstruction efforts, spoke to Transition editor Richard Hirschler about the latest developments.

Q. You were in Sarajevo for the first time last December, as head of a World Bank mission there. What were your most vivid impressions?

A. When we started our fieldwork last December, it was before the arrival of the IFOR groups. The truce was still extremely fragile, tensions were high, and exchanges of fire across the front lines in Sarajevo were a daily routine. But even in these circumstances we saw the incredible determination of our Bosnian partners to rebuild the country. They are literally working day and night, notwithstanding that almost all are just emerging from personal tragedies, loss of family members, children, mothers. On top of that they live in very hard

What's inside ...

Sarajevo—A Close-up. Transition editor Richard Hirschler recently visited the tormented city. (page 4)

Wage Convergence to Western Levels: How Soon? The transition economies need rapid—in many instances double digit—growth to catch up with the comparators' income level, warn Brian Pinto and Uma Ramakrishnan. (page 6)

Accelerating Labor Market Changes in Slovenia—Overall Lessons. Encourage reallocation of labor and spread the costs equitably among the population, suggests the author, Milan Vodopivec. (page 8)


Quotation of the Month: "The Hungarian Public Must Be Better Informed About the Available Options." World Bank's Roberto Rocha clarifies the various misinterpretations of the pension reform proposals. (page 14)

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conditions. When we returned, the entire team felt an unshakable commitment to give them our very best.

Q. What are the major new developments in the World Bank's assistance program?

A. The Bank decided to help Bosnia before it becomes a member of the World Bank Group. In this first phase of support, we set up a Bosnia Reconstruction Trust Fund—to channel a $125 million concessional loan under IDA terms (no interest, thirty-five to forty years' maturity with a ten-year grace period) and $25 million in grant money. The fund will be managed by the IDA and financed from the profits of the IBRD. This $150 million will be the World Bank's share out of a total of about $520 million, pledged during the Brussels donor meeting on December 20-21. Over the next three months the money will be committed to the most urgent reconstruction needs, and disbursed in twelve to eighteen months.

Q. Can you detail these needs?

A. In this first phase we have prepared a $160 million emergency recovery project to which the trust fund for the reconstruction of Bosnia contributes $45 million. The project had been approved by the Board of Directors on February 29, and its implementation has already begun. It has four components:

- Financing of emergency imports, to provide food, medicine, and indispensable spare parts and equipment.
- Credits to enterprises through local banks and local NGOs, to jump-start production and get people back to work.
- Assistance to key government institutions, to help them resume operation (provision of equipment and tolerable working conditions) and rehabilitate their education and health systems.
- Provision of minimum income support for the most disadvantaged through setting up a social fund.

The emergency recovery project will be followed by a series of sectoral projects, also on an emergency basis. These will include rehabilitation of the gas, power, and heating supply, repair of the shattered water distribution networks, reconstruction of the transport grid, restoration of waste management, removal of mines, and revitalization of agriculture.

More specifically, on March 28, the Board of Directors will discuss Trans- portation, Water and Sewerage, and Farm Reconstruction projects, having a total cost of $250 million. In April another three projects will be brought to the Board: district heating, rehabilitation of war victims, and educational development. The total cost of these investments will come to another $150 million.

Q. And what about the second phase of support?

A. It will start once Bosnia becomes a member of the World Bank Group, and clears its arrears. The country has inherited some $500 million of debt arrears from the former Yugoslavia. Since the Bosnian government accepted the plan to clear the arrears which was proposed by the Board of Governors, membership became imminent. As a member, Bosnia will be able to settle its debt and then the Bank can move into a full-fledged multibillion dollar reconstruction program. It would include both policy-based operations to support the economic transformation, and reconstruction projects in all sectors of the economy. At first we could provide concessional IDA credits, but as the economy picks up, Bosnia could very quickly qualify for World Bank lending. Before the war, per capita GDP in Bosnia was $2,000, four times as high as at present. The average level of skill and education is high in Bosnia. Therefore, once internal conditions stabilize, a significant economic rebound could be in the cards. Right now, the major challenge is to ensure the safe and free movement of people and goods within the country.

Q. Thus, the first phase of the Bank's program is dominated by the requirements of reconstruction and the second stage is policy-oriented?

A. In the first phase we are launching a series of emergency projects, but we have also started discussions on privatization of banks and enterprises. The second phase will start with the proposed structural adjustment credit which will focus on public finance reform as well as bank and enterprise restructuring.

Q. All this requires lots of money. Priority reconstruction needs under the program are estimated at $5.1 billion over the next three to four years, and commitments of $1.8 billion are needed for the first year. The Bank not only cosponsors the aid efforts and acts as economic consultant to the Bosnian government, but also tries to coordinate the efforts and ambitions of the international donors. With how much success?

A. The pledges made in Brussels are currently being translated into actual
commitments for the specific emergency projects. The next donor meeting in Brussels in mid-April, will require all the coordinated efforts of the EU and the World Bank to generate longer-term commitments from the international donors. In particular, we will seek firm pledges amounting to $1.2 billion for the remainder of 1996. Meanwhile, in Bosnia—"on the ground"—things are moving ahead. A number of sectoral task forces are being formed, to be chaired by a donor with comparative advantage. For example, in telecommunications the EBRD would delegate the chairperson, in bank and enterprise restructuring, the World Bank. Rory O'Sullivan, our Resident Representative, is chairing the task force that will coordinate the countrywide reconstruction efforts.

Q. Taking into account the complex political structure of Bosnia-Herzegovina, the Bank has to deal with a number of government bodies. Will this complicate the aid process?

A. Institution-building has just begun, and for the time being there are quite a few uncertainties. We are dealing with four levels of government, depending on the kind of support we want to provide. The Bosnia-Herzegovina Government, the top executive body, is establishing key state institutions, such as the central bank, the state's ministry of finance, and the ministry of foreign affairs. We will help with these efforts and, besides, will support improvements in budget planning and management and in customs and tax administration. At the next level, the separate governments of the Croat-Bosnian Federation and the Serb Entity will have their own branch ministries, responsible for specific sectors. Consequently, these will be our partners for delivering our sector projects in the respected areas.

At the third level, within the federation, ten cantons have to be set up as regional subdivisions by the end of March 1996, as specified in the Dayton agreement. At this point only three cantons are operational. The cantons will play a key role in delivering World Bank services, including social services. The fourth level are the municipalities.

Q. How can the Bank avoid dealing with indicted war criminals during these operations?

A. The Bank only works with internationally recognized governments and of course we do not deal with indicted war criminals. It does not mean that we cannot approach local authorities anywhere in the country to set up practical projects to meet basic needs of the poor. But our contacts with various agencies and groups in the country are closely coordinated with Carl Bildt, UN High Representative for Bosnia. He is a key person as he received a mandate under the Dayton peace agreement to shape the political framework for the contact between the country's various entities and international organizations.

Q. Still, the big question remains: How can the international community, and the World Bank in particular, prevail over the deep-seated animosity and mistrust among the Serbs, Muslims, and Croats?

A. Building the federation is proving to be very difficult. A goal full of risks. Constant efforts are required to stay on course. If the various entities get actively involved in the reconstruction efforts, it will substantially reduce tensions and restore mutual confidence between the communities. Reconstruction money is an important policy tool. We hope that shifting people's attention from conflict and repression toward reconstruction and economic recovery will bring the parties together. This could be the World Bank's most important contribution to peace and prosperity in Bosnia.

"The Whole Country Is Just One Big Opportunity"

"I don't think there has been anything quite like this since the reconstruction of Germany after the Second World War," said Kevin Mannion, a senior official with the International Management Group, a nonprofit organization financed by the EU that is a principal consultant to the World Bank for the reconstruction of Bosnia. Meanwhile, the Washington Post reports that a growing number of executives, Bosnia looks a lot like a cash cow, and many are eager to start milking it. Billions of dollars in aid have been pledged to Bosnia from various sources, and to scores of U.S. companies the country's shellhole-strewn highways and bombed-out buildings represent a chance that a few snipers aren't going to ruin.

"The whole country is just one big opportunity," a representative from Bosnia's Chamber of Commerce is quoted as saying at a Washington seminar this week on business opportunities in the reconstruction of Bosnia. The seminar drew more than 200 business executives representing telecommunications companies, and engineering and transportation firms. A trade company, CMMA International, has begun publishing the Bosnia Reconstruction Newsletter, a collection of facts about the extent of damage in the country and hints about where future aid money might come from.

The World Bank and the EU propose spending $5.1 billion over three to four years on such programs as schools, health clinics, agriculture, manufacturing, essential services (for example, rebuilding and maintaining power plants and lines), and mine clearing. The Bosnian government has a list of some 700 projects to be tackled and the World Bank has worked up a budget that goes into meticulous detail, including $7.4 million for ninety dump trucks and $500,000 for one lot of street lights. Officials acknowledge that this is just the beginning.
Sarajevo—A Close Up
Impressions from a Tormented City

"Welcome to Hell"—that is how visitors were greeted only a few months ago upon arriving in Sarajevo. Have things really changed?—this concerned traveler wondered, setting foot on the patchy tarmac at the international airport. I joined the World Bank's "macro team," which visited the Bosnian capital in late February to make final arrangements before transfer of the first big credit package, the $160 million emergency recovery project, and to prepare the Bank's new structural adjustment credit. With the lack of commercial flights, the World Bank team, like the uniformed IFOR troops, was at the mercy of the whimsical service provided by "Maybe Airline," the makeshift air-shuttle that flies military planes between Sarajevo and Zagreb. This late February afternoon the airport and the city seemed quiet and peaceful, and only the massive piles of sandbags around the devastated terminal reminded us of the siege that paralyzed Sarajevo for three-and-a-half years. As we left the airport, we passed an unending convoy of Serbs fleeing the surrounding suburbs. They were leaving behind gutted homes, communal buildings, factories—and the illusion that Sarajevo can become a multiethnic city in a multiethnic state.

Journey Downtown

The road downtown is lined with endless rows of high-rise apartments, riddled with bullets and antiaircraft shells, still hidden behind protective barricades of mounded containers, concrete slabs, anything that could shield the residents. Crowds of people stood outside, pale, exhausted survivors of a blockade that cost at least 10,000 lives. About 2,000 children died during the long siege and bombardment.

We reached our destination, the Holiday Inn, only to find that much of it lay in ruins. Snipers from the surrounding hills did not spare the hotel—it stood too close to commercial buildings, and besides, it symbolized normal life. The assailants' grenades and bullets rained down on Sarajevo, with terrible effect, gutting the national library, burning the post office, destroying fifty of the city's sixty-five trams. The windows of the hotel, as in almost every building in the city, are covered with plastic. (Glaziers can make a fortune these days.) Nevertheless, for hoteliers it's a seller's market: Holiday Inn can charge 300 deutsche marks a night. (Everything is measured in marks—the dollar is less welcome. The planned currency board will base its operations on deutsche mark reserves.) But, the hotel at least can provide running water, uninterrupted electricity, and heating, amenities that should be appreciated. For city residents, water and gas are still supplied every other day, and electricity consumption is erratic, besides being limited to six kilowatt hours per household per day.

But Sarajevans are not complaining. Anything is better than the past three-and-a-half years, when families fought to survive, eating weeds to get badly needed vitamins; burning shoes, clothes, anything, to get some heat and bake the daily bread. Somehow, many Sarajevan households did survive, and miraculously, so did quite a few factories in the city. The S.C. Factory for Footwear and Gallantry, located right downtown, continued to produce shoes during the worst period of the siege. They smuggled raw hide into Sarajevo through the "tunnel"—the narrow—almost one kilometer long—underground shaft. This sole link with the outside world ran under the airport's runway and skirted enemy lines. It was used mainly at night to bring in food, medicine, and people who came to provide help. (Young professionals invited to attend training in the West also left and returned through the tunnel.) The factory could not send the shoes out of the city and so they stocked some of them, and distributed others to the population, through financing provided by various aid agencies.

The Shoe Factory's Woes

The plant's half-empty assembly halls are reminders that despite huge demand, even good companies are unable to jumpstart production, as the country's economy is still paralyzed, and the danger of moving goods, or of traveling across the country, is still considerable. The factory's well-trained, prewar workforce of 650 has been reduced to 250. Those who have not been laid off are receiving, on average, about DM 100 a month, with another DM
100 paid in kind. The director claims that the factory also provides some social benefits, including the cheap cafeteria lunch, worth another DM 100 a month. On the other hand, it cannot give any assistance to those who have lost their jobs. (To put the factory's salaries in some context, the monthly state pension is often worth no more than ten to twelve marks). Still, the factory's management did not give up during the war and it is not giving up now; it is looking for new opportunities and for foreign investors, and it is ready for privatization.

"It's the guys with the checkbooks, the bulldozers, and the cranes who are going to make the major difference in this peace process," explained NATO Commander Smith, a belief that is shared by the media in Sarajevo. They urge disbursement of international assistance as soon as possible. The economy needs to be given a boost, warns Ibrahim Polmac of the daily Oslobodjenje. At present only 8 percent of the federation's economic capacity is used. Almost everything is supplied from abroad; industry is paralyzed, and thirsty for cash. In the next twelve to fifteen months the federation will need an estimated $1.2-1.5 billion, mostly to invest in equipment and create jobs. In Bosnia-Herzegovina 650,000 people are unemployed; only 210,000 have kept their jobs. In the capital alone, the number of jobless has reached 190,000. Within weeks about 200,000 soldiers will be demobilized, adding another burden to the job market. The social consequences could be serious, including the possibility of a surge in crime across the country. (Before the war, 1.1 million were employed, and 350,000 unemployed.) Mr Polmac views the World Bank as a major player that could provide leadership in orchestrating the international aid efforts. But there is not much time left to bring in the first contingents of support.

Despite the early success of the IMF and the World Bank in starting a dialogue with the Serbian entity (Republica Srpska), many issues have still not been clarified. Their leadership is still almost completely isolated from the Federation (some railway lines and utility services will be restored according to the latest agreement between the Croat, Muslim and Serb officials). Once the central and local government agencies do become operative, the pressing task of reconstructing the war-ravaged economy will be a serious challenge in itself. In addition, longer-term, structural reforms—including support of the private sector, developing the legal framework of a market-oriented economy, and the reform of the pension system—are required to achieve balanced and continuous economic growth [see the interview with Michel Noel].

The material damage in Sarajevo is tremendous. But the damage to the souls of its people is immeasurable. If uncontrollable nationalist sentiments cannot be reined in, there is no hope for the multiethnic state of Bosnia-Herzegovina, warns Adil Kulenovic, director and editor-in-chief of the independent 99 Radio and TV. With a small team of just a dozen people, Kulenovic tries to appeal to the reason and the sense of solidarity of Serbs, Bosnian Muslims, and Croats. Let us hope that he will succeed.

Only a few days have passed but I feel I am leaving my heart in Sarajevo. "Maybe Airline" delays my departure a few hours. In a small shed at the airport a bunch of soldiers patiently wait for announcement of the flight. Then, a huge explosion, and black smoke spreads across the sky. "That was close!"—shouts a veteran American war reporter. Two more explosions follow—ever closer. The soldiers are nervous. Then someone brings the news: a major mine-clearing operation is under way. The plane slowly lifts into the air—and we leave Sarajevo behind. Peace still has a chance. Let's cross our fingers—and accelerate the disbursement.

Richard Hirschler
Wage Convergence to Western Levels: How Soon?
by Brian Pinto and Uma Ramakrishnan

What are the major factors luring foreign investors to Central and Eastern Europe (CEE)? Market orientation, potential access to the former Comecon countries, friendly or at least not hostile public attitudes, and solid legal, regulatory, and tax frameworks are frequently cited in surveys. Strangely, the low labor costs in this region, which are a fraction of those in the West, are hardly mentioned. Nonetheless, wage costs play a major role in investment decisions, especially if capital is being put into labor-intensive industries. There can be no doubt that businesses investing in Central and Eastern Europe will compare unit labor costs (wage costs scaled by labor productivity) with Western levels.

Whether wages in the transition economies will converge to West European levels, and if so, when, is of major concern to the general public as well, since wages are important indicators of economic well-being. Wage levels, measured in dollar terms, are currently so low in these economies—less than $100 a month in some cases, and rarely exceeding $350 a month that they are bound to rise, partly as a result of adjustments in prices to international levels and partly because of higher productivity, as companies restructure and adopt more efficient technologies.

We updated an exercise originally outlined by Richard Baldwin in his study: "Towards an Integrated Europe," CEPR (1994), to find out when the transition countries will reach per capita income levels equal to those in Western Europe—or, put another way, what growth rates will be required for these countries to catch up to the West. The results of this "back-of-the-envelope calculations," with several caveats, are reported here.

Using 1989 income levels as a basis, Baldwin computed the growth rates required for various transition countries to reach the per capita income levels (in dollars) of selected Western comparators by 2010. Income levels in the comparators were assumed to grow at 2 percent a year. Baldwin calculated rates required for the Czech Republic, Estonia, Hungary, Latvia, Slovakia and Lithuania to catch up with Spain; for Slovenia to catch up with higher-income Austria; and for the remaining countries to catch up with average per capita incomes in Greece, Ireland, and Portugal (the three EU countries with the lowest incomes in 1989).

We updated this exercise using 1993 dollar-per-capita GDP (International Financial Statistics) and calculated the break-even growth rates for convergence by 2010, assuming once again that the comparators grow at 2 percent a year (table 1). Invariably, the updated calculations of required growth rates are substantially higher than Baldwin's projections. For example, based on 1993 numbers, Albania must grow at 21.7 percent a year to catch up with Greece, Ireland, and Portugal by 2010 compared with the 11.1 percent calculated earlier; Poland must grow at 8.9 percent a year rather than the 4.4 percent calculated by Baldwin; and Russia must grow at 8.6 percent a year versus the 3.2 percent in Baldwin's exercise. Likewise, Hungary, which in Baldwin's 1989-based scenario had to grow by 4.8 percent to catch up with Spain by 2010, must grow at 9.8 percent based on 1993 numbers.

Table 1. Income Catch-up by 2010: Implied Growth Rates for Transition Economies (percent per year)

<table>
<thead>
<tr>
<th>Countries catching up with:</th>
<th>Required growth rate (percent per year)</th>
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<tbody>
<tr>
<td>European Union members5</td>
<td>Baldwin AuthorsDifference</td>
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<tr>
<td></td>
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<tr>
<td>Albania</td>
<td>11.1</td>
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<tr>
<td>Belarus</td>
<td>3.1</td>
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<tr>
<td>Bulgaria</td>
<td>3.3</td>
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<tr>
<td>Moldova</td>
<td>5.3</td>
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<tr>
<td>Poland</td>
<td>4.4</td>
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<tr>
<td>Romania</td>
<td>5.8</td>
</tr>
<tr>
<td>Russia</td>
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<td>Ukraine</td>
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<td>Czech R</td>
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<tr>
<td>Estonia</td>
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<td>Hungary</td>
<td>4.8</td>
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<td>Latvia</td>
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<tr>
<td>Lithuania</td>
<td>5.0</td>
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<tr>
<td>Slovakia</td>
<td>4.1</td>
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<tr>
<td>Slovenia</td>
<td>3.0</td>
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</tbody>
</table>

Note: Baldwin's calculations are based on 1989 per capita income levels, the authors' on 1993 levels.

a. Catching up with Greece, Ireland, and Portugal.
b. Catching up with Spain.
c. Catching up with Austria.
Source: the authors.

We also calculated the implied break-even growth rates if the reported 1993 per capita incomes of the transition economies are bumped up by 25 percent to account for the informal sector and underground economy. As table 2 shows, this does not appreciably reduce the required growth rates.

The year 1989 may not have been the best choice for a base year since in the transition economies official exchange rates were probably heavily overvalued and output values overstated. Still, Baldwin's computed required growth rates, which would have to be sustained for a twenty-year period, are significant. And the recalculated numbers...
based on 1993 income levels are significantly higher.

Table 2. Income Catch-up by 2010: Implied Growth Rates for Transition Economies, Using Actual and Enhanced Per Capita Income Levels for 1993 (percent per year)

<table>
<thead>
<tr>
<th>Countries catching up with European Union members</th>
<th>Actual</th>
<th>Enhanced</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania*</td>
<td>21.7</td>
<td>20.1</td>
<td>1.6</td>
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<tr>
<td>Belarus*</td>
<td>7.4</td>
<td>6.0</td>
<td>1.4</td>
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<tr>
<td>Bulgaria*</td>
<td>13.2</td>
<td>11.7</td>
<td>1.5</td>
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<tr>
<td>Moldova*</td>
<td>13.1</td>
<td>11.6</td>
<td>1.5</td>
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<tr>
<td>Poland*</td>
<td>8.9</td>
<td>7.5</td>
<td>1.4</td>
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<tr>
<td>Romania*</td>
<td>13.6</td>
<td>12.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Russia*</td>
<td>8.6</td>
<td>7.2</td>
<td>1.4</td>
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<tr>
<td>Ukraine</td>
<td>9.9</td>
<td>8.5</td>
<td>1.4</td>
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<tr>
<td>Czech R.*</td>
<td>10.7</td>
<td>9.3</td>
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</tr>
<tr>
<td>Estonia*</td>
<td>17.3</td>
<td>15.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Hungary*</td>
<td>9.8</td>
<td>8.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Latvia*</td>
<td>13.4</td>
<td>11.9</td>
<td>1.5</td>
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<tr>
<td>Lithuania*</td>
<td>16.3</td>
<td>14.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Slovenia*</td>
<td>13.2</td>
<td>11.7</td>
<td>1.5</td>
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<td>Source: the authors.</td>
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Is this cause for pessimism? No. One significant factor absent in the above calculations is that once stabilization and initial structural reforms are implemented and growth resumes, CEE currencies will likely appreciate against the dollar (in real terms).

Baldwin's numbers equate real GDP growth with dollar GDP growth. For example: In Poland, GDP growth in dollars equals real GDP growth plus real appreciation of the zloty against the dollar plus dollar inflation. If the zloty appreciates in real terms against the dollar, then the growth rate of dollar GDP will be higher than real GDP growth. Real GDP growth in Poland for 1995 is estimated at 7 percent. If one adds a 10 percent real appreciation of the zloty, against the dollar in 1995, and about 3 percent inflation in the United States, Poland's GDP growth rate in nominal dollar terms could be about 20 percent for 1995.

Thus, dollar GDP growth rates could diverge considerably from Baldwin's calculations, which implicitly assume that the currencies of Greece, Ireland, and Portugal will have the same real appreciation against the dollar as the CEE currencies. Assuming a link between dollar GDP growth and wage growth, dollar wages could converge much faster than is assumed in the calculations reflected in the tables—if the real appreciation paths are different.

Of course, capital and technology are the major factors affecting how quickly Central and East European wages catch up with the West. Therefore, creation of a favorable business climate is the key to attracting foreign direct investment, which will in turn foster capital accumulation and technology development in these countries. Experience proves that this requires stabilization, privatization, and implementation of other market-based reforms, underpinned by a modern legal and regulatory system.

Policymakers' Nightmare

1. From the Hungarian Economy
Accelerating Labor Market Changes in Slovenia—Overall Lessons
by Milan Vodopivec

Slovenia’s reforms during transition shattered job security, replaced the previous, rigid system of wage determination with collective bargaining, and strengthened financial discipline that squeezed subsidies for ailing enterprises. The disruption of a previously stable economic system caused major dislocations of workers as well as alterations in the patterns of job mobility and changes in returns to education, experience, and gender.

Slovenia’s labor market before transition shared key features with labor markets in other formerly socialist economies, most notably, social ownership, full employment coupled with substantial hidden unemployment, and a designedly egalitarian wage structure. Slovenia introduced labor market reforms similar to those adopted by other European transition economies—and experienced similar dislocations.

Recent World Bank research examined the dynamics of the Slovenian labor market during transition. The main findings, many of which can be generalized to other transition economies, are as follows:

• The relative advantage enjoyed by highly educated workers has increased. Better-educated workers have retained, more than others, the ability to switch jobs, and they are less likely to be laid off. If unemployed, they have a better chance of finding a job. Their wages grew relative to those of less-educated workers.
• Both young workers and old workers have been disproportionately affected. Young workers have been frozen out of jobs; old workers who enter unemployment face a lower probability of finding a job.
• Women have gained relative to men in both wages and employment. And their chances of being discharged are no worse than they are for men. These gains are attributed more to the fact that women dominate such sectors as financial services—which have been expanded or at least cut less than the average during transition—and less to decreased discrimination toward women.
• Ethnic minorities in Slovenia have faced increased labor market difficulties. Their chances of being laid off are higher, and the probability of their finding a job if unemployed is lower, than for the average Slovenian.
• Wage differentials have increased within skill groups, between skill groups, within groups with identical industry and human capital characteristics, and across firms within an industry.
• Displacement in Slovenia during 1990-93, which amounted to 3 to 4 percent of the labor force each year, exceeded displacement during the recession in the early 1980s in North America. There are striking similarities between the two economic crises in the incidence of displacement by gender, and by industry, as well as in reemployment paths.
• Workers have tried to avoid displacement both by switching to another job and by leaving their job voluntarily. Before becoming displaced, workers have taken a cut in wages.
• Smaller and less profitable firms have been more likely to displace workers. In companies that have received restructuring subsidies to lower layoff costs, both firm- and worker-initiated job quits have increased.
• About half of displaced workers who reenter employment do so in a new occupation.
• Only about one-third of workers displaced during 1990 had found a job by the end of 1991. More than two-thirds of these received a wage increase that exceeded the median 17 percent wage growth in the economy. The rest of the unemployed have had to wait much longer and to be satisfied with much lower reemployment wages.
• Encouraging early retirement has proved costly for Slovenia, both in lost production and in pension obligations that drain the GDP.
• The retirements did not make room for young workers. The proportion of the least-experienced in the workforce fell, while the proportion of those close to pension age increased.
• Slovenian unemployment insurance created perverse incentives for employment: many recipients of unemployment compensation waited until their benefits were about to expire before taking a job.

The lessons of Slovenia’s labor market transition may be applied in other transition economies. Labor market policies during transition should facilitate reallocation of labor and spread the costs equitably among the different segments of the population. Recommendations for achieving these goals include:

• Improve workforce skills. The market value of education increased immensely. Thus, all levels of education should be further improved, while preserving wide access to learning. Special programs, such as targeted assistance for school dropouts, should be introduced. The educational system—particularly vocational schools—should provide skills for careers, rather than professions. Education should produce
a flexible workforce, capable of frequent job changes.

- **Eliminate subsidies for early retirement.** Early retirement was found to be counterproductive, and it did not prevent unemployment. Therefore, subsidies for early retirement should be eliminated, and benefits reduced.

- **Subsidize low-wage employment.** Transition has increased wage inequality and brought rising returns to education. By contributing to both higher pay and employment, a subsidy to low-wage workers might help check excessive income inequalities. The subsidy could be implemented by exempting employees on an amount equivalent, say, to the minimum wage for each worker.

- **Prevent workplace discrimination.** Governments should monitor workplaces for instances of discrimination against ethnic minorities and, if it is found, should act to prevent it.

- **Streamline unemployment insurance.** Current unemployment insurance in Slovenia is too generous, creating perverse incentives. The government should redesign the system through better targeting: reduce the benefits corresponding to earnings from irregular work, make the threat of losing unemployment compensation more credible, improve monitoring of job searches, and exclude the self-employed from the unemployment insurance program. In addition, the government should consider introducing a "benefit transfer program"—a voluntary program that converts unemployment insurance benefits, via vouchers, into hiring subsidies. In Slovenia, and in other transition economies, such a program would improve incentives to take a job, and at the same time, offer fiscal savings over the present system.

Milan Vodopivec
Advisor to Slovenian’s Ministry of Labor

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**Slovenia: Success Story without Structural Changes?**

Slovenia has been one of the best-performing transition economies, despite the fact that privatization has proceeded relatively slowly. GDP growth is estimated at around 5.0 percent for 1995 (compared with 5.5 percent in 1994) and is forecast to reach 4.5 percent in 1996. The tolar remains one of the strongest currencies in Europe. The unemployment rate hovers around 13 to 14 percent (although it is placed at only about 7.5 percent using the ILO method). And with inflation running at just 10 percent a year, Slovenia remains among the most successful of transition countries.

Privatization in Slovenia has been sluggish. Two hundred thirty of the country’s 300 largest companies are still not privatized. Of the 1,300 "socially owned" companies—that is, companies that are self-managed, owned by the workers’ collectives and not by the state—that submitted plans for privatization or restructuring to the Slovenian Privatization Agency, only about 300 programs have been approved. Mass privatization is progressing, but slowly. Slovenian citizens have all received free ownership coupons. They can bid for shares in public auctions, deposit the coupons in investment funds, or redeem them in employee buyouts. Public interest is high, but uncertainties persist regarding ownership, and the stock exchange is still small. In mid-1995 total capitalization of the forty-five companies listed on the Ljubljana stock exchange was less than $250 million. Nonetheless, by the end of 1996 only a handful of industries—the postal service, steel, and a few other strategic sectors—should remain unprivatized.

The Slovenian Agency for Settlements, Inspection, and Information in 1994 conducted a detailed survey of the 300 largest Slovenian companies, amplified by further surveys of the top 500 private companies. Survey results show that for all the continued dominance of socialized capital among the big companies, only five of the top ten firms in 1993 (by sales) survived into 1994’s top ten. Although in 1993 the top firm by sales was Petrol Trgovina (oil), and by profits Maribor Electricity, in 1994 carmaker Revoz Novo Mesto (in partnership with Renault) led in sales, and Lek Ljubljana, a privately owned pharmaceutical company, in profits.

Revoz and Lek were also leading exporters, but Slovenian Railways and the Slovenian Post and Telecommunications continued to occupy the top two places as the largest employers. There is thus a clear trend for the “big systems” inherited from the communist period to give way to export-oriented manufacturing in terms of sales and efficiency. However, the big systems still dominate employment because of continued overmanning, with the more dynamic companies showing a leaner employment profile. (A recent employment survey, however, indicates a shift in the employment picture: although employment in August 1995 relative to August 1994 increased by 12 percent in the small-scale, private sector, and by 2 percent in government jobs, it declined by 3 percent in the large, socially owned enterprises.

The private sector accounts for 25 percent of total sales in the Slovenian economy. The top 500 firms account for 10 percent, and the other 27,000 for 15 percent. But even the top 500 employ only nineteen workers each on average. Lek, with 2,108 workers, stands out as a genuinely big operator in the private sector. Though not a great absorber of labor, it is a major vehicle of productivity increases, with average output per worker increasing from DM 344,000 in 1992 to DM 390,000 in 1994.

Some conclusions can be drawn from these surveys:

- The new private sector has taken the lead in productivity growth.
- Several industrial giants of the communist past have managed to restructure, in some cases with privatization, in other cases with continued socialized ownership. Some of these socialized enterprises were able to pursue dynamic business policies; others, in sectors such as heavy manufacturing and mining, could not restructure fast enough to eliminate large financial losses.
- Sustained GDP growth in Slovenia into the next century will depend on sustained productivity growth. While the new private sector will make a substantial contribution here, the pressures for productivity growth in the big enterprises will have to be increased.
Books of the Month

John Eatwell, Michael Ellman, Mats Karlsson, Mario Nuti, and Judith Shapiro, "Transformation and Integration: Shaping the Future of Central and Eastern Europe" by Martin Schrenk

The first paragraph of this slender essay defines its purpose: "to help in the formulation of public policy that can lead to modern, socially just and environmentally sustainable market economies, and to full integration of the nations of Europe." Jointauthorship without identifying anybody's individual contribution is a rare format these days. The implied message seems clear: the authors, connected by a distinguished and distinctly left-of-center academic background, want to be perceived as one united group. They convey a message that is not theirs alone, but that of the European Forum for Democracy and Solidarity, a joint initiative of European parties and organizations that share "social democratic values." But this has its price: parts of the essay look as if they have been written or edited heavily by a committee, in order to accommodate a wide spectrum of views.

The essay introduces a political dimension into a debate that has been guided—researchers prefer to think—by economic arguments. But scholars, across a wide intellectual spectrum, increasingly accept the idea that system transformation falls squarely into the domain of political economy rather than being part of technical economics, a neutral science. (The seemingly technical propositions of neoliberal economists to shrink government and to strengthen market forces in fact support profoundly political agendas, even if implicitly.) From this vantage point the unabashed political stance of this essay is refreshingly honest.

Browsing through the extensive list of the authors' recommendations—sixty-three outright proposals at the close of the chapters and many others scattered throughout the study—it becomes obvious that their view is not that distant from the advocates of the neoliberal position. Faithful to the West European social democratic position that ranges from the concepts of social market economy to social state or welfare state, the essay embraces the commitment to create competitive, capitalist market economies in the former command systems. The authors take the ongoing stabilization and liberalization programs in the transition economies as facts of life, ignore the debate over shock therapy versus gradualism, and concentrate instead on the next steps.

Activist State?

They urge a review of the present approach toward government, a reversal of the open or hidden "state desertion," and adopt instead the idea of an activist, development-oriented state. They argue that successful modernization in all major economies—as historical cases illustrate—required a combination of free enterprise initiative and state intervention. While the institutions of market capitalism are essential for micro-economic efficiency, it is wrong to assume that those institutions are socially equally efficient, capable of delivering full employment, desirable income distribution, and an adequate supply of public and merit goods. Market forces alone cannot create the conditions for equal participation in a democratic civil society.

And lack of social efficiency in this broad sense will sooner or later result in a loss of economic efficiency. The authors thus conclude that in the long run there is no conflict between the principles of efficiency and equity.

Without a competent, dedicated, and honest public administration a development-oriented state cannot function. The most important task in transition is therefore to create a meritocratic civil service, able and willing to implement the policy of the state in an efficient and impartial manner. But civil servants have to be paid well in order to avoid corruption or a flight of talented professionals to the private sector.

Collection of taxes and customs duties are of critical importance; and the "grey" sector needs to be integrated into the fiscal system as fast as possible, to keep tax rates within reasonable limits and to counteract pervasive tax-evasion practices. Technical assistance for improving public administration ought to be a major area of external assistance to transition countries. This area has been neglected because of the free-market enthusiasm of international aid providers, claim the authors.

Trimming Excesses

They also warn of the danger of fiscal and monetary stabilization policy excesses in transition countries, noting that policymakers expect the kind of positive supply responses that could be anticipated if the economies already had the institutions of market capitalism in place.
But this is not the case. Incentives for jump-starting the economies through new productive investment are insufficient, financial means are scarce, and final demand is low. The result is a "deep depression" far beyond the unavoidable, creative destruction of negative value added activities.

While supporting quick stabilization the authors recommend avoiding policy-induced credit and interest rate shocks, and with them, the collapse of public and private investment. Such collapse, they say, is likely to result from a program that is "anchored to nominal monetary aggregates or high real interest rates." A currency board regime is not considered a desirable solution because of its limitation on policy instruments. Whenever possible, the macroeconomic policy framework should be supported by a tripartite social pact.

Similarly, the authors contend that trade liberalization should not be so excessive as to destroy domestic human and physical capital that could otherwise be upgraded and become competitive. Temporary protection should be employed if unconditional trade liberalization might lead to "a rapid loss of productive capacity, and balance of payments constraints to growth." The essay argues that "the trade policies recommended by the Bretton Woods institutions are at variance" with historical experience. None of the industrial latecomers achieved sustained development and high levels of income without infant-industry protection or other forms of government support with carefully circumscribed phaseout rules. The essay calls for protection of the transition economies from subsidized exports of agricultural products from the EU. And it advises caution with regard to short-term borrowing and foreign investment in financial assets.

Wage flexibility needs to be improved, but rather than promote real wage reduction, as in the neoliberal agenda, the authors advocate flexible rules on work hours, part-time work, copayments to social security from public resources, and targeted wage subsidies to marginal employers. Measures to increase labor mobility should include relocation grants. The authors reject the model that accepts as unavoidable the tradeoff between employment and income equality, as well as the suggestion that minimum wages be eliminated.

Social Recipes

Serious financial constraints squeeze all redistributive social policies, acknowledge the authors. But the loss of the citizens' perspective, in an atmosphere of pervasive economic insecurity, is corrosive both economically and politically, and must be reckoned with. While supporting "solidaristic" social policies, the book questions the perceived tradeoff between economic efficiency and equality, quoting the experience of the "Asian miracle" societies. Those societies started a virtuous cycle of growth from a position of high equality of income, education, and opportunity, in contrast to the crisis-prone Latin American societies.

The essay strongly rejects the notion that action on social policy can wait until the "rising tide [raises] all boats"; neither economic reasoning nor empirical evidence supports the automatic emergence of such a virtuous cycle. But the experience of the Western welfare state has shown that transfers alone cannot resolve all social problems. What is needed, rather, is an adjustment-friendly approach that promotes growth, change, and labor market flexibility. There is little enthusiasm for means-tested transfer payments because of the suspected negative incentive effects, as well as the high administrative costs of effective and honest support systems. On the other hand, a universal child allowance, included in the income tax base, is given a high mark as an antipoverty device.

Privatization of the health system is also rejected. The essay points to the absence of institutional preconditions for effective markets, and to the compara-

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Declining Living Standards

What nice children. One can see that they don't eat too much.

From the Hungarian daily Népszabadság.
tive experience in developed countries (singling out the United States as a particularly deficient case). The authors do not, however, elaborate on a more desirable model for financing and delivery. Similarly, the essay argues against state desertion of vocational training and education and insists that public agencies should play an active role in this key area.

The essay, on the other hand, shares the mainstream consensus on the need for privatization, competition, and restructuring. On corporate governance, the essay points to the experience of the latecomers among the developed countries that managed to catch up despite a lack of strong stock markets or influential groups of active small shareholders.

The authors endorse the adoption of the continental European and the East Asian financial systems, which give a leading role to banks as both controlling owners and primary mobilizers and allocators of outside capital. If the existing banks are not able or willing to take on their appropriate role in investment financing, "investment banks" are to be set up, with active state support if necessary. Non-profit organizations should be accepted as components of a balanced economic structure in a civil society and should receive nondiscriminatory access to financing.

To sum up, the essay does not offer a detailed, in-depth blueprint of its own. Its primary purpose seems to be to sketch a cohesive "vision" of a transition path, an alternative to the neoliberal course. For that purpose—to challenge ideologically charged positions that are on the verge of gelling into an economic doctrine that may be politically unsustainable—a slender volume like this is probably more effective than a tome of arcane discussions of each of the issues. For that reason the essay deserves the attention of a broad audience.


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Daniel Gros and Alfred Steinherr: Winds of Change: Economic Transition in Central and Eastern Europe by Ulrich Zachau

A nyone seeking a good, overall description on the economics of transition in Central and Eastern Europe should read this volume. It has a broad focus, covering the key issues and countries. It offers sound analysis with a dose of technical rigor, yet is fundamentally policy-oriented and eminently readable. Thus, it fills a gap between the plethora of narrowly focused technical papers and the growing number of political economy story books on transition.

The book opens with an overview of the rise and fall of communism. Weaving a dense web between the economic, political, and social elements of Soviet central planning, the authors describe its intrinsic rationale, achievements, and failures, and the growing gap with the West in productivity and consumption. One is left with a profound impression of the inevitability of the system's eventual exhaustion and collapse. Gros and Steinherr outline brilliantly the progression from Krushchev's sand castles through Brezhnev's restoration of the socialist idyll to Gorbachev's failed illusions that reform was possible. They astutely juxtapose the low budget deficits under central planning with the explanation that government and enterprise liabilities are perfect substitutes: the authors note laconically that white elephants became the most prolific Soviet species.

The core of the book (parts II-IV) deals with the relatively indisputable dimensions of reform (price and trade liberalization, stabilization, privatization, and banking reform) and focuses largely on the advanced transition economies (such as eastern Germany and the "Visegrad" countries, although the authors also discuss Russia). But complex and time-consuming institutional reform issues, such as the establishment of a proper legal framework, change in the role and management of government, and reform of the social benefit system, are largely ignored. As a result, the authors' assessments seem a bit overoptimistic. Economic transition, in reality, is more complex, more difficult, more diverse, and more urgent than described in this book.

The volume concludes with a discussion of Central and Eastern Europe's trade with and integration into the European Union. The authors' analysis and con-
conclusions—accession of only the Visegrad countries and Slovenia to the EU in the foreseeable future; inclusion of the entire FSU in a European Free Trade Zone stretching from the Atlantic to the Pacific; and specific estimates of the financial burdens on current EU members—are fascinating, whether one agrees with them or not.

The macroeconomic sections endorse rapid and extensive liberalization and determined stabilization, in line with what is by now part of a mainstream consensus on transition.

The authors' preference for giveaway privatization over sales, buyouts, and other methods is more controversial. It is based on the correct conclusion that speed, fairness, and political support are more important than revenues. But it downplays the difficulty of establishing good corporate governance in the privatized firms. Their proposal—that banks and investment funds can function as intermediaries—may be many years away from being effective in most countries, given the general weakness of banks and capital markets. The empirical record of different privatization schemes is ambiguous, and in real life, political economy factors significantly constrain choices. Comparisons, such as between the Czech, Estonian, and Russian privatization programs, reveal that the practical solutions are usually country-specific.

The authors' recommendations are clear and in most cases, substantiated. Their economic policy prescriptions are market-oriented, and their presentation is balanced and refreshingly eclectic. Sometimes their perspective may seem Continental-European rather than Anglo-Saxon. The financial sector chapter, for example, strongly supports universal banking, arguing that these banks have informational advantages and that they are uniquely endowed to provide enterprise governance. A further argument is the temporary lack of working capital markets. And in fact, most countries have opted for universal banks.

Overall, the book is first-rate, except for the few instances when the authors' idiosyncratic convictions and sometimes overly bright recommendations prevail over common sense. For example, they assert that the exchange rate must be fixed, which ignores half the literature on exchange rates and the successful use of floating rates in Albania, Latvia, and other countries. They also recommend, as second-best solution, dual exchange rates and variable levies on capital transactions, which in practice, as seen in Ukraine, have proved prone to abuse and often been counterproductive.

The authors suggest that governments might usefully maintain minority shares in enterprises to prevent "abuse during the restructuring phase" (forgetting the most likely source of abuse...). They express remorse over the "missed opportunity" of creating an FSU Interstate Bank, which in fact seemed to be politically unrealistic, linked to economically harmful and unsustainable subsidy practices, and was, in hindsight, doomed from the beginning. And then they make the outright dangerous suggestion that only an autocratic regime may be able to impose law and order at low levels of development and high levels of social dissent, and that Russia perhaps falls into this category. The lengthy book cannot avoid a couple of overlaps (fiscal stabilization is discussed in chapters 7, 11, and 14; optimal currency and trade areas are dealt with in chapters 12, 13, and 16).

Nonetheless, the bulk of good analysis, the breadth of perspective, the clarity of presentation, and the ingenuity of some of the insights, phrases, cartoons, and references (to Candide, Fause, Wittgenstein's Tractatus, and so on) justify an unambiguous thumbs-up.


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In Hungary, where some taxes and contributions are among the highest in the world, reform of public finance, and in particular of the pension system, is likely to entail an increasing role of the private sector, said Roberto Rocha, Principal Economist in the World Bank's Budapest office in an interview with the Hungarian daily Nepszava.

Q. Financing the budget has been one of the stickiest issues in recent decades in Hungary. Current pension benefits have been financed from current contribution revenues, without setting up pension funds. But the funds paid in as contributions by three generations are missing....

A. Hungary's pension system developed differently, which is why this money is "missing." The general perception is that pension contributions paid by both employers and employees are too high. Thus, both parties try to reduce them. They do this by assuming a "self-employed" status, or by reporting minimum wage employment in order to reduce the base of the payroll tax. Increasing the tax rate would likely be self-defeating, since this could result in further erosion of the base. The solution is reform that will bring some relief in the perceived tax component of contributions, and that will increase the willingness to contribute.

Q. During the transition to a market economy—while reform of both the budget and the banking sector is unfolding—forcing the public to accept a reform of the social safety net, including the pension system, could bring tremendous instability.

A. Right now, the pension budget shows only a moderate deficit, but in the next decade the system could explode because it is financially inviable. At present the state is fully responsible for guaranteeing the pension benefits; it imposes high contributions and distributes little. The Hungarian society is aging, however, and the burden on the individual is increasing. In an effort to solve these problems, policymakers are changing the system little by little, year by year.

But the people feel that they receive little in return for their contributions, which are perceived as tax. The necessity of reform is recognized, but ideas on how to do it differ.

Q. What does the World Bank propose?

A. We suggest a model based on three pillars, which has functioned well in other countries. The first pillar would be essentially a redistributive pillar, operated by the public sector, which would assure a minimum income during old age. The second pillar would be the benefits de-

Pension Systems in Nutshell

Hungary's present system is a public pay-as-you-go system, in order to finance old age survival and disability pensions which amount to 10 percent of the country's annual GDP, employees are contributing on average more than 1/3 of their wages to fund the system on a year-by-year basis. About 90 percent of public pension expenditures are managed by the public pension fund, the rest by the public health fund which pays out disability pensions. Voluntary private pension funds are relatively small, about 1/4-1/5 of the active population which numbers four million, are participating.

Hungarian reform proposals—supported by the World Bank—aim toward introducing a three pillar system:

1. A limited public pay-as-you-go system will remain in force, based on mandatory contributions, and would concentrate on redistribution and poverty alleviation. In order to reduce contributions and make the public scheme more effective, retirement age should be increased, disability pensions limited, and indexation rules changed.

2. Competing private pension funds would manage mandatory retirement savings of the population. Employees would channel a certain proportion of their pension contribution to these funds.

3. Those who want to receive additional retirement benefits could voluntarily pay extra toward privately managed pension funds.

Over time, employees will receive pensions from both the public pension fund and from their individual retirement account.

The Chilean model is based on mandatory contributions to privately managed pension funds. The state only guarantees a minimum pension; if the savings of an individual at retirement age will not reach that level, the government will provide for the difference. Public involvement in this scheme is incomparable of what the Hungarian reformers want to introduce.
derived from mandatory contributions channeled to private pension funds. For example, 10 percent of gross wages could go to each person's individual retirement account, and would be invested in Hungary by private pension funds. The third pillar would be the benefits derived from voluntary pension contributions. This scheme is balanced, could ensure a nice income at retirement, and could contribute to economic growth as well. It would encourage savings and plough them back into the economy. In the long term it would enable a reduction of payroll and other taxes.

Q. Is a fast transition feasible at all, when neither the society nor the capital market is prepared to handle savings of such magnitude?

A. At least a slow transition is feasible, provided the new entrants to the system, the young, pay contributions according to the new rules, while elderly contributors remain in the old system. The transition could also be accelerated, but this must be done carefully. In this case, people already in the workforce would have the option of staying in the old system or shifting to the new one.

Q. There is increasing opposition to your proposals; some allude to the Chilean model, which has been based on dictatorial political rule over the economy, while others caution against excluding the state from an important role, that is, providing security to the elderly.

A. These reactions are based on misunderstanding. The model that we are suggesting, and that is similar to other proposals drafted in Hungary, would retain an important role for the state and, at the same time, would develop more possibilities for the private sector. Thus, the individual could benefit from this system. The state would continue to provide the first pillar and would also be responsible for regulating and supervising the second and third pillars. Since the second pillar is mandatory, there should be a state guarantee associated with it. I'm aware that the suggested model in Hungary is often compared with the Chilean pension system, but they are different. In Chile the first pillar is missing; thus, the state has been practically excluded from the pension system. Some also argue that we are against the fledgling new private pension funds. That is wrong; on the contrary, we believe that their role should be expanded in the new combined pension model.

The current, rather superficial debate on the pension system is distressing. Information is scarce, but everyone knows that Hungary must face this problem. A grave financial crisis is expected after the turn of the century, and the situation could get out of hand. Therefore, it is imperative that these issues be discussed as widely as possible and that decisions then be made. Certainly this mandate belongs to the society at large, but if it is to make a wise decision, the public must be much better informed about the available options.
Companies in Germany's eastern states received orders worth $380 million in 1994 from developing countries, contracts funded by German development assistance. This constitutes 16.9 percent of all orders, received by German companies, up from 4.1 percent, or $120 million, in 1993. A similar result is expected in 1995, evidence of east German companies' rising competitiveness. Most orders were in transportation, family planning, and nutrition. Of all the industrialized nations, Germany has benefited most from World Bank contracts; it has contributed $542.9 million to the World Bank in paid-in capital since joining, and by 1994 had received $11.6 billion in contracts, a ratio of twenty-one to one. Japan has recorded a 19.8 ratio, the United Kingdom 14.4, France 14.0, and the United States 10.2. If the Bank's IDA is included in the total, Germany's contributions come to $8 billion while the value of its contracts reaches $14.9 billion, putting the country in the middle of the field.

**Bulgaria**'s mass voucher privatization program started on 9 January. One million vouchers have been printed and will be sold in post offices throughout the country. For a registration fee of 500 leva ($7), adults can obtain vouchers with a nominal value of up to 25,000 leva ($354), which can then be exchanged for shares in 1,300 state enterprises totaling about 200 billion leva ($2.8 billion). About half the enterprises are in industry; most of the remainder are in tourism, agriculture, and construction.

**In Romania** the private investment coupon program designed to privatize nearly 4,000 companies is struggling for survival, reports the *Christian Science Monitor*. The program entitles 17 million Romanians to exchange coupons with a face value of about $325 dollars for shares in their choice of companies to be privatized. As of early December, nearly two months after the program started, only 5 percent of coupons had been exchanged. Potential investors have not been adequately informed about the companies that are open for privatization, and only about 15 percent of the companies are viable, points out Romulus Maier, economic editor for *Romania Libera*.

Seventy-five percent of the new political elite in Russia and 61 percent of the new business elite come from the old Soviet nomenklatura, according to a survey carried out by sociologist Olga Kryshantovska, published by *Izvestiya* on 10 January. According to her findings, businesspeople came mostly from the Komsomol, and from economic positions in the old nomenklatura.

Yeltsin's economic adviser Aleksandr Livshits is urging "a more careful" privatization policy. In 1995, Russia's treasury received 3.3 trillion rubles less in privatization revenue than expected. Of the 6 trillion rubles ($1.3 billion) received, some 4.7 trillion rubles (about $1 billion) were generated by twelve loans-for-shares auctions, allowing firms to bid for the right to manage state-owned shares in exchange for loans to the government. But low demand depressed share prices. Anatoly Chubais, the dismissed first deputy prime minister, was blamed for the flawed scheme, which enabled companies closely linked to those being sold to bid in "opaque" auctions.

Russia's 1996 budget, signed into law 31 December, envisions a deficit of 88.6 trillion rubles ($19 billion), or about 3.8 percent of GDP. This is higher than the 1995 deficit, which was 3.5 percent of GDP, but less than 1994's 10.0 percent figure. The budget calls for a reduction in inflation to 1.9 percent a month in 1996. Monthly inflation fell to 3.2 percent in December, down from 17.8 percent in January. Prices rose 131 percent during 1995 as a whole, compared with 215 percent in 1994 and 840 percent in 1993. The cost of the basic monthly consumer basket of nineteen essential goods stood at 235,000 rubles ($52) by the end of December. The cost of the basket ranged from 508,000 rubles in Yakutsk and 300,000 in Murmansk to 132,000 in Ulyanovsk. In Moscow it cost 277,000 rubles. Among the steepest price rises last year were utilities (400 percent) and urban mass transit (220 percent).

An estimated 40 percent of Russian companies and organizations do not pay any taxes, Russian Central Bank First Deputy Chairman Sergei Aleksashenko said on 18 January. This situation could soon lead to a serious budgetary crisis. The 1996 federal budget calls on the State Tax Service to provide 246.9 trillion rubles (about $52 billion) in revenue from taxation and other compulsory payments. According to preliminary results, the tax service raised 146 trillion rubles for the federal budget in 1995. As of 1 December 1995, the total tax debt to the state budget was 33.8 trillion rubles.

The Russian economy slowed again in 1995, but by the smallest amount since reforms began. GDP fell 4 percent, adjusted for inflation, down from a 13 percent drop in 1994, according to the State Statistics Committee. Industrial output fell by 3 percent compared with 1994, totaling 989 trillion rubles ($211.19 billion) in current prices. (Industrial production in 1994 had declined by 23 percent over the previous year.) Production of steel, iron, chemicals, and petrochemicals in 1995 increased by 8 to 9 percent, while production in machine-building, food, and construction materials dropped by 10 percent, 9 per-
cent, and 8 percent, respectively, compared with 1994, Russia's crude oil production fell by 3 percent, coal by 3 percent, natural gas by 2 percent, and electricity by 2 percent. Unemployment rose to 8.2 percent in December 1995, compared with 7.1 percent the previous December. Average real income dropped by 8 percent in 1995, with the richest 10 percent of Russians earning thirteen times more than the poorest 10 percent.

The new ruble corridor went into effect on 1 January. Between now and the end of June the Russian government will intervene to ensure that the ruble stays within the range of $4,550-5,150 rubles to $1. The ruble currently trades at around 4,650 to $1. The previous band, introduced on 5 June 1995, was 4,300-4,900 rubles to $1. (The ruble's value declined 31 percent on the MICEX in 1995, compared with a 185 percent fall in 1994.)

Russia's trade surplus rose to $22.7 billion in 1995 from $14.7 billion in 1994. Foreign trade rose 24 percent in 1995, compared with 1994. The government warned that in order to protect Russian manufacturers, import restrictions may be introduced on industrial machinery, particularly for the oil and gas industry. Boris Yeltsin signed a law allowing foreign oil and gas companies to enter into production-sharing agreements with the government.

Russia can look forward to 310 trillion rubles of investments in 1996, up 4 percent over 1994, with foreign investment expected to double to $2 billion, First Deputy Prime Minister Oleg Sokovets predicts. By 1 November 1995, Russia had received more than $6 billion in foreign investment. In the first nine months of 1995 the inflow of foreign capital was $1.57 billion, a 112 percent increase over the same period in 1994, Finansovye Izvestiya reported on 12 January. The largest flows in 1995 went into trade and catering ($232 million), and financial services ($206 million). Fuel and energy, which in 1994 absorbed about half of all foreign investment, attracted less than 20 percent in 1995.

Only 77 percent of all the energy delivered to Russian consumers in 1995 has been paid for, United Energy System of Russia President Anatolii Dyakov reported. As of 1 January 1996, Russian fuel- and energy-producing companies were owed about 44 trillion rubles ($9.4 billion), a 76 percent increase over the amount owed on 1 January 1995. As a result, the debt owed by energy producers to the budget and to fuel suppliers substantially increased. The debt is now 35 trillion rubles ($7.48 billion), of which 17 trillion is owed to the federal budget and 11 trillion to fuel suppliers.

The dismissal of Russia's Agricultural Minister Aleksandr Nazarchuk came after the release of the final figures for last year's harvest. The grain harvest was 63.5 million metric tons in 1995, 22 percent down from the 81 million metric tons gathered in 1994. Fodder crops also dropped, by 36 percent. The poor harvest was due partly to a severe drought, and partly to the fact that farms were unable to buy adequate supplies of fuel and fertilizer. The Federal Procurement Fund, which supplies the army and major cities, could only purchase 10 percent of the 8.6 million tons of grain it needs. Russia will probably import 3 million tons of grain this spring. Russian grain imports fell from 35 million tons in 1991 to 11 million in 1993 and 3 million in 1994.

Converted Russian defense enterprises are expected to increase their output of civilian goods in 1996. Civilian aircraft production, for example, could expand, as demand has risen for Tupolev-204 planes, Ilyushin-96-300 aircraft, and MI-26 helicopters, according to officials of the Russian Ministry of Economics. Civilian production by the defense industry fell by 38.5 percent in 1994 and 22.0 percent in 1995, largely due to low budget financing and buyer insolvency.

While Russia's GDP fell by 4 percent in 1995, Armenia registered GDP growth of 5 percent. Azerbaijan and Ukraine had the worst performances, with GDP falling in those countries by 17.4 percent and 12.0 percent, respectively, in the January-November 1995 period, according to figures released in late December by the CIS Statistics Committee. Industrial output for the CIS fell by 6.1 percent. Inflation continues to be a problem, with November levels ranging from a low of 2.5 percent in Azerbaijan, to a high of 56.9 percent in Tajikistan. CIS unemployment remains very low, with only 2.9 million people registered as unemployed. The lowest rate is in Uzbekistan (0.3 percent) and the highest in Armenia (8.0 percent).

China's approach to opening its markets to capital investment will be cautious, according to Central Bank Vice-Governor Zhu Xiaohua, interviewed recently in the China Business Times. Shanghai will be China's financial center, with direction from Beijing, he said, but development will be careful to prevent markets bursting out of control. Furthermore, given China's interest rate system (rates on deposits are higher than those for loans), foreign banks can operate only with difficulty. With the opening of the first national interbank loan market in Shanghai, the central bank began daily publication of its China Interbank Offered Rate (CHIBOR). China will also allow foreign investors to buy hard currency on a limited basis.

China's retail prices increased 14.8 percent in 1995, a figure that is 0.2 percent lower than the government goal set at the start of the year, officials said, and sharply lower than the more than 20 percent of a year earlier. Some experts
warn that subsidies and price controls conceal inflationary pressures.

The average 1995 cash income of Chinese farmers rose to $136 by the third quarter, increasing 12 percent from the same period a year earlier. The grain harvest reached a record of more than 460 million metric tons. The central bank will expand credit to the cash-strapped agriculture sector by as much as 30 percent.

Foreign investment in China was worth $40 billion in 1995, up about 30 percent from the previous year, the State Planning Commission estimates. But pledged foreign investment fell 30 percent in the first half of 1995. China's foreign trade volume jumped 18.6 percent in 1995 to a record $280 billion, with the country's trade surplus more than tripling to $16.69 billion. Year-end foreign exchange reserves increased to $70 billion.

Poland's government in mid-January approved several bills (which have yet to clear parliament and be signed by the president) liberalizing capital transfers initiated both by foreigners and by Polish citizens. Foreigners will be able to buy land and real estate in Poland without a permit if the purchased area is no larger than 4,000 square meters (43,060 sq. ft.) in cities or 10,000 square metres in the countryside. No special licenses will be required if they invest in financial and legal services, wholesale trade in imported consumer goods, and arms production. Polish firms will be permitted to invest up to one million ECU ($1.27 million) in OECD countries setting up a company or company branch, purchasing real estate for economic purposes, buying up to 10 percent of shares in foreign listed firms, or purchasing government securities with maturity periods of longer than twelve months. Poles will be able to invest up to 50,000 ECU out of Poland without a special permit. Poland is seeking membership in the OECD, the Paris-based think tank of twenty-six developed nations, by mid-1996, and lifting restrictions is part of the admission criteria.

Inflation in Poland will fall to 12 to 13 percent in 1997 from an anticipated 17 percent in 1996, and growth will rise to 6.0 percent from 5.5, predicted Polish Finance Minister Grzegorz Kolodko, launching work on next year's budget. Education, culture, and environmental protection should be budgetary priorities next year. Official interest rates next year will be some 3 to 4 points higher than the inflation rate. Budget revenues will be higher in real terms than this year's 100.8 billion zlotys ($39.98 billion), Kolodko said, but will not grow faster than GDP. The redistribution of national wealth through budgetary means will be curtailed. The finance ministry plans to cut income tax, both corporate and personal, while scrapping some tax breaks. Kolodko favors reducing personal income tax levels to 20, 30, and 40 percent, depending on earnings, from the current 21, 33, and 45 percent. The 3 percent import tax will be abandoned next year, the minister said.

Poland's 1995 budget deficit amounted to 7.7 billion zlotys ($31 billion) and was 1.1 billion zlotys ($445 million), or 13 percent, lower than planned. The budget gap was equivalent to 2.8 percent of GDP, about 0.5 percent less then planned. Revenues, at 83.5 billion zlotys ($33.7 billion), were one percent higher than planned, while spending, amounting to 91.2 billion zlotys ($36.8 billion), was 0.4 percent lower than expected.

Viet Nam revised its 1995 trade figures yesterday to reveal a deficit of $2.2 billion, its largest shortfall in two decades. The country exported $5.3 billion worth of goods and imported $7.5 billion worth, causing a deficit $400 million larger than anticipated, the General Statistics Office reported. "The country risks becoming a debtor nation and a wage-earner for capitalists unless it repays the debt owed to international creditors and increases domestic investment," Do Muoi, the communist party general secretary, said recently. Hanoi owes some $800 million to commercial creditors, and it raised almost $100 million last year through bond and treasury bill sales.

All depositors of the bankrupt and closed Lithuanian Joint-Stock Innovative and Litimpex banks will be compensated, but without deposits of 5,000 litai ($1.27 million) or less will be the first to get their money back, according to Lithuania's Prime Minister Adolfas Slezevicius. About 35 million litai will be needed to satisfy these small depositors, who make up about 75 percent of the banks' depositors. Regulations governing the return of deposits will be drawn up by the government 1 February. World Bank and IMF experts are to help prepare a plan for restructuring the banks. Slezevicius expressed confidence that the overall economy will escape damage from the banking woes.

Georgia's government has approved a draft budget for 1996 that foresees revenues of 555 million lari, 68 percent of which will come from taxes. Expenditures are expected to be 772 million lari. The projected budget deficit of 217 million lari (about $176 million)---3.8 percent of Georgia's GDP---will be covered with national bank loans (99 million lari) and credits from the IMF and World Bank (118 million lari.) Georgia's budget deficit for 1995, which exceeded $140 million, was fully covered by credits from the IMF and World Bank. Georgia originally planned a deficit-free budget for 1995, but actual spending was more than 50 percent higher than anticipated.
resulting in a budget deficit of 6 percent of GDP.

The stock of foreign direct investment in Eastern Europe and the former Soviet Union in mid-1995 reached $26.5 billion, largely due to a steady flow of acquisitions and joint partnerships in manufacturing and other sectors, according to estimates by the UNEC.

The European Union enlargement debate should not be focused on agriculture, according to the EU’s farm minister, Jochen Borchert, speaking at an East-West forum held at Berlin’s Green Week farm trade fair. Among the European transition economies, the Czech Republic, Hungary, and Poland have achieved economic growth rates that demonstrate they are on the right path toward membership. But these countries need to restructure farming, as trillions of karbovantsi in back wages number they bear.) Accounts at the savings bank were frozen on 1 January.

The savings bank was under forced administration and losses from securities trading. Nor will it compensate depositors in bankrupt banks or pay out 5 million lati in subsidies owed to farmers. The finance ministry hopes to put an end to the special budgets of various ministries, which in 1995 spent 70-80 million lati without presenting accounts to either the finance ministry or the Saeima. Kreituss on 5 January accused the previous cabinet of uncontrolled spending in the last two months of 1995, which, he said, had raised the budget deficit from 40 million lati to 92 million lati.

Ukrainian lawmakers are debating provisions in the 1996 draft budget that call for deep cuts in spending on education, scientific research, health, and social welfare programs, Ukrainian Radio reported 17 January. The current draft slashes spending for research from 1.7 percent of GDP to 0.7 percent of GDP and for education from 10.0 percent of GDP to 6.5 percent. The draft budget’s allocation for the country’s school system would not be sufficient to cover teachers’ wages and student stipends. (The Ukrainian government still owes trillions of karbovantsi in back wages and stipends past due since autumn.) The draft budget also foresees a 4 percent cut in social spending and would finance only 31 percent of the basic needs of Ukraine’s state-run health care system.

Subsidies for rents and utilities are to be cut so as to cover only 60 percent of the costs from 1 January and 80 percent as of 1 July. Under the draft provisions, the average monthly utility bill for a two-room flat would amount to 10 million karbovantsi (around $55). But the average monthly wage in Ukraine is only 8 million karbovantsi. The government has said the cuts are necessary in order to lower the budget deficit to 6 percent of GDP this year.

Ukraine will privatize its only automobile plant. The Avtozaz plant in Zaporozhye produces 60,000 cars annually, most of which are exported to Russia. Under the privatization plan, a quarter of the company will remain in state hands, 41 percent of the shares will be offered to Ukrainian investment companies and joint ventures, 12 percent will be offered to foreign buyers, and 5 percent will be available for Ukrainian citizens to purchase with privatization vouchers.

Ukraine’s state savings bank announced that it plans to issue special privatization vouchers to compensate citizens whose savings were wiped out by runaway inflation four years ago. According to Anatoly Kolesnikov, chairman of the Oshchadbank savings bank, "compensation certificates" worth 357 trillion karbovanets (about $2 billion) will be issued to holders of more than 54 million savings accounts starting in February. Certificate holders will be able to exchange them for shares at privatization auctions held across the country, or they may sell the certificates. Privatization certificates issued to each Ukrainian citizen in 1995 can only be used by the individuals whose name and passport number they bear.) Accounts at the savings bank were frozen on 1 January 1992 during a period of high inflation, and many people lost their life savings. The certificates will represent the accounts total from that time multiplied by 2,200. But that does not come close to compensating for inflation—annual price increases in 1993 alone came to more than 10,000 percent.

The Czech National Bank (CNB) has launched a massive state bailout of the troubled Ekoagrobanka (EAGB), placing it under forced administration and vowing to start measures to help all smaller Czech banks. EAGB is among the ten largest banks in the Czech Republic, with assets of around 19 billion koruny ($700 million) and some 150,000 clients, mainly individuals and small businesses. It has long had problems with insufficient reserves to cover bad debts and losses from securities trading. Ekoagrobanka’s problems stem from its 10 billion crown ($370 million) loan portfolio, 43 percent of which was classified as “problematic,” the economic daily Hospodarske Noviny reported. (EAGB
is the fifth Czech bank to face serious financial problems. The Czech National Bank intends to introduce regulations later this year forcing banks to raise their basic capital and reserves.)

The Czech Republic state budget ended 1995 with a surplus of 8.6 billion crowns ($320.7 million), Finance Minister Ivan Kocarnik announced. Revenue totaled 438.5 billion crowns while expenditures totaled 429.9 billion. The original 1995 budget forecast equal spending and receipts of 434.9 billion crowns. In December parliament passed the country's fourth straight balanced budget plan. The 1996 budget forecasts equal revenue and expenditure of 497.6 billion crowns.

Post and telephone fees in Hungary rose on 1 January 1996, as did the price of fuel, coffee, alcohol, and cigarettes; the rates for public transport and telecommunications; and the cost of medicines. As a result of a consumption tax hike, prices for fuel rose by 15 percent, for beer by 15 percent, spirits 13 to 14 percent, cigarettes 15 to 20 percent, and gold and silver jewelry 22 to 26 percent. Hungarian postal rates overall will increase by 20.3 percent, with the rate for standard letters rising by 16 percent and the freight fee on parcels growing by 40 percent. The price of rail tickets rose by 20 percent. Local public transport fares will rise on average by 20 to 30 percent, but in Budapest the increase will be 39 percent (a ticket will cost HUF 50). Companies involved in telecommunications can request the Ministry of Transport, Telecommunication, and Water Management for a 28.3 percent maximum price increase. The ministry has allowed Matav Rt to increase rates by 24 percent and mobile telephone companies to increase rates by 28.3 percent. Producer and acquisition prices on medicines are to increase by 14 percent, half of which will be paid by the social security organization. However, the increase in consumer prices for medicines will be nearly 40 percent.

Hungary will repay $1 billion of its foreign debt ahead of time this year using record hard currency reserves accumulated in 1995, central bank President Frigyes Harshegyi said. Of a total net foreign debt of $17 billion at the end of 1995, Hungary will repay some $4.5 billion to the World Bank and IMF in 1996, according to Harshegyi. Part of the debt, $3.5 billion, is to expire this year, but the central bank expects to make advance repayments worth about $1 billion and has no plans to take further loans.

Hungary's gross debt was 4,800 billion HUF at the end of 1995 or 86.6 percent of the GDP, slightly less than the 87.9 percent recorded in 1994. The state budget debt at the end of 1995 reached 4,173.4 billion HUF, and the gross debt totaled 4,799.9 billion HUF when the debts of local governments and the social security fund were included. Although only about 28.5 percent of the gross state debt is domestic, 94.4 percent of the budget's debts fall in this category, since it is the Hungarian National Bank that finances most of the budget's domestic debt using foreign sources. The main problem for the national bank, however, is the so-called zero-interest debt caused by the devaluation of the national currency. This debt is slowly converted into long-term state bonds, but it seems that in 1996 a quicker pace in the conversion will be necessary. The government's decision to decrease the zero-interest debts of the budget, using some of the HUF 250 billion Hungary posted in 1995 excess privatization revenues, will alleviate the situation.

Istvan Major, head of the Hungarian team negotiating with the OECD, said Hungary may join the organization in April, Hungarian media reported on 18 January. Negotiations over the next few weeks will focus on questions of taxation, foreign exchange regulations, international tax agreements, and exchange of tax information. According to OECD officials, the practice of withholding banking information in Hungary must also be resolved. OECD countries expect banks of member countries to exchange information on clients suspected of fraud; access to such information in Hungary is prohibited. After joining the OECD, banks will face fiercer competition. Three-fourths of the banks registered in Hungary are already majority-owned by foreigners. Hungary wants a two-year grace period to meet an OECD membership requirement that it allow foreign banks to open branches in the country, Finance Minister Bokros announced. The country has to complete the restructuring and privatization of state-owned banks before Hungary can liberalize cross-border banking, Bokros added.

Belarus President Alexander Lukashenko has approved a privatization plan for 1996. A senior privatization official said shares in at least 1,700 enterprises would go on sale in 1996. As of 1 January the minimum weekly wage was raised from 60,000 Belarussian rubles to 100,000 (from $5 to $8.70).

Belarus has created a "currency corridor" limiting the Belarussian ruble's value to 11,300-13,100 to $1. This regulation is to remain in place until 1 June. The exchange rate against the Russian ruble is regulated the same way. In mid-January the National Bank of Belarus limited the amount of Russian and Belarussian rubles that individuals can take out of the country to 500 times the minimum wage, which stands at 100,000 Belarussian rubles ($8.70).

(We appreciate the contributions of Open Media Research Institute's Daily Digest)
World Bank/IMF Agenda

Nuclear Safety Summit in Moscow

On April 19 and 20 the G-7 will hold a summit meeting in Moscow on nuclear security. One participant, French President Jacques Chirac, expressed his hope that the World Bank would play a major role in the international efforts to prevent nuclear accidents. The Bank has already offered to help tighten nuclear security in transition countries of Central and Eastern Europe, and to support the agreement made with Ukraine to close the Chernobyl nuclear power station.

World Bank’s Role

The World Bank’s role is not only to lend money, but also to advise, World Bank President James Wolfensohn emphasizes in a recent interview with the French La Tribune Desfosses. "If we were simply a bank teller, a few dozen people would suffice," Wolfensohn is quoted as saying. "But we have a vast advisory role. The question I ask myself is not about the organization’s bureaucracy but rather: do we, or do we not, have enough personnel trained for the specific and concrete advice we need to develop?" Separately, Martin Wolf in a Financial Times book review quotes William Ryrie, the former IFC chief, author of "First World, Third World," who contends that "the aid movement has lost its way." Ryrie believes that international institutions can help promote private enterprise, Wolf notes, but that aid has too often thwarted private investment by financing inefficient public sector alternatives.

IIF Praises IFC Guidelines

A report of the Washington-based Institute of International Finance (IIF), which usually voices the views of the international commercial banks, praises the new IFC guidelines, published last month (see Transition, vol. 11-12, 1995, page 29). The guidelines set out the conditions under which the IFC would agree to advise governments on privatization or help companies with share flotations. But the IIF would like the IFC to rule itself out of competition with private investment banks for any advisory mandate awarded by a bidding procedure. The IFC intends to review its new guidelines after twelve months to see whether changes are needed.

China’s Capital Market Needs Overhaul

China’s capital markets, despite their rapid growth, need sweeping reforms, suggests a new World Bank study, undertaken jointly with the China Securities Regulatory Commission. The capital markets are still struggling to fulfill their fundamental functions, such as improving resource allocation and providing vehicles for risk management, the new study points out. The stock and bond markets should be dominated by free market elements, with a minimum of government intervention, and, simultaneously, an adequate law enforcement mechanism should be put in place.

Chances of China’s Continuing Growth

China could continue to grow by up to 8 or 9 percent in the next decade if it pursues reforms aimed at improving its infrastructure. This growth target is attainable as long as China maintains its current high rate of domestic savings, World Bank Director Nicholas Hope said in Paris. If China grew much faster than that, logistical and management problems could be generated by the rapid pace. But if China’s growth rate were to fall below 8 or 9 percent, the country would be unable to generate adequate employment opportunities for its growing nonrural population. (China posted 10.2 percent growth in 1995.)

IMF Mammoth Loan to Moscow?

Within the next few weeks IMF Board of Directors will decide whether to approve an extended finance facility (EFF) loan of $10.2 billion to Russia. Managing Director Michel Camdessus announced on 21 February, during his Moscow visit, that he had reached an agreement on the three-year EFF loan.

The loan would support Russia’s economic program aiming at 2 to 4 percent growth this year and 6 percent annual growth thereafter. The economic reform program, supported by the loan, would include measures to control the budget deficit, slash inflation, help keep the exchange rate stable, and provide support to the poor. It also calls for more progress on privatization. Camdessus said the first disbursement could come by mid-April and the IMF would provide $4 billion over the first year. Monthly monitoring will ensure that Russia will continue to meet agreed targets. A compromise has been reached that Russian export tariffs on oil and natural gas will be abolished in the next few months.

IMF Withholds Next Standby Tranche from Ukraine

The release of the IMF’s $350 million fourth tranche of a $1.5 billion standby loan to Ukraine has been delayed until its parliament approved the 1996 budget stipulating a 3.5 percent deficit. Both the IMF and World Bank are supporting a program that would accelerate structural economic reforms and privatization. Once the government’s economic
reform program progresses, the IMF will begin discussions on a new $2.5 billion three-year loan.

World Bank Loan to Algeria?

World Bank Director Daniel Ritchie said that the World Bank would put forward to its Board this year a $300 million structural adjustment loan for Algeria. The loan will focus on privatization and financial sector reform. Ritchie said that privatizing Algeria's largest public enterprises, which are operating at 50 percent of capacity, is unrealistic at this time. Rather, the Bank's program would support Algeria's efforts to privatize a large share of approximately 1,500 small enterprises, small units of larger enterprises, and local services. Privatizing these smaller activities, from hotels and food processing plants to the provision of municipal trash collection services, will require smaller investments and are not likely to lead to layoffs.

IMF Support to Algeria

In December IMF Managing Director Michel Camdessus, on a two-day trip to Algeria, praised the country’s economic performance. The trip preceded the IMF's first review of Algeria’s economic reforms. A year ago the IMF provided Algeria with a three-year $1.8 billion extended financing facility (EFF) to replace a $1 billion standby credit. Foreign exchange reserves at the end of September 1995 totaled $1.9 billion, equal to two months of imports, instead of the targeted $2.3 billion. (At present, only Belgium, France, and Italy provide Algeria with export guarantees, while the United States provides credit for cereal exports. The IMF expects other countries to resume cover once the rescheduling of Algeria's public debt is finalized in bilateral agreements to be reached by March. Bankers who follow the Algerian economy, however, said it would take years for export agencies and banks to regain confidence in Algeria.)

The World Bank and Croatia

In February the World Bank and Croatia began negotiations on a loan aimed at helping the country reform its capital market. Marinko Papuga, director of the Zagreb Stock Exchange, said Croatia had met the main precondition to enlisting the Bank's aid by passing a vital securities law in December. With the proposed loan, the Bank is expected to shoulder $9.5 million of an extensive operation to set up basic market institutions and technical infrastructure.

IMF Eases Public Access

The IMF will give the public access to most IMF documents that are more than thirty years old, the Fund announced. The decision to open the archives follows a number of other initiatives taken by the IMF to achieve greater openness with respect to its operations and activities. The IMF decided, however, to keep private a few "highly confidential or sensitive" documents, regardless of their age.

International Bank for Environmental Settlements?

As the turn of the century looms, the industrial world's voracious appetite for natural resources threatens to change irrevocably the earth's atmosphere and its global climate, writes Graciela Chichilnisky, economics professor and holder of the UNESCO chair in mathematics and economics at Columbia University, in the Financial Times. To achieve an environmentally conservative society without hindering productivity and dynamism, a new International Bank for Environmental Settlements should be set up, which could operate as a clearing house for the environmental market.

IDA Credits to Viet Nam...

The International Development Association (IDA) on 11 January approved two credits, totaling $151.2 million, for two health care projects in Viet Nam, to be completed by the year 2002. The $101.2 million National Health Support Project will provide greater access to primary health care for 19 million people in fifteen of the country's poorest provinces. A second credit, the $50 million Population and Family Health Project, aims at improved family planning for 7 million couples. The government's target by 2000 is to reduce the national population growth rate to 1.7 percent a year, hold the population size to 82 million, and achieve a national infant mortality rate of 30 per 100,000 live births and a national maternal morbidity rate of 70 per 100,000.

...and to Angola

The IDA on 21 December approved a credit of $24 million for a four-year social action project in Angola. The credit will finance subprojects identified, prepared, and implemented by local communities and will also finance research and monitoring of poverty and other social issues.

Ethiopia's Debt Relief

Ethiopia's creditors have written off as much as $230 million of Ethiopia's $270 million commercial bank debt. World Bank Director James Adams said in Addis Ababa that talks were under way to write off the additional $25 million within a couple of weeks. Ethiopia received the debt elimination deal under the World Bank's Commercial Debt Reduction Program. Britain and the Netherlands paid $6 million each while the World Bank through IDA granted $21 million toward the debt relief. Ethiopia has a total external debt of over $4 billion.
Conference Diary

For the Record

Communications for Development
March 11, 1996, Washington, D.C., United States

A workshop sponsored by External Affairs, the World Bank, and the Economic Development Institute. The workshop was held to assess the Bank's present and future role in a world where communications and civic education have emerged as critical to effective reform and lasting development. The session planned to:

• Review work under way to assist communications efforts and share best practices. What has worked and what has not.
• Make a broader assessment of potential needs of Part II countries, and our capacity to respond.
• Examine problem areas and risks, including provision of adequate support and monitoring activities, politicization of reform programs, and use of consultants.
• Analyze roles and missions of various units within the Bank with respect to communications for development. How does EDI's approach differ from that of External Affairs or RVP? How are Resident Representatives responding in the field? How can we coordinate? What common guidelines can be established?
• Set in motion a process to define what the Bank will take on in the sphere of communications for development.


Financing in Eastern Europe, Russia, and the Newly Independent States
March 11-12, 1996, New York, United States

A conference sponsored by the American Conference Institute. Topics included: Current projects in Eastern Europe, Russia, and the NIS; Project financing in Eastern Europe; Foreign exchange regulation and repatriation of profits to the United States and third countries; Legal considerations in project development and financing; Privatization and recent transactions; Financing and the privatization process; New enterprise funds, The build, own, and transfer model for infrastructure projects in emerging markets; The role of development agencies; and Dispute resolution, litigation, and enforceability of judgments.

Information: American Conference Institute, 175-Fifth Avenue, Suite 2182, New York, NY 10010, United States, tel. (416) 926-8200, fax (416) 927-1563, (Email: cicomm@io.org).

Doing Business with Central Asia
March 18-19, 1996, New York City, United States

A conference sponsored by the American Conference Institute. Internationally recognized experts presented their views of the economic, geopolitical, legal, and accounting regimes and investment climate in Central Asia. Topics included: Foreign investment in Central Asia; Petroleum ventures; Accounting and tax issues regarding investing in Central Asia; Border disputes and the status of the Caspian Sea; Mining ventures; Securities markets; Business-government partnerships; Privatization; Project financing; Foreign corrupt practices act; Real estate opportunities; Dispute resolution and litigation; and Currency regulation and convertibility.

Information: American Conference Institute, 175-Fifth Avenue, Suite 2182, New York, NY 10010, United States, tel. (416) 926-8200, fax (416) 927-1563, (Email: cicomm@io.org).

Media Markets in Central and Eastern Europe and the CIS: Developments in Television and Radio Broadcasting
March 21-22, Warsaw, Poland

A conference sponsored by the Adam Smith Institute. Western and Eastern broadcasters and producers, policymakers, government and industry organizations, financial and trade organizations, and entrepreneurs and investors met, with a view to formulating a coherent vision of the future of media in Central and Eastern Europe and the CIS. Industry experts gave an account of the region's integration into the European and international environment and provided an opportunity to meet policymakers from the local broadcasting authorities. Topics included: Impact of international media dynamics on countries in Central and Eastern Europe and the CIS; Potential of cable and satellite television; Economics of building new media businesses in CEE and the CIS; Protecting and enforcing intellectual property rights of broadcasters; Legal implications of establishing media ventures in CEE and the CIS; Monitoring cross-border ownership and media concentration; and Development of successful marketing strategies.

Information: Conference Division, 11-13 Charterhouse Buildings, London, EC1M 7AN, United Kingdom tel. (44171) 490-3774, fax (44171) 490-8932, (Email: 100451.3122@compuserve.com).

For the Record

Russian Tax Investment and Banking Climate: Impact on Western Business
March 28-29, 1996, New York City, New York, United States
Sponsored by the Geonomics Institute, in conjunction with the International Tax and Investment Center. Event will convene senior-level Russian officials from the Ministry of Finance, the State Tax Service, and the central bank, key members of the newly elected Duma, and Western and Russian business executives to discuss Russia’s investment climate in this post-Duma, pre-Presidential election period. Yuri Vorontsov, Russian Ambassador to the United States, will make a keynote address.

Information: Geonomics Institute, 14 Hillcrest Avenue, Middlebury, Vermont 05753, United States, tel. (802) 388-9619, fax (802) 388-9627.

Eighth Annual Bank Conference on Development Economics (ABCDE)
April 25-26, 1996, Washington, D.C., United States

The conference will be inaugurated by World Bank President James D. Wolfensohn and sponsored by Michael Bruno, Senior Vice President Development Economics and Chief Economist with a keynote address by Joseph E. Stiglitz. Conference sessions include:

Banking Failures: Crisis or Opportunity for Reform (Frederick S. Mishkin, and Gerard Caprio and Daniela Klingebiel);
Reducing Poverty: Targeted Programs and Rural Credit (Timothy Besley and Ernest Aryeetey);
Legal Systems and Economic Development (Robert D. Cooter and Avner Grief); and Labor and Environmental Standards in International Trade (Alan Krueger and Kym Anderson). Participation by non-Bank and non-IMF staff by invitation only.

Information: Boris Pleskovic or Gregory Ingram, Research Advisory Staff, the World Bank, 1818 H Street, N.W., Room N7-031, Washington, D.C. 20433, United States, tel. (202) 473-1062, fax (202) 477-0955.

Telecommunications Development in Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan June 1996, Istanbul, Turkey

As part of a series on telecommunications development in the former Soviet republics, the conference will analyze investment opportunities in the telecommunications market in the Central Asian Republics and Azerbaijan. Representatives of local telecommunications ministries and companies will meet top-level executives from Western government, the telecommunications industry and business to find out which are the most suitable telecommunications systems for this area and the investment issues related to them.

Information: Ludmilla Naumova, The Adam Smith Institute, 11-13 Charterhouse Buildings, London EC1M 7AN, United Kingdom, tel. (44171) 490-3774, fax (44171) 490-8932.

50th Anniversary of the Faculty of Economics in Ljubljana International Conference
September 18-19, 1996, Ljubljana, Slovenia

Conference will discuss the transition process in former socialist countries, incorporation of these transition economies into the world economy, and the latest achievements in business and information science. The conference will also recognize the Faculty of Economics in Ljubljana as a scientific, research and pedagogic institution. The following topics will be covered: Macroeconomic problems of transition; Microeconomic problems of transition; Industrial policy in transition; Human resource management in transition; Liberalization of national economies with internationalization of enterprises; and Strategic development of enterprises, management, and information systems in enterprises in the transition. Richard Portes, London Business School, CEPR, will be the key speaker.

Information: Professor Janez Prasnikar, Faculty of Economics, Kardeljeva ploščad 17, 61000 Ljubljana, Slovenia, tel. (38661) 189-2500, fax (38661) 345-419. (Email: janez.prasnikar@uni-lj.si). For registration forms, abstracts, and accommodation: Milena Pervanje, Faculty of Economics, CISEF, Kardeljeva
Belt Tightening

From the Polish Weekly Zycye Gospodarczy.
New Books and Working Papers

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

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

Discussion Papers:


The international development community has begun to recognize that options aimed at providing debt relief to countries where debt is not sustainable need to be seriously explored. To order: Afsar Nokhostin, Room J10-285, tel. (202) 473-4150, fax (202) 473-8262, (Email: Anokhostin@world bank.org).


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Country Studies


Other


Foreign investors can assist Central and East European countries in their transition to market-based economies by providing capital, managerial expertise, and new technologies to modernize existing manufacturing enterprises and help integrate them into the world economy. Most countries in the region, as part of their privatization programs, are encouraging foreigners to invest in state-owned enterprises as these are transferred in whole or in part to private hands.

A thousand large corporations in mining, construction, and manufacturing ranked the importance of environmental issues in their investment decisions in Central and Eastern Europe, and in particular, in Hungary, Poland, and the former Czech and Slovak Federal Republic (CSFR). These companies rated environmental risks as being equally important as exchange rate risks and political risks. Most companies consider economic risks (uncertainty over a country's economic prospects) and business risks (commercial and competitive risks) as more important than environmental risks.

Potential liability arising from past environmental practices was the most important environmental issue for investors, followed closely by concern about liability for present and future practices and uncertainty over future environmental standards. Of lesser importance for companies were the costs of complying with emissions standards, costs related
to worker health and safety, the lack of clean water, and the unavailability of legal and affordable waste management services. Eighty-five percent of companies make serious assessments of environmental conditions at potential investment sites.

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IMF Working Papers


Carmela Martin, The Impact of EU Trade Agreements with Central and East European Countries: The Case of Poland, CEPR no. 1238, September 1995, 33 p.

Brian Pinto and Sweden van Wijnbergen, Ownership and Corporate Control in Poland: Why State Firms Defied the Odds, CEPR no. 1273, December 1995, 39 p.


OECD Publications


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CEPR Discussion Papers

To order: Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X ILB, United Kingdom, tel. (44171) 878-2900, fax (44171) 878-2999.


Jennifer Daniell and Raymond Struyk, Tracking Change in Moscow’s Housing Sector, August 1993, 28 p.


Private enterprise can supply new housing without subsidy to wealthy foreigners and prosperous Russians despite numerous technical, financial, and regulatory obstacles. Enterprises, however, will not be able to provide unsubsidized housing for ordinary Russians unless

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municipal governments reduce their current development programs, and short-term credits for residential construction and long-term loans for home purchase become generally available. The availability of credit, in turn, depends on currency stabilization; between January 1992 and October 1994, Russia's official consumer price index rose from 100 to 9,797, reducing the purchasing power of the ruble to about one percent of its initial value.


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Slovak Academy of Sciences Publications, Kosice, Slovakia

To order: Watsonova 47, 043 53 Kosice, Slovak Republic, tel. (42) 95-38115, fax (42) 95-37108, (Email: imrsas@linux1.saske.sk).


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To order: SIGMA, 2 rue André-Pascal, 75775 Paris Cedex 16, France, tel. (331) 4524-8200, fax (331) 4524-1300.


To order: Carnegie Commission on Preventing Deadly Conflict, 2400 N Street, N.W., Sixth Floor, Washington, D.C. 20037-1153, United States, tel. (202) 429-7979, fax (202) 429-9291, (Email: pdc@carnegie@mcmail.com).


To order: The AEI Press, c/o Publisher Resources, Inc., 1224 Heil Quaker Blvd., P.O. Box 7001, La Vergne, Tennessee 37086-7001, United States.


Russia's capital markets surged last year, as a result of emerging leadership, an improving investment climate, increased transparency, growing flows of more reliable company information, and several infrastructure developments. The capital markets, to be sure, are still immature; progress is hampered by widespread public distrust of business and government, an inadequate judicial system, weak law enforcement, and an underdeveloped regulatory system.

To order: Geonomics Institute, 14 Hillcrest Avenue, Middlebury, Vermont 05753, United States, tel. (802) 388-9619, fax (802) 388-9627.


To order: Rural Development Institute, 1100 NE Campus Parkway, Seattle, Washington 98105, United States, tel. (206) 528-5880, fax (206) 528-5881, (Email: rdi@u.washington.edu).


The high expectations for rapid success in Russia's conversion have not been met. At present, in the military sector, both military and civil production is declining. Conversion was mistakenly blamed for the overall deterioration in the performance of the military industry. Military production has once again been made viable. Between 1992 and 1994, in reaction to the dramatic and abrupt reductions of military procurement as well as the sweeping changes within the Russian economic framework, defense enterprises secured their immediate survival through various adjustment strategies. To order: Bonn International Center for Conversion, An der Elisabethkirche 25, 53113 Bonn, Germany, tel. (49228) 911-960, fax (49228) 241-215.


Many transition economies have exhibited particularly striking demographic changes, without a common pattern of demographic transition. In most European transition economies fertility declines have accelerated well below replacement level, life expectancy is stagnating or even declining, and net out-migration is increasing. As a result, in many countries there is a net loss of population. In contrast, Asian transition economies, especially those in South-central Asia, exhibit fertility above replacement level, moderate gains in life expectancy, and net out-migration. These countries still show positive population growth, which translates into much younger populations than those in most European transition economies.

Bibliography of Selected Articles

Postsocialist Economies


Central and Eastern Europe


Reconstructing Poland's Banks. Central European (United Kingdom), November 1995, pp. 18-22.


CIS and the Baltics


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