Archive Management for the President's Office

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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: September Presidential Archives: Initial VPU Briefing for Mr. Wolfensohn

-Europe and Central Asia (ECA) (6/28/95), background, issues for discussion

-ECA Region's Cooperation with EBRD, note prepared by Wilfried Thalwitz, Vice President for Europe and Central Asia

DATE: 09/05/95

C. VPU

Corporate
- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

Regional
- [ ] AFR
- [ ] EAP
- [ ] ECA
- [ ] LAC
- [ ] MNA
- [ ] SAS

Central
- [ ] CFS
- [ ] DEC
- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

Affilliates
- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector
- [ ] Part I
- [ ] Part II
- [ ] Other

E. COMMENTS:

Europe and Central Asia (ECA)

June 28

8:30 AM

ECA

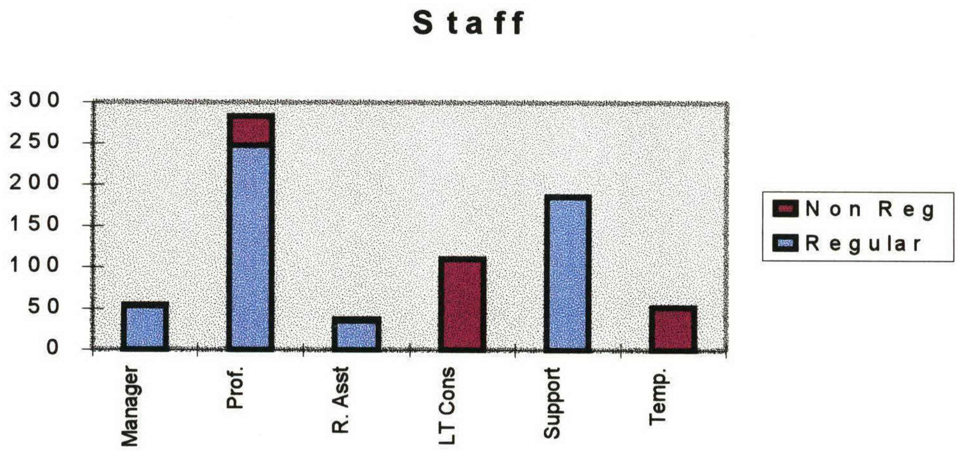
Europe and Central Asia

A. Staffing

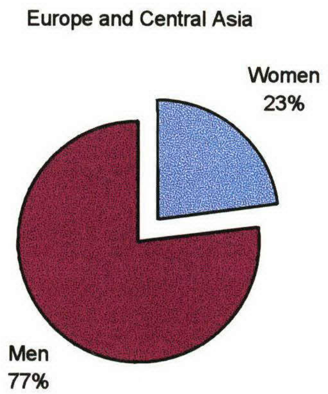
Distribution

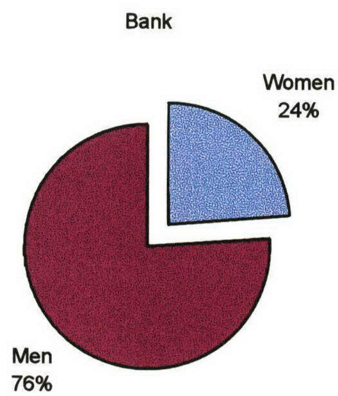
- 375 Higher Level Staff
- Total 723 including Consultants

Flexibility: 6% Fixed Term
22% LT Cons/Temp



Women: Percent Professional/Managerial





Years of Service/ Age

Higher Level Staff	ECA	Bank
Avg Age	46.6	46.6
Years of Service	12.1	11.4
Age at Entry	34.6	35.3

B. Operations FY96

New operations:	53
New loans and credits:	$5.2b
Projects under supervision:	179
Borrowers' Obligations (4/95):	$16.8b

C. Resources and Budget FY96

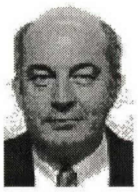
Own funds:	$120m
Trust funds and fees:	$40m
Support from other units:	$16m
Field Offices:	14

Management Team - Europe and Central Asia Region

Wilfried Thalwitz, Vice President, German, previously was Vice President for Policy, Research and External Affairs; Africa Region; and Europe and the Middle East and North Africa Region.

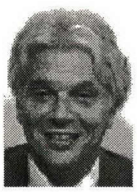
Photo not available

Rachel Lomax, Director, covering 6 countries including **Bulgaria, FYR Macedonia, Romania and Turkey**. She is a **British** national and joined the Bank March 1995. Previously, Deputy Secretary , UK Treasury and Cabinet Office.

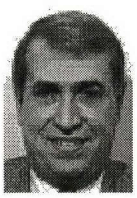


Kemal Dervis, Director, covering 8 countries including **Czech Republic, Hungary, Poland and Republic of Bosnia**. He is a **Turkish** national. Previously, Chief Economist for the Middle East and North Africa Region.

Yukon Huang, Director, covering 7 countries including **Russia and the Central Asian Republics.** He is a **US** national, previously the Division Chief of the Russia Division.

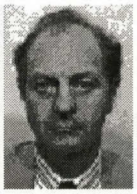


Basil Kavalsky, Director, covering 8 countries including **Belarus, The Baltics, and Ukraine.** He is a **South African** national, previously Director of the Resource Mobilization Department dealing with IDA.

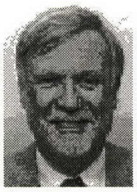


Ghassan El-Rifai, Director, Resource Mobilization and Private Sector Development. He is a **Lebanese** national and joined the Bank in 1972, previously Vice President of MIGA.

Anil Sood, Director, ECA/MNA Technical Departments. He is an **Indian** national, previously the Division Chief of the Central European Division.



Marcelo Selowsky, Chief Economist, He is a **Chilean** national, previously Chief Economist for Latin America.



Claude Blanchi, Senior Operations Advisor. He is a **French** national, previously Assistant Director of the Agriculture Department.

Paul Cadario, Chief Administrative Officer. He is a **Canadian** national, previously Unit Chief in the Asia Technical Department.

John Waterston, Chief Personnel Officer for ECA and MNA. He is a **US** national, previously the Division Chief of the Staff Development Division.

Meeting Between Mr. Wolfensohn and the ECA Region

Background and Issues for Discussion

A. SETTING AND DISTINCTIVE FEATURES

- **Great diversity among the 24 transition countries:** Per capita incomes range from $7000 for Slovenia to $1900 for Russia to $600 for Kyrgyz Republic to $400 for Albania.[1] In Central Europe, memory of markets and proximity to Western Europe is in sharp contrast to total novelty of markets and democracy in non-Baltic Former Soviet Union. Strength of political will to reform is diverse. Communists as social democrats have returned to power in a half-dozen countries.
- **Sharp contrast between energy exporters and importers.** Movement toward world price levels resulted in several-fold price increases. Half of Ukraine's $6 billion financing requirement is for energy imports from Russia and Turkmenistan.
- **Required ownership change and factor reallocation**: Public ownership to be reduced sharply (initially 90-95 percent of output). Massive reallocation of labor and capital out of military, investment goods production and negative value added activity.
- **Associated redistribution of income and power creating social and political tension:** There is no evidence of desire to go back, but electorates are giving signals to slow down and to protect their "entitlements".

B. FOUR STRATEGIC AREAS FOR ECA REGION

1. **Privatization, Private Sector and Enterprise Reform**
   - **Issue:** Not possible to achieve rapid reduction of public ownership without mass privatization. Fast privatization combined with price and trade liberalization essential to minimize limbo, promote factor reallocation and facilitate private sector entry. Establishment of secondary market critical to improve governance of privatized enterprises. Commercial banks unable to extend sufficient credit to healthy enterprises because of large share of non-performing loans of distressed enterprises.
   - **Bank Strategy**: Privatization and price/trade reform remain key conditionality in adjustment loans. Bank strategy emphasizes speed. Technical assistance loans help pay for expertise. Containing the drain from distressed enterprises is also key conditionality, often via isolation of large distressed enterprises in institutional "jails". Bank should not support investment in commercial enterprises remaining in the public sector. Rather the strategy is to assist in the downsizing of these enterprises and relieving them of social responsibilities so as to facilitate privatization.

1/ While Turkey is not a transition economy, it requires many of the same deep structural reforms in privatization, social protection and public sector enterprises to reach its potential. Turkey also shares with the East European countries close association with the EU. The Bank will continue to press for reform.

2. **Financial Sector Development**
   - o **Issue:** Only practical way to provide direct support to post-privatization and private entrepreneurs is through financial institutions. Yet in most countries there are only a handful of sound banks--if any.
   - o **Bank Strategy:** Emphasis institution building, sectoral policy reform, and provision of internationally intermediated funds through special partnerships with selected "best" banks.

3. **Social Policy and Safety Net**
   - o **Issue:** Universal entitlements to broad set of benefits and job security inherited from socialism incompatible with market incentives and fiscal balance. At the same time, there is urgent need to protect the most vulnerable households and basic social services--with danger of political collapse otherwise. Resources need to be shifted from "protecting enterprises" to "protecting families". For example, government financial transfers to Russian enterprises represent about 7 percent of GDP; over 15 percent of Belarus GDP goes to agricultural producers.
   - o **Bank Strategy:** Natural focus for the Bank--neither the private sector nor other multilaterals can do much in this area. Bank strategy emphasizes sectoral policy--both poverty and fiscal dimensions--and special efforts in health, labor markets, and social asset divestiture to local governments. Bank is increasingly supporting initiatives at community level to attack poverty, in partnership with NGOs.

4. **Infrastructure Development**
   - o **Issue:** Collapse in public savings and investment and deferred maintenance threatening basic public services and prospects for recovery. At same time, excessive public investment is going to questionable commercial investments.
   - o **Bank Strategy:** Financing infrastructural public goods is unquestioned area for financing by the Bank. We complement with sectoral policy advise and assist in mobilizing private sector participation through contractual compliance guarantees. Other key public players are EU/EIB and EBRD. Bank stresses country-wide investment priorities which sometimes are at odds with more politically or commercially driven projects.

C. KEY OPERATIONAL ISSUES AND DILEMMAS

- o **Financial assistance has to match domestic reform:** Otherwise premature lending will end up in capital flight or wasted in inefficient sectors. The Bank will have to continue resisting G-7 pressures for politically-motivated lending and/or inequitable burden sharing to make up for shortfalls in overall financing. Levels of Bank support will be circumscribed by creditworthiness concerns. For example, Bulgaria's external debt exceeds GDP. Bulk of Russia's $93 billion debt is short term or due over next six years and, in addition, owed or guaranteed by fiscally weak federal government.
- o **Stabilization key to growth:** Evidence is that stabilization has resulted in output recovery within a short period. IMF's major role is fiscal and monetary discipline, but there is considerable overlap with underlying structural elements which we are

managing in collaboration with IMF.

- **Enforcement key to private sector confidence**: The Bank may need to expand its capability to assist in strengthening of judicial and regulatory institutions.
- **Market for contractual guarantees**: Bank needs to understand extent of potential and ways to exploit it. We need to find out whether out limited success so far is due to lack of demand, client understanding of the instrument or our procedures. In specific cases, we need to gauge how much associated lending is necessary to make our guarantee attractive and efficient.
- **Absence of clarity among levels of government constraining social sector support**: In large countries (Russia, Ukraine), social responsibilities have been devolved largely to the local level. Lending for the benefit of local governments in the absence of fiscal clarity among levels of government will be a major challenge.
- **Nuclear energy**: The Bank continues its policy of not lending for nuclear power, but the G-7 want the Bank to play a major role in retiring unsafe plants. We must emphasize non-nuclear alternatives in our lending program, but we resist pressures to impose outright conditionalities on nuclear plants closure (for example, Chernobyl).
- **Oil and gas**: Given magnitudes involved, Bank may be asked to support very large transboundary investment for pipeline and field development. There are questions of instruments (guarantees, direct lending), policy issues (price, taxation and territorial rights) as well as issues of political hegemony.

D. LENDING PROGRAM

- **Surge in membership and commitments**: Country coverage expanded from 14 in FY93 to 21 in FY94 and 3 new borrowers in FY95. The number of operations have increased steadily, from 30 in FY93 to 42 in FY94 to 58 projected in FY95. Commitments should reach $4.5 billion this fiscal year, up from $3.7 billion in FY94 and $3.8 in FY93. Total cumulative commitments since FY90 now stand at $20 billion.
- **Outlook**: Region expects annual lending program to level out at about $6.5 billion and total portfolio to reach $30 billion by 1997.
- **Implementation load**: Project disbursements are about 15 percent of loan balance per year. Implementation in inexperienced countries is extremely difficult. Region has field presence in 17 countries to improve performance on-the-ground.

May 15, 1995

note fron Jane ...

ECA Region's Cooperation with the EBRD.

Note prepared by Wilfried Thalwitz, Vice-President for Europe and Central Asia.

BACKGROUND

EBRD has rapidly grown into a major source of support for the transition economies of Eastern Europe and the Former Soviet Union. By end-1994, EBRD had accumulated a portfolio of about $7 billion, with new commitments of $2.9 billion in CY94. This compares to the Bank's portfolio of about $17 billion and new commitments of $4.1 billion in CY94 for the same group of countries. IFC approved financing was approximately $0.6 billion in FY94.

Under Mr. de Larosiere's leadership, EBRD's emphasis has shifted from development (policy reform and public investment) to support for private investment. EBRD is making effective use of its ability to lend without sovereign guarantees and to invest in equity. Also, it has been quite successful at getting private sources from the west involved in deals with local financial institutions, investment funds and corporations -- demonstrating the considerable expertise EBRD has acquired in this area. Therefore, EBRD's activities are becoming increasingly complementary to those of IBRD/IDA, and "competing" with those of IFC.

Bank-EBRD cooperation is most visible in the area of cofinancing where EBRD and the Bank have committed $1.1 billion and $2.7 billion respectively in jointly financed operations to date. Other areas of cooperation are also important. For example, in the power sector the two institutions have shared or cooperated in sector work and investment identification in Albania, Slovakia and Georgia; and have then divided the program between them, with close coordination ensuring that project covenants are mutually consistent. A similar development is underway in the Baltics with regard to the banking sector. A more systematic approach is being pursued in the transport sector where there are semi-annual coordination meetings covering all countries. In several sectors there have been joint seminars for donors or clients. The two institutions also have worked closely in the follow-up to G7 initiatives such as in nuclear energy (an area where EBRD can lend but the Bank does not) and privatization in Russia (including cofinancing financial institutions development and enterprise support loans). A current example of outstanding cooperation is the rapid response to the Komi oil spill which we are developing jointly. Generally, though, most of the technical work in these collaborative efforts is provided by the Bank.

As the EBRD focuses increasingly on financing investment deals it becomes crucial to coordinate the advances on the sector policy front (where the Bank is usually more heavily involved) and the provision of investment finance. It is important to avoid situations in which the offer of investment finance weakens the resolve of the government to take painful sector policy measures (e.g., on utility tariffs or on the restructuring/privatization of public enterprises). Coordination generally has been successful due to excellent working relations between operational staffs. However, there have been instances in which EBRD felt it could invest in an enclave situation but the financing offer then had a negative effect on the Bank's overall sector policy dialogue (power and water projects in Poland, a water project in FYR Macedonia, and a credit line in Moldova). One response would be to institute more formal procedures such as the semi-annual coordination meetings in the transport sector, but we are concerned about burdening a generally excellent, informal working relationship as long as there are only a few such cases.