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THE WORLD BANK

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Finland 1992
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Subject Files: Country Files - Finland - Correspondence 01

OFFICE MEMORANDUM

DATE: December 17, 1992

TO: Mr. Lewis T. Preston, EXC

FROM: Alexander Shakow, EXTDR

EXTENSION: 31828

SUBJECT: Meeting with Mr. Paavo Vayrynen, Minister of Foreign Affairs of Finland

On Friday, December 18 at 3:45 p.m. you are scheduled to meet with Mr. Paavo Vayrynen, Minister for Foreign Affairs of Finland. Mr. Vayrynen will be accompanied by:

- Mr. Jukka Valtasaari, Ambassador, Embassy of Finland.
- Mr. Ossi Rahkonen, Commercial Counselor, Embassy of Finland.
- Mr. Rauli Suikkanen, Counselor, Ministry of Foreign Affairs, Helsinki, Finland.
- Mrs. Jorunn Maehlum, Executive Director.

Mr. Lars Jeurling -- who as of January 1, will be the Bank's Resident Representative for Latvia, Estonia and Lithuania -- will also attend the meeting, as will I.

Mr. Vayrynen is seeing Mr. Thalwitz just before he visits you. (The briefing note for that meeting is attached for your information). We understand that Mr. Vayrynen would like to discuss the situation in the FSU, especially the Baltics. More specifically, we understand he would like to discuss:

- The present situation in Russia, and the Bank's role generally in the reform effort.
- The Bank's lending and other activities in the Baltics and FSU republics. (FY93 rehabilitation loans to each of the Baltics are now effective; in FY94 there will be energy/environment loans to each country; and in FY95 enterprise reform and financial restructuring loans are planned.)
- Finnish plans and Finnish concerns for the Baltics and Russia. How these might fit into the Bank's plans, and specific possibilities for cooperation between the Bank and Finland. (Note discussions are underway in Helsinki to arrange Finnish support for the Riga Office. There is no definite word yet but the signs are hopeful.)

- The discussions now going on in Paris at the Preparatory Meeting of the Russia Technical Assistance Coordinating Group.

While Mr. Thalwitz will discuss these matters in detail, it might be useful for you to have the Minister's views of political developments in the FSU, especially given recent events in Russia.

More broadly, you might ask the Minister to explain the current Finnish aid situation. Despite great pressure to cut further, the Finns have agreed to hold to a 0.4 percent ODA/GNP ratio for three years and then return on the path to 0.7 percent. You might thank the Minister for maintaining their share in IDA10, even as the rest of their aid program has been reduced sharply.

You will be in Finland on January 20-21 to meet the Nordic development officials and Finnish authorities. Plans are still being arranged but you are likely to see the Foreign Minister again at that time.

Also attached for your information are: a summary table outlining Finland's participation in the World Bank; a background note on the political, economic and aid situation in Finland; and a biographical note on Mr. Vayrynen.

cc: Messrs. E. Stern, EXC; B. Alisbah, PAAVP; W. Thalwitz, ECAVP; J. Grenfell, Paris Off.; L. Jeurling, EC3DR
Mesdames Armitage, Mohadjer, O'Hara, EXC; Maguire, EXTDR

Attachments

OFFICE MEMORANDUM

DATE: December 17, 1992

TO: Mr. Wilfried P. Thalwitz, ECAVP

FROM: ^{AK} Adil Kanaan, Chief, EC3C1

EXTENSION: 32952

SUBJECT: Visit of Mr. Paavo Vayrynen, Minister of Foreign Affairs of Finland
Friday, December 18 at 3 p.m.

1. You will be meeting with Minister Vayrynen of Finland on Friday. He will be accompanied by Messrs. R. Suikkanen of the Ministry of Foreign Affairs and Mr. O. Rahkonen of the Finnish Embassy here. As his attached c.v. shows, Mr. Vayrynen has been involved at the highest levels of the Finnish government for some time and reportedly has Presidential aspirations (according to unconfirmed but reliable sources, he is already a declared candidate for 1994).

2. We do not know the exact purpose of his visit, though the ED's office indicated that he would like to discuss "projects in Russia and the Baltics". Finland is a key partner in the Baltics and his Ministry has overall aid coordination responsibility. You may want to discuss the following:

- (a) Annual Co-financing Consultations took place on November 12, 1992. Finnish delegation led by Ambassador U. Turunen and included Messrs. Suikkanen and Rahkonen as well as a large group of Ministry and Agency officials. We discussed all aspects of our respective programs and agreed to stay in close touch and share IEPS's for new operations when they are ready in early 1993 (Energy/Environment and Enterprise/Financial Sector Reform operations were of particular interest).
- (b) Rehabilitation Co-financing. Finland is financing the implementation-related TA linked to our Estonia Rehabilitation loan (about US\$0.75 million equivalent). The Finnish advisers (from the Government purchasing Agency, VHK) have been instrumental in getting the procurement process going quickly (the Bank has now approved several bidding documents and the contract award for heavy fuel oil). We are very pleased with the arrangement - excellent working relations.
- (c) Advisers for Resident Mission. Discussions are underway in Helsinki to arrange Finnish support for the Bank's Riga office. Such support may finance an environmental expert and a finance/enterprise expert. There is no definite decision yet but signs are hopeful. You may wish to solicit the Minister's support on this matter.

- (d) TA for Structural Reform Program. The Bank recently sent a letter to all donors on behalf of the Baltic governments inquiring about their interest in financing TA related to the reform program (including enterprise and financial reform, demonopolization and social safety net TA). EC PHARE has indicated their strong interest and involvement in all of these areas, but there is certainly room for other donors to become involved if they are interested. You may want to ask the Minister whether Finland would be interested in any of the areas outlined in our letter.
- (e) Finnish Aid to the Baltics. In view of the sharp downturn in the Finnish economy, you may want to ask the Minister whether Finnish aid levels will be maintained in 1993. Finland is the largest single donor in the Baltics, financing a wide range of activities in many sectors (and also recently became Estonia's largest trading partner.) Finland's "Action Plan for Central and Eastern Europe", providing an overview of the program in the Baltics and elsewhere in the region, is attached.

cc: Messrs./Mmes. Kavalsky (ECAVP); Jeurling, Toft, SOD Chiefs (EC3);
EC3C1 HL Staff

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FINLAND AND THE WORLD BANK

World Bank Participation

IBRD Allocated Shares: 0.56% (8,560 shares)	Co-financing: \$191.8 million (FY83-92)
Potential Voting Power: 0.56%	
Unsubscribed Shares: none	SPA2 Pledge: \$106 million
IDA9 Burden Share: 1.0% basic; 1.2% total	Staff on Board: Higher Level: 0.3%
Contribution: SDR 140.34 million	(FY92) Managers: none
IDA10 Burden Share: 1.0% basic	
Contribution: SDR 130 million	
GEF Contribution:	
Core Fund: \$ 26.35 million	Procurement Share: 0.7% cumulative

ODA Program

Net Disbursements: \$930 million (1991); \$846 million (1990)	Trend: Continuation of pre-eminent performance despite recent domestic economic problems.
ODA/GNP: 0.76% (1991) to 0.64% (1990)	

Finland coordinates its aid program with the four major Nordic countries (Sweden, Norway, Finland and Denmark), and together form a constituency on the Bank's Executive Board, along with Iceland. The three Baltic states - Estonia, Latvia and Lithuania - are now represented by the Nordic constituency in the Bank. Finland and other Nordic colleagues are small donors individually, but their ODA relative to GNP is high (around or above 1%). As a group, they form a sizeable bloc, especially in promoting policy issues in IDA. Traditional Finnish concerns include the priority of poverty alleviation in the Bank's work, environmentally sustainable development, and women in development, as well as a strong focus on Africa. Finland has always been a strong supporter of the Bank group, particularly of IDA. However, recently the aid climate has become tougher, particularly due to the extreme difficult domestic economic situation. Overall aid program has been cut in half recently. However, Finland's contribution to IDA has not been affected. For IDA10, Finland will contribute the same percentage share as in IDA9.

FINLAND

Political situation

On Sunday, December 6, Finland celebrated its 75th anniversary as an independent state. The celebration took place in a rather gloomy atmosphere, with Finland in its deepest economic crisis since the end of its dependence on Russia. When the Soviet empire collapsed, the Finnish economy collapsed. Finland is therefore at the present in a worst case situation: forced to find its new place in Europe with its economy in ruins.

The results of the Finnish local elections were typical of a country in recession; those in power lost support, and those in opposition gained. But the balance was not changed to the extent that it led to a government crisis. The Center/Right coalition under the leadership of Mr. Esko Aho continued. Support for the main opposition party, the Social Democrats, has continued to increase since the elections. According to the latest polls, if elections were to be held now, the Social Democrats would win an overall majority in the Parliament.

Recent revelations have not served to bolster support for party leaders. The media revealed just a few days ago that Mr. Ulf Sundquist, the flamboyant leader of the Social Democratic Party, has been personally involved in one of many bank scandals, receiving a substantial sum of money for initiating a merger of two of Finland's largest banks. It would come as no surprise if this incident influenced the polls. People are fed up with what they call "the hypocrites of politics".

A general strike has just been avoided, but the government had to give up an attempt to reduce support for the unemployed. The unemployment support programs are becoming more and more costly because of the steadily rising numbers of jobless.

The Finnish road toward Europe is (as in the other Nordic countries) more and more uphill. While there is still a small majority in favor, the latest polls show that more than 40 percent is against membership. This is a growing headache for the government, which sees EC membership as a future guarantee of the country's political independence. This attitude is a striking example of the difference in approaches to the EC among the Nordic countries; in Sweden and Denmark the strongest argument against the EC is that it would result in the transfer of national sovereignty to Brussels.

The upcoming presidential election, due to take place in the spring of 1994, is already playing a dominant role in the public debate in Finland. The candidates are numerous, especially since the President, Mr. Mauno Koivisto, seems unwilling to run for a third term. For the first time, it is not unlikely that a woman will be elected. One of the "hottest" names is Ms. Eeva Kuuskoski from the Center Party, the former Minister for Health and Social Affairs. Ms. Kuuskoski withdrew from the government earlier this year in protest against the budget cuts in the health and social sector. Due in part to that stand, she has strong public support. Another candidate is the Minister of Foreign Affairs, Mr. Paavo Vayrynen. What he lacks in public support may be compensated by the energy with which he pursues his personal political ambition.

Economic Situation

As a result of the devaluation in November last year, and the floating of the Markka in September this year, Finnish exports for 1992 are expected to increase in volume from 11 to 13 percent. At the same time domestic growth is slow, with the GDP expected to decrease another 2.5 percent in 1992 after slumping by 6.5 percent. A moderate recovery is expected next year with GDP growth of 2-2.5 percent.

The major problem in the Finnish economy is the continuously growing unemployment rate, with 16 percent of the total labor force currently out of work. This is also the main reason why domestic demand for 1993 is expected to fall; household real incomes are expected to be reduced another 3-4 percent in real terms. The devaluations have not led thus far to inflationary pressure. Inflation is expected to continue to be low, as consumer prices are expected to rise by 3 percent in 1993.

The Finnish Government's plan to reduce government spending continues to cut deeply into the country's social and welfare program; this poses increasing difficulties, as more and more people (especially the growing numbers of unemployed) depend on the social security net. Many in Finland would like to see Russia pay back its debt of more than FM 7 billion - but that is wishful thinking.

The Aid Situation

Last April, the government announced a 50 percent cut in Finland's aid budget - the most dramatic cut ever imposed by a Nordic country. The Finnish Government last week decided that no further cuts should be made in that budget. (They had been talking of a further reduction of ODA from 0.4 percent of GNP to 0.25 percent). ODA will remain at 0.4 percent of GNP for the coming next three years. After 1995, the Government's intention is once more to come back to the OECD target of 0.7 percent of GNP.

But the situation is unpredictable. At the same time that the Government decided not to make any further aid cuts, it also decided to abandon the principle of 40-60 balance between multilateral and bilateral aid, leaving it up to the Parliament to decide.

It is difficult to see how a debate in Parliament will go in favor of the multilateral side. Bilateral aid is being looked upon as more effective (because it is more visible) and, even more important in the Finnish situation, it is argued that bilateral aid creates more jobs at home. To complicate the picture even more, there is an NGO campaign being waged against the World Bank, where the argument is that the Bank should not be trusted after the decision to continue the Narmada Dam Project. The NGOs argue that UN-organizations like UNICEF are much more "grass root" oriented. The UNICEF argument has strong support even in the Government, the Defence Minister, Ms. Elisabeth Reen, is also the Chairman of the Finnish UNICEF-Committee.

The Secretary-General of the United Nations, Mr. Boutros Ghali, appealed earlier this year to the Finnish Prime Minister to reconsider the announced cuts in contributions to the UN organizations. The Secretary-General had good reason for doing so. Support for the UN-system in the budget proposal for 1993 is almost erased, from the present FM 540 million to FM 78 million. The Secretary-General's action was unusual, but so is the Finnish situation. It may also have had a positive impact.

To increase the allocations to the UN-system by making further cuts in the bilateral aid program is hardly feasible. More likely, the struggle will be over the balance between the different channels of multilateral aid. And here the World Bank may be in need of a stronger defense than that actually being deployed on the Finnish scene at the moment. The debate on the balance between multi- and bilateral aid is expected to take place in the beginning of next year, when Finnida is presenting an overall strategy for Finnish Development Cooperation towards the year 2000.

In the discussions over Finnish aid cuts, the action plan of the Government of Finland for Central and Eastern Europe should also be kept in mind. Adding together grants, structural adjustment credits, G-24 financing arrangements, government guarantees and Polish debt forgiveness, the total sum is more than FM 2 billion, some FM 300 million more than the total cuts in the aid budget. Discussions about the future of Finnish aid may be a question of semantics: rather than deep cuts, it may be more a case of reallocations.

December 14, 1992

Biographical Note

Mr. Paavo Väyrynen, Minister for Foreign Affairs

Mr. Väyrynen has been in politics most of his life; he was appointed Political Secretary to the Prime Minister in 1970, at 24 years of age. Mr. Väyrynen was brought into the political frontline by the legendary President Uhro Kekkonen, who had great hopes for him, and saw him as a future President.

Mr. Väyrynen ran for the Presidency in 1988 without success. He is also a candidate for the 1994 elections, but as he is competing with several attractive women candidates, the outcome is uncertain. What is not uncertain, however, are Mr. Väyrynen's own political ambitions. Mr. Väyrynen belongs to the Liberal Center Party, and has been Vice-President for the Liberal International since 1988. He came into government in 1975 as Minister of Education, as Minister of Labor in 1976, and as Minister for Foreign Affairs from 1977 to 1987.

When the Asko Aho Government was established in 1991, Mr. Väyrynen came back as Minister for Foreign Affairs.

Mr. Väyrynen is Doctor of Social Science, and has been a Member of Parliament since 1970. He is married and has two children.

Meeting with Minister Vayrynen

File
Finland

IDA 10

Finland's aid budget has recently been cut by 50 percent. However, they have held the line on IDA 10, matching their IDA 9 basic contribution. Unlike IDA 9, Finland will be unable to make a supplemental contribution to IDA 10, and will contribute a total of SDR 130 million, for a 1 percent share. You may wish to thank the Minister for his government's strong support to IDA, despite the severe pressure they face in their aid budget. A draft table on contributions is attached.

RUSSIA: Working Level Meeting

The Working Level Meeting for Russia was concluded this evening in Paris. The Meeting was considered a success as it launched a mechanism for coordinating assistance to Russia. It was agreed that a full meeting consistent with the Tokyo mandate would be held in the last ten days of April. The World Bank will chair the meeting, which will be held in Paris (not Moscow, as the Russians had suggested).

[As background, the mandate given to the Bank at the Tokyo meeting was to hold a meeting 'for technical assistance and other matters related to structural reform'. This formulation was arrived at because the Japanese were unwilling to attend or support a meeting that would discuss resource needs. Given that there are existing arrangements in place to discuss resource needs, such as the Paris Club and London Club, and the G-7 meetings, it was agreed to leave non-technical assistance resource needs off the agenda. However, the meetings in April will not only focus on technical assistance - in a desire by the G-7 to avoid the chairmanship of the EC, the mandate was broadened to include other matters related to structural reform. Practically, it means that projects that have a bearing on structural reform, such as today's privatization assistance loan, could be discussed, whereas the oil sector loan would not be on the agenda.]

For the April meetings, the Government and the Bank will prepare reports and documentation on the following: the broad agenda of structural and sectoral reform; the progress made to date and what remains to be done; information on technical assistance currently under way, and future technical assistance needs.

In response to tremendous donor interest, prior to the meetings in April a detailed paper will be circulated on the organization of the new agency for international cooperation (Shokhin's group).

Also prior to the meetings, the OECD Register of Technical Assistance will be updated to fully reflect all donor technical assistance to Russia.

Ambassador Turunen, representing the External Economic Affairs Department of the Ministry of Foreign Affairs headed, the Finnish delegation to the Russia Working Level Meeting.


Other Consultative Group Meetings

Four other full or pre-consultative group meetings were held in Paris this week. Full CGs were held for Kazakhstan and Kyrgyzstan, and pre-CGs were held for Azerbaijan and Uzbekistan. The country delegations made detailed presentations about their reform programs, that were very well received by the donors. The Bank was largely praised for holding these meetings so soon after being given the mandate to do so in Tokyo, and for the extensive documentation provided that elaborated priorities for assistance.

In general, the country delegations seemed pleased with the support they received at the meetings. Kazakhstan and Kyrgyzstan were expecting more formal pledges, but the Japanese, who have indicated privately that they will provide substantial amounts of assistance, were unwilling to commit to a number publicly. The country delegations and the Bank will follow-up with these discussions in January.

The donors were reluctant to provide balance of payments support, but there were substantial offers of technical assistance. Agreement was reached with the country delegations to have local donor coordination meetings, chaired by the World Bank, to enable the donors to work with the newly formed agencies for international cooperation in each country.

An interesting footnote - Russia attended these four meetings as a donor. Press releases from the meetings are attached.

December 17, 1992 

Draft Table: CONTRIBUTIONS TO THE TENTH REPLENISHMENT

(Amounts in million)

Contributing Members	Basic Contributions		Supplementary Contributions	Total Contributions	National Currency Amount a/ - 5 -
	SDR Amount	Share %	SDR Amount	SDR Amount	
	- 1 -	- 2 -	- 3 -	- 4 -	
Australia	189.80	1.46	2.24	192.04	350.00
# Austria	117.00	0.90		117.00	1,855.46
Belgium	201.50	1.55		201.50	9,345.43
* Brazil b/	10.00	0.08		10.00	10.00
Canada	502.11	3.86		502.11	828.63
* Czechoslovakia b/	10.00	0.08		10.00	10.00
Denmark	169.00	1.30		169.00	1,473.07
Finland	130.00	1.00		130.00	798.37
France d/	912.94	7.02	36.06	949.00	7,222.93
# Germany	1,430.00	11.00		1,430.00	3,222.08
Greece	6.80	0.05		6.80	1,807.23
Hungary b/	10.00	0.08		10.00	10.00
Iceland	3.90	0.03		3.90	316.07
Ireland	14.30	0.11	1.10	15.40	13.00
Italy	662.26	5.09		662.26	1,124,000.00
Japan	2,431.00	18.70	169.00	2,600.00	471,509.74
Korea	30.00	0.23	6.58	36.58	39,442.25
Kuwait	18.08	0.14		18.08	25.00 c/
Luxembourg	6.50	0.05	0.50	7.00	324.66
Mexico b/	35.00	0.27		35.00	35.00
# Netherlands	429.00	3.30	15.74	444.74	1,127.96
New Zealand	14.94	0.11		14.94	38.09
Norway	184.60	1.42		184.60	1,627.23
Poland b/	4.50	0.03		4.50	4.50
Portugal	15.00	0.12	0.50	15.50	2,952.02
** Russia b/	50.00	0.38		50.00	50.00
* Saudi Arabia	108.47	0.83		108.47	150.00 c/
** South Africa b/	10.00	0.08		10.00	10.00
Spain	104.00	0.80		104.00	14,736.52
Sweden	340.60	2.62	7.60	348.20	2,835.60
Switzerland	226.20	1.74	3.80	230.00	473.46
Turkey b/	25.00	0.19		25.00	25.00
United Kingdom	799.18	6.15		799.18	620.00
United States	2,711.69	20.86		2,711.69	3,750.00
Sub Total	11,913.36	91.64	243.13		
Change in Encashments	439.32	3.38			
Change in Liquidity Policy	200.00	1.54			
Equiv. IDA9 Unalloc. Gap	175.44	1.35			
Supplementary Contributions	243.13	1.87			
Funding Gap	28.76	0.22			
Total	13,000.00	100.00			

a/ Calculated by converting the SDR amount in Column (5) to national currencies using an average of daily exchange rates for the period March 1, 1992 to June 30, 1992.

b/ Contributions of members with rates of inflation greater than 15% per annum during the 1989-91 period are denominated in SDRs.

c/ Kuwait and Saudi Arabia indicated levels in US\$. For the purpose of this table, their local currency is assumed to be the US\$.

d/ The basic national currency contribution of France is equivalent to a 7.3 percent share of SDR 13 billion using May-October exchange rates.

These countries have indicated that their unit of obligation will be the SDR.

* Countries with an asterisk are not yet in a position to commit to a level of contribution to IDA10. The levels shown are therefore indicative.

** The levels shown were suggested by IDA management for consideration by the governments concerned.



PRESS RELEASE
For Immediate Publication

AZERBAIJAN

PRE-CONSULTATIVE GROUP MEETING, DECEMBER 16, 1992

Paris, Dec. 16, 1992 -- The first pre-Consultative Group for Azerbaijan met in Paris today, under the chairmanship of Mr. Russell J. Cheetham, Director, Europe and Central Asia, of the World Bank. Representatives of ten Governments, the Commission of the European Communities and eight international and financial organizations met with officials from Azerbaijan to discuss the outlines of the Government's reform program and technical assistance needs and priorities.

Mr. Vahid Akhundov, State Advisor of the Republic of Azerbaijan and Head of the delegation, relayed a message from President Elchibey stating that the Azerbaijani people had "determined unambiguously their choice of building a democratic secular state, based on universal human values, and guaranteeing the rights and freedom of the individual, and of entrepreneurial initiative." The Head of the Azerbaijan delegation then told the Group that the pace of economic reform had accelerated. The Government's program included measures for macroeconomic stabilization, basic structural reforms, and sector reforms related to energy, agriculture, industry and infrastructure. Azerbaijan had issued its own currency; although still circulating in parallel with the ruble, it was soon to become the only means of payment. A law on privatization had been approved, and the authorities planned on privatizing 25 percent of state assets in the coming year. A modern banking system was being established, and both internal and external trade were being liberalized. Although a social safety net was being put in place, he noted the hardships imposed by the transition period, and urged the donors to provide the necessary technical assistance during this difficult period.

Members of the Group responded favorably to, and expressed support for, the Government's economic reform program. They stressed the desirability of more intensive efforts in privatization, establishing a legal framework for private sector development, and the promotion of foreign investment. Participants pointed out that Azerbaijan's medium-term growth prospects were favorable; however, sound economic growth required both political and social stability, and thus depended upon finding a stable and fair solution to the conflicts now existing in the region.

Azerbaijan's technical assistance requirements had been estimated at about US\$50 million. Some members of the Group indicated technical assistance activities already underway, while others

indicated their willingness to provide such assistance and urged the authorities to begin bilateral discussions on specific possibilities. The Chairman concluded that the international community would be able to provide the support needed, but that close attention should be given to arrangements for coordination. In this context, a local assistance coordination meeting would be convened in Baku during the first quarter of 1993. There were expressions of large support for Azerbaijan's inclusion on the DAC list of "Developing Countries."

The delegation from Azerbaijan expressed the Government's desire to move to a full consultative group meeting shortly. The delegation indicated the Government's intention to work closely with the World Bank and the IMF on the economic reform program. It also announced that the Government had established an agency to coordinate financial and technical assistance.

The meeting was attended by representatives of the Governments of Austria, France, Germany, Japan, The Netherlands, Russia, Switzerland, Turkey, United Kingdom and the United States. In addition to the World Bank, other participants included the Commission of the European Communities, the Asian Development Bank, European Bank for Reconstruction and Development, The Organization for Economic Cooperation and Development, International Monetary Fund, Islamic Development Bank, Kuwait Fund, and the United Nations Development Programme, including staff from The World Health Organization, The Economic Commission for Europe, The International Labor Organization, and the United Nations Population Fund.



PRESS RELEASE
For Immediate Publication

CONSULTATIVE GROUP MEETING FOR KAZAKHSTAN

PARIS, December 14, 1992 - Representatives of thirteen governments, the Commission of the European Communities and nine international organizations met in Paris today with officials from Kazakhstan in the first of a series of Consultative Group meetings for the republics of the former Soviet Union. The meeting, chaired by the World Bank, discussed Kazakhstan's reform program and the assistance that governments and international organizations could provide to support Kazakhstan's efforts.

The Chairman of the Consultative Group, Mr. Russell J. Cheetham, World Bank Director, Europe and Central Asia, opened the meeting by noting the historic importance of the occasion. He particularly welcomed the participation of Russia and Turkey, in their capacity as donors. Kazakhstan has undergone rapid political and economic changes since the dissolution of the former Soviet Union. He noted the somewhat unique circumstances confronted by Kazakhstan in attempting to rapidly transform its economy from a command to a market economy. He applauded the bold social and economic moves undertaken by the Government, and praised their strong commitment to future reform. The meeting recognized that, although the transition may be difficult, Kazakhstan's medium-term prospects are particularly favorable if the right policies could be put in place and the necessary external support is forthcoming. The Chairman cautioned the meeting regarding the special importance of an appropriate policy framework for the development of the private sector as a critical means of realizing the country's potential. Kazakhstan's strong agricultural economy, and its petroleum and other natural resources, could provide the means to finance a comparatively rapid economic growth.

First Deputy Prime Minister Sembayev stressed his country's determination to accelerate economic reforms, but also indicated the problems Kazakhstan was encountering in the process. He emphasized that increased assistance was needed to support his

government's efforts in the early stages of transition. Mr Sembayev reiterated his Government's commitment to stabilize the economy, implement far reaching structural reform, and accelerate adjustment in key sectors of the economy. He noted the importance the Government was placing on the potential role for foreign direct investment, and highlighted the Government's privatization program about to be presented to Parliament.

The IMF representative informed the Consultative Group that negotiations on a comprehensive economic reform program were at an advanced stage and that Kazakhstan intends to request a stand-by arrangement from the Fund shortly. He also noted that wide-ranging policy actions are being undertaken to transform the economy. Nonetheless, the task ahead is monumental and will involve difficult decisions. In the near term, generous external financial assistance will be required to sustain the pace of change and avoid a socially and politically unacceptable decline in output and living standards. However, over the medium term, the development of the economy could be financed largely through domestic savings and autonomous capital flows.

Participants in the meeting indicated their strong support for Kazakhstan's economic reform program. Technical assistance already provided covered many areas, such as nuclear safety and disposal of radioactive waste, accounting and auditing, food processing, the manufacture of farm machinery, improving economic and financial statistics, legal reform, the promotion of small- and medium-scale enterprises and privatization. The Government outlined its requirements for additional technical assistance, and both international organizations and donor governments were asked to consider how they could respond to these requests.

The meeting took note of the overall financing needs for 1993 for Kazakhstan. In general, while donors were not able to make firm indications at the meeting, due in part, to timing issues related to budget processes and an interest in seeing further progress in the discussions with the IMF, formal and informal indications of assistance for the reform program suggest that sufficient financing to support the Government's program could be available over the next few months. On this basis, members of the Consultative Group urged the Government to conclude negotiations with the IMF and move ahead with implementation of its adjustment program. Large commitments of technical assistance support were also indicated during the meeting to help the Government develop the institutional capacity to implement its reform program and provide training in key areas of the economy.

Representatives from Austria, Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, the Russian Federation, Switzerland, Turkey, United Kingdom, and United States attended the meeting. In addition to the Commission of the European Communities, the World Bank and the International Monetary Fund, international organizations participating in the meeting included the Asian Development Bank, the European Bank for Reconstruction and Development, the International Finance Corporation, the Islamic Development Bank, the Organization for Economic Cooperation and Development, and the United Nations Development Program. The Kuwait Fund was also represented.



PRESS RELEASE
For Immediate Publication

CONSULTATIVE GROUP MEETING FOR KYRGYZSTAN

PARIS, December 15, 1992 - The Consultative Group for Kyrgyzstan met today in Paris under the chairmanship of Mr. Russell J. Cheetham, Director, Europe and Central Asia, of the World Bank. Representatives of nine Governments, the Commission of the European Communities, and nine international and financial organizations met with officials from Kyrgyzstan to discuss that country's economic reform program. Prime Minister Chingishev, who headed his country's delegation, described the Government's program to transform Kyrgyzstan to a market economy. The meeting discussed how donor governments could provide financial and technical assistance to support this transformation.

The Chairman welcomed the presence of Russia and Turkey as donor countries, and stressed the importance of the contributions they could make. The discussions indicated a high degree of consensus on both the achievements of the Government and the challenges that lie ahead. Having liberalized almost all retail prices, and initiated a program of privatization, Kyrgyzstan was regarded as a country firmly placed on the path to reform. The effective cooperation between the Government and the Parliament in the adoption of a new constitution and the creation of a National Bank, was a source of particular satisfaction. However, output and consumption have dropped considerably since the break-up of the Soviet Union, and a successful transition would require strong national policies adequately supported by external assistance programs. Over the medium-term, Kyrgyzstan was considered to have a strong potential for growth, provided an adequate policy framework was put in place to support the development of promising sectors like agriculture, mining, and tourism, and provided structural reforms involving privatization and the financial sector were implemented.

The Government's reform program was strongly endorsed by the Consultative Group. The meeting noted that, according to the estimates of the IMF and World Bank, Kyrgyzstan would need additional financial assistance of US\$400 to US\$500 million during 1993. Although most donor representatives were not yet in a position to make specific commitments, the Chairman was encouraged by formal and informal discussions that Kyrgyzstan's financing needs for 1993 could be met, particularly if traditional financing flows within the former Soviet Union were to continue. Moreover, donors recognized that much of this assistance should be provided on concessional terms. In this context, a World Bank official indicated that the Bank's first lending operation to Kyrgyzstan would be provided on IDA terms. The Government's delegation expressed its desire for an expeditious decision on its application for membership in the Asian

Development Bank. The IMF representative indicated that negotiations were well advanced on a stand-by arrangement and, subject to final agreement on some further stabilization measures and firm assurances from donors that financing would be available to close the balance of payments gap, a Fund stand-by arrangement could be submitted for the approval of the IMF Board in the coming months. The Chairman urged the donors to firm up their commitments in the next six to eight weeks.

Technical assistance was already being provided by bilateral donors and international organizations, in areas such as food production and distribution, telecommunications, banking, privatization, and training in various fields. The Government presented an expanded technical assistance program for consideration by the Group. The Chairman concluded from the responses of donors that the necessary technical assistance seemed to be available, but that close attention should be given to arrangements for coordinating the many offers of assistance.

Participants in the meeting expressed concern about the social costs of the adjustment and inquired about the measures the Government was taking to ease these difficulties. The Government indicated that it would have to grapple with the need for reducing fiscal expenditures while, at the same time, protecting the most vulnerable groups. Donors were asked to provide technical assistance to support programs in this area, and also to advise Kyrgyzstan regarding programs for the unemployed.

The meeting also discussed the need for a mechanism for coordinating aid and foreign investment in Kyrgyzstan. The Government announced that it had established an agency to coordinate financial and technical assistance, facilitate foreign investment, and provide procurement and audit support for various projects. It was agreed that the Bank would convene a local assistance coordination group which would meet in Bishkek during the first quarter of 1993, one of whose first tasks would be to firm up the details of technical assistance commitments.

Countries participating in the Consultative Group for Kyrgyzstan included France, Germany, Japan, The Netherlands, Russia, Switzerland, Turkey, United Kingdom and United States. In addition to the World Bank, other participants included the Commission of the European Communities, Asian Development Bank, European Bank for Reconstruction and Development, International Finance Corporation, International Monetary Fund, Islamic Development Bank, Kuwait Fund, Organization for Economic Cooperation and Development, and the United Nations Development Programme (including staff from UNFPA, WHO, ILO and ECE).



PRESS RELEASE
For Immediate Publication

UZBEKISTAN

PRE-CONSULTATIVE GROUP MEETING, December 16, 1992

Paris, December 16, 1992 - The First Pre-Consultative Group for Uzbekistan met in Paris today, under the Chairmanship of Mr. Russell J. Cheetham, Director, Europe and Central Asia of the World Bank. Representatives of eleven Governments, the Commission of the European Communities and nine international and financial organizations met with officials from Uzbekistan to discuss the outline of the Government's reform program and technical assistance needs and priorities.

Mr. Hamidov, Deputy Prime Minister in charge of Economic Affairs and the head of the Uzbekistan delegation, informed the meeting that the Government had resolutely taken the road of democratic change and market reform. Just a few days ago, the Parliament had adopted the Constitution of the Republic of Uzbekistan and a series of laws that provide the bases for the development of private sector such as laws on auditing, bankruptcy and joint stock companies had been presented to the Parliament. The recently approved 1993 budget envisages limiting the deficit to 5 percent of GNP and provide a new impetus for further implementation of the reform program. Mr. Hamidov explained to the Group that the Government is firmly committed to a comprehensive reform program including virtual elimination of state order system, price liberalization, reduction and elimination of most subsidies, strengthening financial discipline in the productive public sector, promoting private entrepreneurship through both privatization and development of the private sector (especially in agriculture, small industrial enterprises services and trade) and reform of the financial sector. At the same time, a consistent effort will be made to provide a safety net for the most vulnerable groups. In outlining the wide-ranging technical assistance needs, Mr. Hamidov said that this assistance was needed not only for broadening and deepening the economic reform, but also for creating a basis for long-term sustainable economic growth with due regard to environmental protection.

Requirements for technical assistance identified by the Government are in the order of US\$ 80 million. The core program is concentrated in the areas of privatization and private sector development, enterprise restructuring and corporatization, development of the financial sector including auditing and accounting and establishment of a social safety net.

The delegates welcomed the shift in the Government stance in recent months towards pursuing economic reform more vigourously. Some delegates emphasized that there was no necessary contradiction in a gradual but comprehensive approach to reform. The delegates also welcomed the Government initiative to intensify discussions with the IMF and the World Bank on an economic reform program which could help provide the basis for a move towards a full-fledged Consultative Group. The delegates broadly endorsed the priorities for technical assistance, as outlined by the Government with their focus on reform and institutional development. A number of delegates also stressed the importance of giving adequate attention to longer term issues of infrastructural development, agricultural diversification, water management, environmental improvements, especially in the more affected areas of the Aral Sea and optimal development of energy and mineral sectors. Several delegations outlined their present programs and future plans for technical assistance. The Chairman concluded that in light of the substantial interest in the economic development and reform program of Uzbekistan and expressions of support by donors at the meeting, the technical assistance requirements are likely to be fully met, but adequate steps for coordination would be needed to avoid duplication.

The meeting responded positively to a request by the Government of Uzbekistan to set-up a local Consultative Group to coordinate external assistance. It was agreed that a first meeting of this group is likely to be held in Tashkent, in March 1993 under the Chairmanship of the World Bank.

Attending the Uzbekistan Pre-Consultative Group meeting were representatives from the Governments of Austria, France, Germany, Italy, Japan, The Netherlands, Russia, Switzerland, Turkey, United Kingdom and the United States. In addition to the World Bank and the Commission of the European Communities, the meeting included representatives from the Asian Development Bank, European Bank for Reconstruction and Development, The Organization for Economic Cooperation and Development, International Finance Corporation, International Monetary Fund, Islamic Development Bank, Kuwait Fund, and the United Nations Development Programme including staff from the World Health Organization, The Economic Commission for Europe, The International Labor Organization, and the United Nations Population Fund.

OFFICE MEMORANDUM

File
Finland

DATE: April 23, 1992

TO: Mr. Ernest Stern, EXC

FROM: Alexander Shakow, EXTDR

EXTENSION: 31828

SUBJECT: Meeting with Finnish Official - Monday, April 27 at 10:30 a.m.

1. On Monday, April 27 at 10:30 a.m. you will meet with Mr. Ilkka Ristimäki, Under-Secretary of State for Development Cooperation, Ministry of Foreign Affairs, Finland. Attached are: a note on Finland's relationship with the World Bank; a biographical note on Mr. Ristimäki; and a background piece on the political, economic and aid situation in Finland. One issue highlighted in these briefs is the recently announced cut in Finland's aid budget for next year. These cuts may well result in a reduction in Finland's contribution to IDA10.

Attachments

cc: Messrs. S. Sandstrom, EXC; B. Alishbah, PAAVP; B. Kavalsky, FRMDR; O. Lafourcade, J. Grenfell, EXTEU; K. Ohashi, FRM
Mesdames G. Mohadjer, J. Armitage, P. O'Hara, EXC; J. Maguire, EXTDR

FINLAND AND THE WORLD BANK

IBRD

Allocated Share:^{a/}.....0.57%
Rank:.....35th
Potential Voting Power.....0.57%

Cofinancing

Amount (FY82-91):.....\$160 m.

IDA9

Burden Share:.....1.00%
Supplementary Share.....0.20%
Amount:SDR 140.34 m.

SPA2

Pledge.....\$108 m.

Procurement

Share in FY91.....0.36%

GEF

Contribution:SDR 25.33 m.
Rank:.....13th

Staff Composition on board:

Higher Level.....0.27%
Managers:.....None

^{a/} Position includes former Soviet Republics.

Issues for Discussion

Mr. Ristimäki has said he would like to discuss:

- Financial issues related to UNCED: the role of IDA and the GEF.
- The division of labor between the Bank Group and UN agencies in development finance and technical assistance (e.g. the Institutional Development Fund).
- The development agenda for the 1990s.

IDA10

You may want to ask Mr. Ristimäki about the Government's new (April 5) cuts in next year's aid program (see attached note). We are told this means a possible cut in Finnish support for IDA of approximately 20 percent from the present level.

Before this recent turn of events, the Finns have been very supportive of IDA. At the January 27-28 IDA Deputies Meeting in France, the Finnish delegation expressed their appreciation for IDA's work and noted that appropriations for IDA remain the largest single item

in the Finnish multilateral budget. The delegation also stressed that IDA's objective is poverty reduction, and that IDA's work program should concentrate on the following:

- sustaining growth through a sound macroeconomic framework and enabling environment for private sector development;
- investing in infrastructure, especially in the social sector;
- integrating capacity building and human resource development as major components of the above two objectives; and
- implementing concepts such as good governance and how to deal with the question of military expenditures.

April 23, 1992

BIOGRAPHICAL NOTE

ILKKA RISTIMÄKI

**Under-Secretary of State
for Development Cooperation
Ministry of Foreign Affairs**

Mr. Ristimäki was born in Tampere, Finland, on September 12, 1943. He received an M.A. in Political Science from the University of Helsinki. He has been in the Foreign Service since October 1, 1970.

Professional Experience

- Assistant Director in the Ministry for Foreign Affairs, May 1972
- Adviser to the Ministry of Finance of Tanzania under Finnish technical assistance, November 1973
- Consultant and Special Assistant to the United Nations Commissioner for Namibia, September 1977
- Counsellor for Development Cooperation, Ministry for Foreign Affairs, July 1980
Ambassador to Tanzania, September 1983; also accredited to Burundi and Mozambique
- Ambassador to Kenya, June 1987; also accredited to Ethiopia, Seychelles, Somalia and Uganda; permanent Resident Representative to UNEP and Habitat
- Under-Secretary of State for Development Cooperation, Ministry for Foreign Affairs, August 1990 to Present
- Chairman of the Executive Committee of the Multilateral Fund of the Montreal Protocol 1990-91

FINLAND

Political, Economic and Aid Situation

Political Situation

The Finnish conservative-to-center coalition government, led by the young and charismatic Centre Leader Esko Aho, is challenged by a situation where nothing less than a total political turnaround is needed. The Finnish application last month for membership in the EC is only one indication of a nation trying to reorient itself after being released from the embrace of the Soviet Union. For a nation where neutrality has been the guiding principle since the Second World War, it is quite astonishing to hear President Mauno Koivisto declaring that Finland is willing to accept all obligations in connection with the EC, including the Maastricht Agreement.

It also looks as if the Finnish road to the EC will be smoother than is the case in Norway and Sweden. The only opposition that has created any problem is that of the smallest of the coalition partners, the Finnish Christian Union. Even the farmers in Finland do not strongly oppose EC-membership, which may reflect the fact that the Finnish people look to the EC as the only alternative means of getting the country out of the current economic recession, a recession which is leading more and more people to turn against their own government.

Economic Situation

An open quarrel between the Finnish Central Bank Governor, Rolf Kullberg, and Prime Minister Esko Aho, led to the Governor's resignation on April 2 and a worsening of the economic crisis in Finland. The Finnish economy was in deep trouble already (much like the situation in the other Nordic countries, only a good deal worse), due to the collapse of the Soviet Union, which was Finland's main trading partner. Finnish exports to Eastern Europe fell by 65 percent last year. Gross national product fell 6 percent, private consumption fell by 5 percent, the unemployment rate is rising above 11 percent, and official debt is higher in Finland than in any other market economy country.

When the Governor of the Finnish Central Bank resigned, an estimated \$2 billion left the country in the first 12 hours. With the immediate risk of another devaluation (Finland devalued its Markka last year) the Aho Government came forward with an austerity budget to restore investor confidence. This budget, announced on April 5, will cut government spending next year by 10 billion Markka; it includes deep cuts in social sector spending on education and health, as well as cuts in development aid and defense.

At the same time Ms. Sirkka Haemaelaeninen was elected the new Governor of the Finnish Central Bank. She was instrumental in the recent rescue of Finnish commercial banks, which have been crippled by a series of bad debts. These decisions led the Bundesbank and the other Nordic central banks to come out with support for the Markka on Monday April 6. The crisis faded and a devaluation was narrowly avoided. There is speculation in Helsinki that the Finnish Prime Minister may have created this crisis to make it possible for him to take unpopular political decisions that he otherwise could not have done and still stay in power. The open quarrel with the Governor of the Central Bank adds to this speculation, since the openness of their disagreements could easily have been avoided.

Aid Situation

One of the dramatic consequences of the government's action plan is a reduction in Finnish ODA from last year 0.76 percent of GNP to 0.4 percent of GNP, at least until 1995. Where precisely the cuts are going to be felt is still to be seen, but there is expected to be a cut in Finnish support for IDA of approximately 20 percent from the present level.

One should not be too surprised that development assistance is being cut. What is surprising, however, is that no one seems to care. One explanation is that people believe Finland does not need the South any longer to find openings to the West, now that they have escaped from the embrace of the Soviet Union. One of former President Uhro Kekkonen's main motives for supporting Finnish development cooperation is said to have been that it gave Finland an opportunity to perform on the Western scene, to be identified with the other Nordic countries.

Whatever the reasons may be, the consequence is that Finland is now in danger of moving away from the "like-minded countries" as far as development cooperation is concerned. One should also bear in mind the possible synergic effect of developments in Finland on the other Nordic countries, as they face many of the same problems for which reduced government spending seems the most serious response.

April 23, 1992