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TRANSFORMATION

Leipziger Beiträge zu Wirtschaft und Gesellschaft

*Schriftenreihe des Zentrums
für Internationale Wirtschaftsbeziehungen
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Central and East Europe
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Zusammengestellt von Andreas Nölke

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Universität Leipzig
Zentrum für Internationale Wirtschaftsbeziehungen
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A COMPARISON OF THE ASSISTANCE STRATEGIES OF WESTERN DONORS

All donors have been surprised by the speed of change in Central and East Europe (CEE)¹. Their basic objectives have been the establishment of democracy, a market economy, and CEE's peaceful integration into regional and global organizations and systems. Most donors assumed a strong connection between these objectives. Thus, they focused their assistance on the economy, although democracy and peace dominated the political rhetoric. It was understood that both would be most effectively fostered by a healthy economy and endangered most significantly by social and economic crisis.

In order to promote economic development some donors returned to the approaches they had followed vis-à-vis the less developed countries (LDCs). This strategy seemed partially appropriate as most donors had supported a change from state-centered to market-centered development strategies in many LDCs. That task showed some similarities to the task at hand in CEE. More importantly, the donors had no ready-made new strategies based on a clear analysis of the transformation process in CEE but were under substantial political pressure to assist the CEE countries. Thus, traditional development assistance institutions using traditional policies, such as the International Monetary Fund (IMF) and the World Bank, and export financing and promotion agencies (HERMES, Ex-Im-Bank etc.) managed the bulk of resource flows to CEE.

Many countries however, used institutions and policies different from development cooperation. New programs, such as PHARE and TACIS of the European Union (EU), and institutions, such as the European Bank for Reconstruction and Development (EBRD), were set up. In particular, technical assistance has often been managed by new bodies, with the notable exception of the United States, which for the most part used its Agency for International Development (USAID). After the substantial progress of the transformation process in Central Europe, further assistance to the poorer former communist countries, e.g. in the Caucasus and Central Asia, will be integrated into the traditional development cooperation.

Strategies vary among donors due to different interests and, above all, institutional capacities, rather than different views of the transformation. More importantly, there is a structural difference between single countries or donors of bilateral assistance and international financial institutions that provide multilateral assistance. The EU as a supranational body plays a special role.

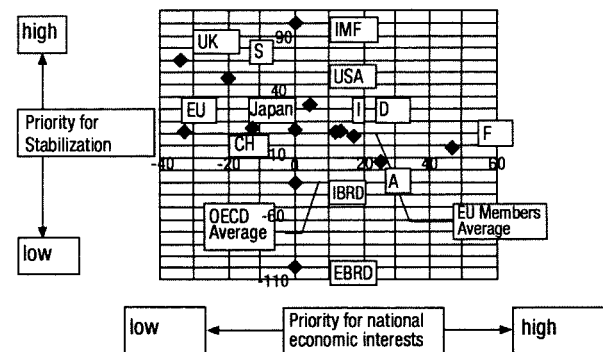
1. Countries have a diversified set of institutions and policies representing different societal interests. Their strategy vis-à-vis CEE comprises different forms of assistance and foreign economic policies such as trade policy, regulation of foreign direct investment (FDI) and immigration, as well as traditional foreign and security policy.
2. In the case of the EU, the authority to formulate and implement these policies lies with different entities. While trade policy belongs exclusively to the realm of EU competence, assistance policies are handled at EU-level, and by the member states as well. Other policies (e.g. concerning immigration) are predominantly carried out by national governments.
3. International financial institutions such as the IMF, the World Bank, the EBRD and the European Investment Bank (EIB) have, as a rule, a clearly defined set of instruments and policies at their disposal. Their actual performance tends to reflect their basic, traditional capacities (e.g. bank lending for big infrastructure projects, IMF supporting policy reforms), even when their rhetoric stresses new needs in the case of CEE.

The above said notwithstanding, there were different philosophies which have been rarely advocated in their pure form:

- The free market approach (the so-called “Washington Consensus,” because IMF and World Bank support it): This strategy assumes that after macro-economic stabilization, liberalization of prices and external trade, the establishment of a regulatory framework (basically property rights), and privatization, market forces will take care of the rest. It considers a “Big Bang” to be the optimal timing and sequencing of reform steps.
- The institutional approach (supported by Japan and – to a lesser extent – by the EU): This strategy gives the state and societal organizations a major role in the transformation, which it understands as a prolonged, gradual process. In particular, it stresses the necessity of modernizing

the infrastructure and the state-owned enterprises by active government policies.

Graph 1: Donor priorities between interests and philosophies



Source: Personal calculations based on G24 data as published in euro-east of May 20, 1993.²

As the above graph shows, bilateral donors differ in their emphasis on export and investment promotion (horizontal axis), rather than in their preference for stabilization (vertical axis). The relative position on the horizontal axis reflects the deviation of the percentage spent on export and investment promotion above or below the OECD average. The vertical position shows the percentage spent on macroeconomic financial assistance. International financial institutions have no proper economic interests, but different statutory tasks. Thus, their positions differ only on the central vertical axis (with a horizontal value of zero), as does the OECD average per definitionem. Vertical differences show that the IMF focuses on stabilization, while the EBRD is hardly involved in policy lending. World Bank and, to an even larger extent, the EIB finance primarily infrastructure projects.

1. Bilateral donors with special reference to the US

Virtually all OECD countries extended assistance to CEE. The size and distribution of the aid varied widely. As a rule, most donors preferred

neighboring countries (if there are any). Sectoral priorities reflected economic and political interests and strategies.

Table 1: Donor priorities relative to G-24 average (1990–92)

Donor Country	relative* sectoral priorities	relative* regional priorities
Germany	OSPI** (12%) + Exports (34%)	(CEE, but not CIS) CSFR (19%), Poland (43%)
France	Export credits (71%)	Romania (19%)
Italy	Emergency assistance (22%)	Albania (20%)
UK	Debt relief (85%)	Poland (93%)
Austria	Export credits (46%) + OSPI (12%)	Regional (56%)
Sweden	Macro financial assistance (68%)	Poland (53%), Baltics (13%)
Switzerland	Other aid (42%)	Bulgaria (8%)
Japan	Economic restructuring ass. (32%)	Poland (48%), Hungary (29%)
USA	Macro financial assistance (41%)	Poland (58%)

* Relative to the G-24 average as below:

Sectoral priorities: Economic Restructuring Ass.: 19.4%; Macro Financial Ass.: 32.8%; Emergency Ass.: 4.3%; Export credits: 27.6%; OSPI: 5.2%; other: 10.6%.

Regional priorities: Albania: 2.2%; Bulgaria: 3.7%; CSFR: 11.2%; Baltics: 2.4%; Hungary: 15.1%; Poland: 37.9%; Romania: 6.4%; ex-Yugoslavia: 6%; regional: 14.6%.

** Official support for private investment.

A look at the sectoral priorities shows that the free-market protagonists among the donor countries, the US and the UK, prefer macro-financial assistance to other aid forms while Japan focuses on economic restructuring. Nonetheless, these preferences in assistance strategy exert a modest influence on policies that are, overall, fairly balanced. Remarkable deviations include Italy (whose aid effort has an understandable bias towards emergency aid for Albania), France (with a strong egoistical export drive plus a historical-linguistic bias towards Romania), and the UK (whose aid was overwhelmingly used to relieve Polish debt).

Although most governments have stressed stabilization and promotion of democracy as their primary objective, they have spent very little money on it. This fact is partly due to the relatively low cost of projects fostering democracy (e.g. in comparison to balance-of-payments support or infrastructure) and partly to the argument that democracy is best served by promoting the prosperity of the underlying society/economy – that is, by economic assistance.

Germany has been by far the biggest donor, even after subtracting some aid flows to the USSR which were the price for the agreement on the German unification and for the withdrawal of Soviet troops from Germany. Between 1990 and 1994 Germany gave or committed 145 billion DM to CEE recipients.³ The large size and the distribution of the German assistance reflects the foreign policy preoccupations of unified Germany, the disproportionate German exposure to all risks resulting from developments in CEE, and the economic interests of the CEE's major trading partner and investor.

According to German sources,⁴ 100 billion DM, i.e. over two thirds of the total assistance, was committed to the former Soviet Union and its successor - the Commonwealth of Independent States (CIS). Among the remaining recipients, Poland and Hungary are the two most important. Hungary's share reflects to a large extent the gratitude of the German government for Hungary's role in the opening of the east-west frontiers. German trade policy vis-à-vis CEE is subject to EU authorities (see below).

The bulk of German assistance, after discounting for the multilateral assistance and the expenses related to unification,⁵ consists of export credits, balance of payments credits, and debt relief which make up 77 billion DM. The remaining 9.6 billion DM comprises 4 billion in humanitarian aid, 3.6 billion in investments (gas and ore mining), and 2 billion in technical assistance, the TRANSFORM program.

The use of the TRANSFORM funds is coordinated by a special plenipotentiary, but administered by over a dozen different ministries. It covers many different sectors such as industry and commerce, public administration, social nets, research and technology, and agriculture. About 10% of the funds are designated to promote democracy and civil society through the cooperation projects of German NGOs.

Japan is probably the only major donor with an explicit development strategy different from the free market orthodoxy of the "Washington Consensus."⁶ As the world's largest aid donor, it also has the means to follow up its words with deeds. Although CEE plays a minor role in Japan's overseas development aid, Japan tends to propagate its industrial policy successes as a better way to modernize the industries of the region.

US assistance⁷

Misunderstandings between Americans and Europeans (in particular Germans) are common. Many European observers have failed to understand the US relations with CEE and the Former Soviet Union (FSU). More specifically, some Europeans thought that the US was not providing enough assistance to CEE and the FSU. At the same time, the US has been alleged to have a grand strategy to transform CEE into a purely capitalist system with weak public, and in particular, social policies. Other critics have argued that the US focuses too much on the private sector (often linked to its own business interests) while leaving the more costly tasks of rebuilding the infrastructure to others. Europeans also have envied the US the good image the US enjoys and its influence in CEE. Only a few of these fears are confirmed by the reality of US assistance, especially considering its relatively low amount.

a) US interests

US interests are different from German and/or European concerns. Neither migration nor pollution, in particular from nuclear power stations, pose an immediate threat to the USA. The US is concerned, however, about the possible effects of these threats on its West European allies, who remain very important to the US. Other security interests (nuclear disarmament and non-proliferation) dominate the US agenda. Business interests are also important, while the political rhetoric emphasizes the interest in democracy.

Behind the political rhetoric, there is a deep, almost emotional relationship between America and Central and East Europe. The revolutions of 1989 echoed the American dream in many respects:

- the revolutionary goals of democracy and free markets are to Americans just two sides of their most important value: freedom;
- the revolution of an apparently weak group against a powerful totalitarian regime evokes images of the American revolution; and
- the opposition movements were in most cases led by young, intelligent idealists who found immediate sympathy from the liberal internationalists supportive of US foreign assistance.

Finally, there are substantial ethnic minorities with East European roots in the US, notably the Polish, Russian and Ukrainian communities.

At the same time, the US has been the preferred partner and model for the opposition movements of CEE. America was the prime adversary of communism and has appeared as the "purest" free market economy. Many East Europeans have also been drawn to its popular culture and way of life (music, fashion, food etc.).

b) Development and distribution of US assistance

US official support for the reform in East Europe started quickly in 1989. Congress passed the SEED (Support for Eastern European Democracies) Act providing almost a billion US\$ in grant aid over three years. In addition to technical assistance, the US gave macro financial support such as debt relief (to Poland), export credits, support for private US investment, and emergency aid. The total of all these commitments amounted to 7.4 billion US\$ in 1990–92.

Poland received over 50% of the SEED money and all other aid. Hungary and the former Czech and Slovak Federal Republic (CSFR) were also major recipients (both about 10%). Since 1991, the regional focus of SEED aid, started to shift from Central Europe to the Baltics and the Balkans.

The bulk of aid is aimed at promoting US economic interests (exports, direct investment). Activities which directly support the establishment of democratic structures and a civil society in East Europe represent only about 2% of all aid programs (in financial terms). One can argue, of course, that supporting economic reform and improving living standards through humanitarian aid stabilizes the emerging democracies.

The Former Soviet Union did not receive aid (except some credits for agricultural imports) until the failed Putsch of August 1991. After Yeltsin's victory and the dissolution of the USSR, the US promised several programs including technical and humanitarian assistance, aid for disarmament and non-proliferation, export credits, in particular for agricultural products, and support for US investment totaling 10.4 billion US\$ from 1991–93.

In addition to these bilateral programs, the US has participated in multi-lateral assistance through the IMF, World Bank, and the newly established European Bank for Reconstruction and Development (EBRD). The US pledged 10% of the 10 billion US\$ capital stock of the EBRD.

The US has liberalized its trade policy towards East Europe substantially by giving market access under MFN ("Most Favored Nation" treatment, i.e. application of GATT rules) and GSP (General System of Preferences, as for LDCs), waiving the Jackson-Vanik amendment (which linked market access to the liberalization of emigration for Jewish people), and reducing the COCOM.

Private voluntary organizations substantially complemented the official US assistance, focusing on the strengthening of democracy and civil society. The big foundations (Pew, Rockefeller Brothers, Mott, Mellon, Ford, German Marshall Fund) and, in particular, the newly founded family of Soros Funds and Foundations spent about 50 million US\$ per year. Putting a price tag on the efforts of the hundreds of other organizations, which are mostly providing technical assistance, is difficult. An estimation of 2000 man-years at 50,000 US\$ (the minimum rate profit-oriented consultancies would probably charge) leads to a total amount of another 100 million US\$, which makes the private aid specifically designated for democracy-building four to five times more important than the official aid.

c) The organization of US assistance

US cooperation has been implemented mostly by the agencies that traditionally have handled US foreign aid, such as USAID, Export-Import Bank, Commodity Credit Corporation (CCC), National Endowment for Democracy (NED), Peace Corps, etc. Reacting to the changes in Central and East Europe, some new institutions have been set up, such as the Eurasia Fund, the International Media Fund, and the Citizens Democracy Corps (CDC). Most of these agencies are autonomous entities, though they get their funding almost exclusively from the federal budget.

These US agencies subcontract or provide grants to other entities such as consulting firms or private organizations. This hierarchical pluralism is best seen in the case of the support for democracy. The National Endow-

ment (NED) receives funds through the US Information Agency and from USAID. It has four main grantees which are related to the four big political and social forces in the US:

1. The National Democratic Institute (NDI), linked to the Democratic Party.
2. The National Republican Institute (NRI), linked to the Republican Party.
3. The Free Trade Union Institute (FTUI), linked to the trade union movement (AFL-CIO).
4. The Center for International Private Enterprise (CIPE), linked to the Chambers of Commerce.

These grantees support partners in the recipient countries through grants, training, experts, etc. Thus, a dollar from the budget might go first to USIA, from there to NED, which gives it to NDI which grants it to a NGO in Central and East Europe.

Since USAID, the major agency for technical assistance, expected a rather short term of engagement in the region, it developed an approach for Central and East Europe different from the one it uses in LDCs. It did not establish large missions in the recipient countries to run the projects, but instead set up the Bureau for Europe in Washington. Funds were originally not earmarked for specific countries. The whole approach was supposed to bring about greater flexibility and cost effectiveness.

The private voluntary sector is even more pluralistic and fragmented than the official aid bureaucracy. CDC, which collects data on private activities in CEE and the NIS, catalogues about 600 private donors. Many of them had not been in the "business" of international cooperation before 1989, but started up because of the changes in CEE. Clearly, the most prominent one is George Soros, who donates about 20–30 million US\$ per year. In 1992, after his successful speculation against the pound, he even donated 175 million US\$. Some of the best publicized activities, such as the Jeffrey Sachs mission, have been arranged by private organizations. These donors are largely motivated by the above mentioned feelings, as well as ethnic ties.

d) Changes after 1992 and evaluation

The changes in CEE and the FSU, as well as the new Clinton administration, have provoked a re-thinking of the assistance effort. This debate has to some extent been a continuation of the on-going critical evaluation of the aid effort carried out by the administration itself, the academic and political community, and by the media.

The original focus of assistance on private enterprise in the rapidly reforming countries is changing and new approaches are being discussed:

- supporting the restructuring of the state enterprise sector;
- including the "Special Restructuring Programs" of the EBRD in the bank's statutory 60%-quota for the private sector;
- funding infrastructure projects (energy, transport, communication);
- aiding social safety nets in CEE;
- giving more aid to the FSU, eventually at the expense of CEE (some US observers object to this, pointing out the still critical situation in central Europe and the dramatic consequences of a possible failure of the reforms there for the FSU and western Europe).

The coordination of the assistance efforts seems to be shifting from the free market oriented Treasury to the Realpolitik of the State Department. A reform of USAID is expected, with the goal of faster disbursement of funds and less preference for expensive domestic contractors. In this context, the establishment of traditional USAID-missions in some (less developed) countries of CEE and the FSU is likely.

Some critical observations can be made:

- Given the size of the US economy, the amount of aid committed is small in comparison, for example, to Germany. The US gives about 14.7% of the G24 aid to CEE while Germany provides 22%. The difference is even greater with regard to the FSU, which receives aid from the US equivalent to 10% of the aid it receives from Germany. Looking at the recipients' side, CEE countries get more aid per capita from the US than most LDCs, with the exception of top recipients such as Egypt and Israel.
- The quality of the US assistance to CEE is relatively good. The US is the largest grant donor in absolute terms and has the highest percentage of grants of all G24 donors.

- The speed of disbursement is slow in comparison to the G24 average. The ratio of disbursements to commitments was 5.4% in 1990, while the EC reached 9.9%. The figures for grant aid were 7% and 12.6%, respectively.
- Aid directly linked to American business interests such as export credits and support for private investment makes up 39% of all aid. But in the case of German aid, this ratio is even higher (46%).

Many criticisms that are well known from development assistance also apply to the aid for CEE and the FSU: A large part of the aid remains with US institutions and their subcontractors and does not reach its target groups. Projects are chosen for their economic, political and administrative benefits to donors. Much advice is ill-adapted to the needs of the recipients (Vaclav Klaus: "Soft advice for hard currency."). This might be an area where US private donors are different. They seem to be very effective. Volunteers are relatively cheap and ready to spend more time in CEE or the FSU. Thus, they are able to adapt to the local needs and provide real assistance, particularly in tricky fields such as institution-building, training, and designing appropriate policies. This partially explains the high profile of US assistance in CEE; European and, in particular, German experts tend to stay for only a short time.

During the first phase of the revolution the task seemed simple. The old state apparatus had to be destroyed to free the people from political oppression and open up the opportunities of a free market system. The assistance, apparently, merely had to prime the pump a little and give some advice and training to the nice, young former dissidents. The whole operation fit well established traditions of US foreign aid and policy: fighting against communism and containing Soviet expansionism.

Since 1992, the situation has become much more complex. The Soviet Union has disappeared, and free markets are not emerging by themselves, let alone producing prosperity on western levels. Democracy has given way to apathy and instability, and nasty nationalist dictatorships are threatening peace and human rights in the region.

The transformation has become a cumbersome struggle to establish new political, administrative and societal conditions for economic development. Most economies in CEE and the FSU have experienced a deep re-

cession discrediting free markets. The right political partners are harder to find. In many countries, more or less reformed former communists have regained much of their influence, and are even an important force against authoritarian and nationalist groups. The US has to face these new realities. It is now engaged in a soul-searching process in regards to a new foreign policy after communism's defeat, in particular vis-à-vis East Europe.

2. The European Union (EU)

The EU started the PHARE (Poland Hungary Assistance for the Reconstruction of the Economy) program in 1989. The program has since been enlarged to cover the other CEE countries. In 1991 the EU added a second major program, TACIS (Technical Assistance to the Community of Independent States), that covers the Former Soviet Union (except the Baltics) and Mongolia. Both programs originally consisted of only grants for technical assistance.

The limitation on technical assistance reflected the original view held by many donors that the communist economies had a sufficiently great capital stock due to their high savings rates but suffered from a very inefficient allocation of capital. Subsequently, replacing centralized allocation by markets was expected to improve the performance rapidly without the injection of new capital. The experience of the first years showed that the existing capital stock was of a very poor quality and needed substantial modernization as a condition for a sustained recovery.

Thus, a small portion has later earmarked for investment promotion and co-financing. The aid programs are elaborated along with the governments of the recipient countries. There is a special budget line for regional projects. By 1994, PHARE had spent the total amount of 4,283 million ECU for 11 countries, and TACIS the total amount of 1,870 million ECU for 13 countries.

EU assistance focuses on human resources, food, infrastructure, development of the enterprise sector, and nuclear safety. Since 1992, there are special "Democracy Programs" within both PHARE and TACIS to promote the development of democratic institutions.

Besides PHARE and TACIS, there are a plethora of further specialized programs with witty acronyms (OUVERTURE, JOPP, TEMPUS, COPERNICUS, EAST, GREEN, COST, ERASMUS, SPES/ACE) for which CEE countries are eligible, too. The European Steel and Coal Community also provides aid. Most financial assistance comes from the EIB (see below).

Trade policies providing easier access for CEE to the EU market complement the aid effort. The EU signed trade and cooperation agreements with most CEE countries. Ten central European countries have signed association agreements with the EU and are supposed to join the EU at an indefinite date.

European Investment Bank (EIB)

The EIB started its activities in CEE in 1989 when the governors decided to provide loans to CEE countries with a total volume of up to 1.7 billion ECU. In the beginning, only Bulgaria, Poland, Romania, the Czech and the Slovak Republics, and Hungary could borrow from the EIB. Albania, the three Baltic states and Slovenia have since been included and the potential amount has been increased by 3 billion ECU plus 150 million ECU for Slovenia. Thus, the EIB operations are virtually limited to the countries associated with the EU while the other international financial institutions (IMF, EBRD, World Bank) cooperate with both CEE and the CIS countries.

The bank only co-finances projects, requiring 50% of the total investment to come from other sources (from the recipient countries or other donors). The EIB specializes in infrastructure projects. In order to reach smaller borrowers, the EIB uses the instrument of "global loans" given to financial institutions in recipient countries which are supposed to extend small single loans out of the global loan to their clients. As of mid-1995, credits given by the EIB totaled 2,913 million ECU for 51 projects.

Table 2: Regional distribution of EIB lending operations 1990–95

Borrowing country	Projects number	Amount million ECU
Poland	10	886
Hungary	7	537
Czech Republic	5	477
Romania	6	290
Bulgaria	5	286
Slovak Republic	6	253
Slovenia	2	88
Estonia	4	52
Lithuania	3	29
Albania	2	10
Latvia	1	5
Total	51	2,913

Source: EIB

Table 3: Sectoral distribution of EIB lending

Sector	Number of projects	Amount
Global loans	13	528
Infrastructure	37	2,368
Forestry	1	13
Total	51	2,913

Source: EIB

Among the infrastructure projects, the EIB specializes in energy, telecommunication, and transport. Sixteen of the transport projects make-up part of the “Trans European Nets” (TEN) program.

3. Multilateral donors

The most important multilateral donors are the international financial institutions: The International Monetary Fund (IMF), the World Bank (IBRD), and the European Bank for Reconstruction and Development (EBRD). These institutions primarily extend credits. They have, however, also provided technical assistance, mostly linked to their financial

assistance. In some cases, the technical assistance, such as policy advice, has been considered even more important than the actual lending operations.⁸

There were other multilateral donors involved in CEE, such as OECD, EFTA, UNDP, and other UN agencies which provided very little financial assistance and whose activities are therefore not included in this paper.

World Bank⁹

While in 1989 only Yugoslavia, Romania, Poland, and Hungary were members of the World Bank, by 1991 Albania, Bulgaria and Czechoslovakia had also joined the Bank only to be followed in 1992 by Russia, Estonia, Latvia, Lithuania, Armenia, Azerbaijan, Belarus, Moldova, Ukraine, Kazakhstan, Kyrgystan, Georgia, Turkmenistan, and Uzbekistan, and 1993 by the Czech and Slovak Republics, Slovenia, Croatia, Macedonia, and Tajikistan.

By 1994, the Bank had opened offices in the three Baltic countries, in Albania, Belarus, Bulgaria, Hungary, Kazakhstan, Kyrgystan, Poland, Romania, Russia, Ukraine, and Uzbekistan.

The World Bank committed 13.5 billion US\$ to CEE between 1990 and 1994. In its fiscal year 1990 the Bank lent only to the then members Hungary, Poland and Yugoslavia (1.8 billion US\$). Afterwards, it increased the regional scope and size of its lending (with the exception of fiscal year 1992). As of June 30, 1994 the main borrowers in the region were Poland and Russia (The high values for Yugoslavia, Hungary and Romania show mostly old debt from before 1989).

Table 4: World bank lending to CEE

Borrowing country	Number of projects	Amount million US\$
Yugoslavia	*90	*6,115
Poland	19	3,657
Hungary	*32	*3,635
Romania	*41	*3,535
Russia	10	2,890
Bulgaria	7	593
Czechoslovakia	1	450
Czech Republic	2	326
Kazakhstan	4	274
Belarus	3	170
Slovak Republic	2	135
Croatia	1	128
Moldova	2	86
Estonia	3	80
Lithuania	2	86
Slovenia	1	80
Latvia	2	70
Macedonia	1	40
Uzbekistan	1	21
Ukraine	1	27
Armenia	1	12
Total	226	22,410

* Yugoslavia before 1989	87	5,123
* Romania before 1989	33	2,184
* Hungary before 1989	1	1,977

Source: various annual reports

The Bank already stressed in 1990¹⁰ the need for CEE to combine macroeconomic stabilization and structural adjustment with political and social change. It underlined its role as an institution providing policy advice, training, and policy-based lending. In a Bank publication on its role in CEE and the FSU, the Bank gives a fairly comprehensive picture of all components of the transformation and the assistance needed covering the following areas:¹¹

- Stabilization
- Institution-building

- Labor markets, social policy
- Infrastructure
- Private sector development
- Building a new financial sector

An analysis of the sectoral distribution of projects (loan commitments) shows a different picture with clear priorities for stabilization with 35.7% of all funds and infrastructure (energy, transport, telecommunication, housing) with 38.6%. The remaining 25.7% is mainly spent on the private and financial sector and on agriculture. Both labor market development, social policy and safety nets (7.5%) and institution building (1.5%) receive relatively little funding. Of course, social and political development projects require less capital input than infrastructure. Thus, the small financial weight distorts the picture somewhat.

European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD) is the single most important institution that has been explicitly set up to assist the transformation in CEE. The founding agreement was signed in 1990 and the EBRD started its business in 1991. Its total capital is 10 billion ECU, of which 2.956 had been paid by 1991. According to Article 11.3 of the agreement, the bank is supposed to lend 60% of its loans to the emerging private sector in CEE.

The change in the EBRD's management in 1993 from Attali to de Larosière had little impact on its external lending policies, as it concerned basically internal spending and the organization of the bank.

Table 5: EBRD activities 1991-1994

Year	Number of projects	Amount million ECU
1991	16	427
1992	54	1,226
1993	91	2,276
1994	109	2,409

Source: EBRD reports

Table 6: Regional distribution of EBRD lending operations

Borrowing country	Number of Projects	Amount million ECU
Russia	39	1,074
Poland	41	900
Hungary	31	742
Czech Republic	21	482
Romania	19	471
Slovenia	13	309
Slovak Republic	10	273
Ukraine	5	162
Belarus	5	145
Bulgaria	11	130
Kazakhstan	2	112
Uzbekistan	3	105
Estonia	7	104
Croatia	3	95
Lithuania	4	83
Macedonia	4	79
Armenia	2	65
Latvia	5	59
Albania	6	49
Azerbaijan	1	43
Turkmenistan	2	37
Moldova	1	25
Kyrgyzstan	2	16
Georgia	1	15
Regional	11	195
Total	251	5772

Source: EBRD reports

As table 7 below shows, the EBRD focuses its lending on infrastructure (transport, telecommunication, and energy together make up about 42% of all funds) and on the financial sector and enterprise development (28%). The EBRD stresses the multiplier effect of its investments. Most EBRD loans induce other investors to provide additional funding for the supported projects. They also are used to reduce the risks for other investors. The total costs of the projects co-financed by EBRD exceeds the EBRD share by a factor of 4 to 6, depending on the year and the type of projects involved.

Table 7: Sectoral distribution of EBRD lending operations

Sector	Number of projects	Amount
Financial sector, enterprise development	79	1,632
Transport	34	1,101
Telecommunication	25	796
Energy	16	564
Manufacturing industry	45	559
Mining and resource-based industries	10	482
CEAL*, co-financing, RVF**	12	306
Trade and tourism	13	137
Agroindustries	13	119
Community development, social services	4	75
Total	251	5,772

* Central European Agency Line, **Regional Venture capital Fund

Source: EBRD reports

Two specific features of the EBRD activities include the programs for nuclear reactor safety and for technical assistance. Both programs receive additional funding from EBRD members (other western donors).

- For the reactor safety account 14 western donors and the EU provided 154 million ECU. Up to 1994, two projects with a total volume of 57 million ECU have been approved to improve the safety of reactors in Bulgaria and Lithuania.
- The EBRD carried out 872 technical assistance projects with a volume of 220 million ECUs between 1991 and 1994. Almost two thirds of these activities served to prepare loan projects.

The International Monetary Fund (IMF)¹²

Some of the former communist countries were already members of the IMF in 1989/90: Poland had joined the IMF in 1986, Hungary in 1982, Romania in 1972. Czechoslovakia rejoined the IMF (it was a founding member, but left in 1949) in 1990, Bulgaria also became a member in 1990, Albania in 1991, Russia and the Baltic states in 1992, most CIS countries as well as Croatia, Slovenia and FYR Macedonia in 1993.

Between 1990 and 1992, the IMF lent a gross total of over 10.8 billion SDR (Special Drawing Rights) to CEE, more than any other internatio-

nal financial institution. The bulk first went to Poland, soon followed by Russia. Most credits were extended via stand-by-agreements (S), which are the traditional short term loan agreements of the IMF. CEE countries also benefited from other loan facilities with longer maturities such as the "Extended Arrangements" (E), the "Enhanced Structural Adjustment Facility," and the "Compensatory and Contingency Financing Facility" (CCFF). In April 1993, the IMF even established a special new facility virtually for CEE, the "Systemic Transformation Facility" (STF). The conditions of the STF are in the upper credit tranche of the standby agreements. The loans are extended in order to mitigate balance of payments problems arising from the change from non-market to market-based trade. Besides the Slovak Republic, mostly CIS countries have borrowed from this facility, in particular Russia with two one-billion-SDR loans.

Table 8: IMF lending to CEE 1990-94

Borrowing country	Loan Agreements Number	Amount	Year Million SDR	Type
Poland	4	2,790	1990, 91, 92, 94	S, E, CCFF
Hungary	3	1,613.2	1990, 91, 93	S, E
Romania	3	1,014.5	1991, 92, 94	S, STF
Russia	3	2,875.6	1992, 93, 94	S, STF
Bulgaria	3	341	1992, 1994	S, STF
Czechoslovakia	1	236	1992	S
Czech Republic	1	177	1993	S
Albania	2	62.36	1992, 1993	S, E
Yugoslavia	1	460	1990	S
Kazakhstan	2	247.6	1993, 94	S, STF
Belarus	1	70.1	1993	STF
Slovak Republic	1	64.5	1993	STF
Croatia	1	130.8	1994	S, STF
Moldova	3	110.3	1993	CCFF, STF
Estonia	2	39.5	1992, 1993	S, STF
Lithuania	3	134.6	1992, 93, 94	S, STF
Latvia	3	123.6	1992, 93, 94	S, STF
Macedonia	1	12.4	1994	STF
Ukraine	1	249.3	1994	STF
Kyrgyzstan	3	130.3	1993, 94	S, STF
Total	42	10,882.66		

Source: UN-ECE: Economic Bulletin for Europe, various issues

The IMF promoted, above all, stabilization and liberalization, as required in its statutes. Through its technical assistance, the IMF tried to support the establishment of an appropriate institutional framework for these policies, such as independent central banks, statistical offices, finance ministries and tax authorities. The IMF focus on stabilization has been widely criticized as inefficient and harmful under the conditions of transformation economies.

Comparison of multilateral donors

The policies of multilateral donors reflect primarily their statutory tasks and traditional instruments. The IMF does macro-economic policy lending, the World Bank some structural adjustment and infrastructure, and the EBRD has a statutory obligation which leads it to prefer the private sector.

All multilateral lending is regionally well balanced. The three institutions lend to almost all of the countries of CEE. The IMF spent more than 50% on Poland and Russia, similar to the World Bank, while the EBRD cooperated more than the others with new states, such as Slovenia, Ukraine, and the Czech and the Slovak Republics. The EBRD lending has a regional component as well.

Notes:

- 1 Contrary to the normal anglo-american usage, the term CEE here also includes the countries of the Former Soviet Union (FSU).
- 2 G 24 data is used instead of OECD data because the OECD report on aid flows does not show the appropriate sectoral distribution of assistance.
- 3 Data provided by the BMF; the amount includes the German share of EU aid (8.3 billion), EBRD capital (1.7 billion), Soviet troop withdrawal (17.4 billion), and financing the transfer ruble balance of the former GDR (30.9 billion).
- 4 As given in footnote 3. Data differs from the G 24 data in table 1 due to different base periods.
- 5 As listed in footnote 2, i.e. 58.3 billion DM.
- 6 See Far Eastern Economic Review of August 13th, 1992 and FT of February 7th, 1995.
- 7 This section is a summary of the findings of a research project supported by a grant of the German Marshall Fund of the U.S. The complete report has been published in: *vierteljahresberichte. Problems of International Cooperation*, no. 134, 1993 under the title: *Zwischen Romanze und Realpolitik. Die amerikanische Hilfe für Osteuropa.*

- 8 See J.C. Brada et al.: The Role of International Financial Institutions in Central and Eastern Europe, in: *Journal of Comparative Economics* 20, p. 49–56 (1995).
- 9 See also C. Wallich: What's Right and Wrong with World Bank Involvement in Eastern Europe, in: *Journal of Comparative Economics* 20, p. 57–94 (1995).
- 10 See W. Wapenhans: The Challenge of Economic Reforms in Eastern Europe, in: *Finance and Development*, December 1990, p. 2–5, in particular the box: The Role of the World Bank Group, p. 4.
- 11 K. Dervis, M. Selowsky and C. Wallich: The Evolving Role of the World Bank. The Transition, in: *Central and Eastern Europe and the Former Soviet Union World Bank*, Washington, DC, (1994).
- 12 See also K.H. Kleine and E. Thien: The Role of the IMF and the World Bank in the Former Eastern Bloc Countries, in: *Intereconomics*, January/February 1992, p. 20–27; and M. Rodlauer: The Experience with IMF-Supported Reform Programs in Central and Eastern Europe, in: *Journal of Comparative Economics* 20, 95–115 (1995).

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