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THE WORLD BANK

Washington, D.C.

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USSR



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1104128

R1992-036 Other #. 4 Box # 19916B

Union Soviet of Socialist Republics (USSR) - set

DECLASSIFIED
WBG Archives

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

RECEIVED
91 SEP 28 AM 8:52
PRDDR

DATE: August 28, 1991 08:35am

TO: Larry Summers (LARRY SUMMERS)

FROM: Wilfried Thalwitz, PRESV (WILFRIED P. THALWITZ)

EXT.: 36860

SUBJECT: Meeting with Mr. Victor Basiuk

Mr. Victor Basiuk has requested a meeting with me. Before arranging the meeting I would like to discuss some points with you on your return. Please call me on Tuesday. I am sending copies of correspondence received this week from Mr. Basiuk as background.

CC: Kate Oram (KATE ORAM)
CC: Paul Isenman (PAUL ISENMAN)
CC: Costas Michalopoulos (COSTAS MICHALOPOULOS)
CC: Prisce Daniel (PRISCE DANIEL)
CC: Maureen Colinet (MAUREEN COLINET)
CC: Patricia Gallagher (PATRICIA GALLAGHER)
CC: Yvonne Hensley (YVONNE HENSLEY)
CC: Tariq Husain (TARIQ HUSAIN)
CC: Institutional ISC Files (INSTITUTIONAL ISC FILES)

ROUTING SLIP

DATE: 8-27-91

From the Senior Vice President
Policy, Research and External Affairs

Name	Room No.	Name	Room No.
V. Rajagopalan		C. Michalopoulos	x
L. Summers		G. Lamb	
P. Isenman		R. Liebenthal	
A. Shakow		R. Woodford	
G. Ingram		R. Voight	
K. Jay		J. Holsen	

<input type="checkbox"/> Urgent	Comment
<input type="checkbox"/> For Action	Approval/Clearance
<input checked="" type="checkbox"/> Information	Signature

REMARKS:

Letter to Brzezinski from Victor
Basiuk - August 21

FROM: Wilfried P. Thalwitz Room No.: Ext.:

from the desk of VICTOR BASIUK

8/22/91

Mr. W. P. Thalwitz
The World Bank, Rm. 513131

Mr. Thalwitz -

Am enclosing a copy of
my letter to Zbigniew Brzez-
zinski - it is directly relevant
to my letter to you of
August 9.

I will call your office
next week for a possible
appointment to discuss this
subject. The collapse of the
coup in Moscow has made
the issue of assistance for
reforms in the USSR consi-
derably more urgent.

Victor Basiuk

Victor Basiuk
8360 Greensboro Drive, No. 124
McLean, Virginia 22102-3511
(703) 734-3294

August 21, 1991

Dr. Zbigniew Brzezinski
Center for Strategic & International
Studies
1800 K Street, N.W., Suite 400
Washington, D.C. 20008

Dear Zbig:

You have been invading my living room lately through the TV tube and it has been a welcome invasion. The hardliners' coup in Moscow has collapsed and one of the things you said strikes me as particularly important and should be addressed in a timely fashion: the United States should be considerably more actively involved in systemic change in the USSR than it has been heretofore. I could not agree with you more; in this context, the selection of the "right" policies and the "right" instruments for policies becomes critical.

I think we can learn something from our experience in Eastern Europe. The policies and operations of the instruments we are employing there - the AID, the World Bank, the IMF - leave something to be desired (more on this later). The Soviet Union presents a much more difficult case for systemic change than Eastern Europe. If we apply the same approach to the Soviet Union as we have to Eastern Europe, the shortcomings of the Eastern European experience would be compounded to the point of being potentially seriously damaging to the U.S. national interest.

As you know, there is a controversy in Washington whether U.S. technical assistance for reforms should be given to the center - Gorbachev - or to the Soviet republics. Before the recent coup, the prevailing view in the official U.S. Government circles was to assist Gorbachev. However, the Soviet Union is very uneven in terms of the receptivity to reforms as between the various republics and, if we try to deal with the USSR as a whole in its full vastness, the process could be very difficult, prolonged for many years, and perhaps beyond our capability to complete successfully. Reforms on a republic-by-republic basis, on the other hand, would make it possible to tailor them more effectively to local conditions, values, and political processes. Accordingly, some republics could achieve stability, create attractive conditions for U.S. investments, and generate effective economic growth sooner than others. Their positive influence could spill over - perhaps even be channeled - to other republics, thus accelerating the total process of systemic change.

In actual practice, the choice is not between these two opposite points on the spectrum - the republics vs. the center - but in the relative emphasis on one or the other and on the degree of synthesis. I do think, however, that the outcome of the coup has strengthened the rationale for an appropriate emphasis on the republic approach. Boris Yeltsin's role in the upheaval enhances, politically and ideologically, his approach to the political process in the USSR, in particular, the devolution of power to the republics. And, as you quite correctly pointed out, the United States should become serious about assistance in systemic change.

I have revised my proposal for an Institute for Economic Restructuring and Business Management (IERBM); in its present version (enclosed), it is focused on the Soviet Union, not Eastern Europe. I am also enclosing a copy of my letter to Curt Kamman at State which amplifies on the rationale of the revision. Lastly, I am enclosing a copy of my statement prepared for the House Subcommittee on Europe and the Middle East, entitled "U.S. Policy for Systemic Change: Eastern Europe and the USSR." To be published at the end of August, it focuses on shortfalls of U.S. assistance policy with regard to Eastern Europe. I thought you might find this material of interest.

With best regards,

Sincerely,



Victor Basiuk
Consultant on Science, Technology,
& National Security Policy

Enclosures as stated

The World Bank
Washington, D.C. 20433
U.S.A.

WILFRIED P. THALWITZ
Senior Vice President
Policy, Research and External Affairs

August 23, 1991

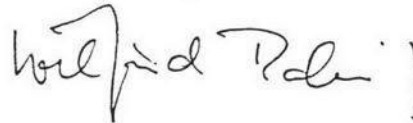
Mr. Victor Basiuk
Consultant on Science, Technology
and National Security Policy
8360 Greensboro Drive, No. 124
McLean, VA 22102-3511

Dear Mr. Basiuk,

Thank you for your letter dated August 9, 1991. I note with interest your suggestion that systemic change in the Soviet Union is critical to its future progress. This is very much consistent with World Bank views of what is needed to promote long term growth in the Soviet Union.

I have taken the liberty of forwarding your letter and attachments to Mr. Russell Cheetham, Director, Country Department V, EMENA Region, who will be coordinating World Bank technical assistance to the Soviet Union.

Sincerely,



cc: Mr. Russell Cheetham, EM5DR

WORLD BANK OFFICE TRACKING SYSTEM
SVP POLICY RESEARCH EXTERNAL AFFAIRS
Routing and Action Transmittal Sheet

*cc: W. Thalwitz
Set in circulation for
further action.*

TO: Mr. Michalopoulos | DATE: 8/23/91
~~XXX ASSISTANT OFFICE~~

SUBJECT:

Document From: Victor Basiuk, Cons. on Science, Tech. & Nat. Sec. Policy
To: Wilfried Thalwitz (C.Michalopoulos TO HANDLE)
Dated: 8/09/91 Reference No.: PPR910823003
Topic: Technical Assistance to the Soviet Union

ACTION INSTRUCTIONS: | DUE DATE: |

XXX HANDLE 8/27/91
REVIEW AND RECOMMEND
FOR YOUR INFORMATION
DISCUSS WITH _____
AS WE DISCUSSED
PREPARE RESPONSE FOR _____ SIGNATURE
FOR YOUR FILES
RETURN TO _____
OTHER: _____

Remarks: cc: W. Thalwitz

Victor Basiuk
8360 Greensboro Drive, No. 124
McLean, Virginia 22102-3511
(703) 734-3294

RECEIVED
91 AUG 13 AM 10:13
August 9, 1991

Mr. Wilfried P. Thalwitz
Senior Vice President for Policy,
Research, and External Affairs
The World Bank, Rm. S13131
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Thalwitz:

You may remember me - Guy LeMoigne introduced us on June 24th at a reception which you were hosting for the participants of the World Bank International Water Management Workshop.

As I mentioned to you at the reception, I am interested in concepts, issues, and policies for systemic change, a subject on which I have been working since 1980, principally for the State Department and the White House. The country I am concerned about at this point is the Soviet Union. Actually, my interest in systemic change received its initial impetus from a major study on the USSR which I did in 1980-81. I still recall, with some amusement, the reception given to the conclusions of my study to the effect that the Soviet Union was very likely to resort to fundamental reforms of its economy in the 1980s and that the West must prepare policies to help shape desirable forms of Soviet systemic change. A preliminary version of my study was considered at a conference at the Center for International Affairs of Harvard University in November, 1980, and the great majority of the Sovietologists present took a position that fundamental economic reforms in the Soviet Union in the 1980s were extremely unlikely and to plan for systemic change in the USSR would be a waste of time!

The rapidity of change in the USSR and Eastern Europe caught the West by surprise and its pace exceeded my own expectations. This largely accounts for the fact that the West's present handling of systemic change in Eastern Europe leaves something to be desired. What worries me is that the momentum of our policy and of operational shortfalls in systemic change will be carried from Eastern Europe to the Soviet Union, while the USSR presents a considerably more difficult case than Eastern Europe and the price for mistakes is so much greater.

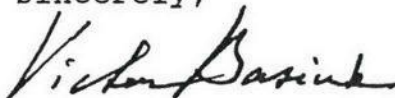
I have written a letter on this subject to Curt Kamman at the State Department (a copy is enclosed), but I think this should also be a matter of concern to the World Bank and I would like to discuss it with you. It would be very helpful if you could find time to take a look at my statement (enclosed) on

"U.S. Policy for Systemic Change: Eastern Europe and the USSR," prepared for the House Subcommittee on Europe and the Middle East; it will be published by the Subcommittee later this month in a volume of hearings on Eastern Europe. This paper provides a critical appraisal of economic assistance and systemic change policy towards Eastern Europe.

To give you an idea of my background, I am enclosing a copy of a biographical sketch. At present, I am a consultant to the White House Council on Environmental Quality, but the views presented in this letter and the enclosures are my own and do not necessarily represent those of the U.S. Government.

With best regards,

Sincerely,



Victor Basiuk
Consultant on Science, Technology,
& National Security Policy

Enclosures as stated

VICTOR BASIUK
8360 Greensboro Drive, No. 124
McLean, Virginia 22102-3511

(703) 734-3294

July 24, 1991

Mr. Curtis W. Kamman
Deputy Assistant Secretary
Bureau of European & Canadian Affairs
U.S. Department of State, Rm. 6226
Washington, D.C. 20520

Dear Mr. Kamman:

You may recall my letter to you of May 21, in which I expressed my reservations about U.S. assistance policy for Eastern Europe and enclosed my proposal for an Institute for Economic Restructuring and Business Management (IERBM) as an attempt to improve the situation.

The bureaucratic momentum of our assistance to Eastern Europe is already well developed and to change it is not easy, but our technical assistance policy with regard to the Soviet Union is not yet set in concrete and it may not be too late to try a different approach. Besides, the price for mishandling systemic change with regard to a superpower is much higher than that with regard to Eastern Europe. Accordingly, I have revised my proposal for the IERBM to focus on the requirements for systemic change in the USSR (a copy is enclosed). The IERBM would work in cooperation with the World Bank and the IMF, but it would offer the following advantages:

1. As a body specializing in, and dedicated to, systemic change, it would generate intellectual leadership in this area and will not be just an indiscriminate "transmission belt" of Western economic concepts and institutions to the USSR.
2. The IERBM would operate primarily on a republic-by-republic basis, thus complementing the largely all-union approach of the international banks and meeting the requirements of the growing devolution of economic authority to the republics.
3. As a private regional organization in which the Soviet republics would participate, the IERBM would be more flexible, cost-effective, and much better tailored to local conditions than the international banks; it would provide the necessary linkages with the internal political process ultimately governing systemic change.

I hope you will find the enclosed material useful.

Warm regards,



Victor Basiuk
Consultant on Science, Technology,
& National Security Policy

Enclosure as stated
cc: E.A. Hewett, NSC

Victor Basiuk
8360 Greensboro Drive, No. 124
McLean, Virginia 22102-3511
(703) 734-3294

RECEIVED
91 AUG 13 AM 10:13

August 9, 1991

Mr. Wilfried P. Thalwitz
Senior Vice President for Policy,
Research, and External Affairs
The World Bank, Rm. S13131
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Thalwitz:

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As I mentioned to you at the reception, I am interested in concepts, issues, and policies for systemic change, a subject on which I have been working since 1980, principally for the State Department and the White House. The country I am concerned about at this point is the Soviet Union. Actually, my interest in systemic change received its initial impetus from a major study on the USSR which I did in 1980-81. I still recall, with some amusement, the reception given to the conclusions of my study to the effect that the Soviet Union was very likely to resort to fundamental reforms of its economy in the 1980s and that the West must prepare policies to help shape desirable forms of Soviet systemic change. A preliminary version of my study was considered at a conference at the Center for International Affairs of Harvard University in November, 1980, and the great majority of the Sovietologists present took a position that fundamental economic reforms in the Soviet Union in the 1980s were extremely unlikely and to plan for systemic change in the USSR would be a waste of time!

The rapidity of change in the USSR and Eastern Europe caught the West by surprise and its pace exceeded my own expectations. This largely accounts for the fact that the West's present handling of systemic change in Eastern Europe leaves something to be desired. What worries me is that the momentum of our policy and of operational shortfalls in systemic change will be carried from Eastern Europe to the Soviet Union, while the USSR presents a considerably more difficult case than Eastern Europe and the price for mistakes is so much greater.

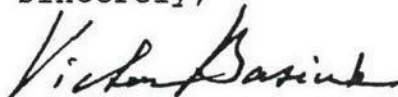
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With best regards,

Sincerely,



Victor Basiuk
Consultant on Science, Technology, & National Security Policy

Enclosures as stated

INSTITUTE FOR ECONOMIC RESTRUCTURING AND BUSINESS MANAGEMENT
(IERBM)

1. Purpose. The purpose of the Institute is to assist the Soviet Union, in cooperation with appropriate international organizations such as the World Bank and the International Monetary Fund, to optimize economic growth and management efficiency in the transition from centrally-planned to market-oriented economies and to optimize economic growth through systemic change and/or systemic improvements in general.

2. The Entities Assisted. The IERBM will extend its assistance principally to the Soviet republics and their subdivisions, although, as appropriate, assistance may also be rendered to the all-union government. The organizations assisted will include governments, individual ministries, business associations, and enterprises, including banks, service, and agricultural enterprises.

3. The Guiding Philosophy of the IERBM. The guiding philosophy of the IERBM will consist of the following elements:

(a) The notion that systems (economic, social, management, educational, value, governmental, etc.) and the mode of their organization and functioning are a key factor of economic growth, along with such generally recognized factors of growth as capital, labor, natural resources, and technology. Accordingly, the objective underlying all of the Institute's activities will be systemic change and/or improvement intended to optimize economic growth.

(b) The recognition that systemic characteristics conducive to economic growth are the most effective if they are appropriately tailored to local conditions and generated in close involvement with indigenous populations, appropriate existing institutions, and on-going political processes, and not attempted to be uniformly imposed from the outside. The peoples of the various republics comprising the Soviet Union significantly differ in their receptivity to, and ability to adopt, such generally recognized growth-generating attributes as individual initiative, private enterprise, free markets, and related democratic processes. Therefore, reforms on a republic-by-republic basis appear to offer the most promising approach to economic systemic change in the USSR, whereby some republics would benefit from reforms considerably faster than others and possibly produce a spill-over effect on the regions of less rapid progress. The differential, republic-oriented approach to systemic change by the IERBM would be expected to meet the requirements of the growing devolution of economic authority to the republics, and yet it must be conducted in full recognition that many macroeconomic reforms would be more effectively carried out by international financial organizations at the all-union level.

4. Functions of the IERBM. The Institute will perform three principal functions: research, education/training, and consulting services. The three functions will be closely interrelated, pragmatic, and results-oriented. More specifically:

a. The Institute's Research Center (RC) will focus on problems and issues of transition from centrally planned economies to market economies and on optimization of economic growth through systemic change and/or systemic improvement in a broader sense. The research will be principally republic- or organization-specific; however, some research will also be of more general conceptual or comparative nature. Most research will be done in-house or in the field; as appropriate, some research could be farmed out to individual scholars or institutions abroad. The areas of research will include economics, business management, business organization, government-industry relations, value systems relevant to economic growth, business and the environment, finance, science and technology policy, information systems, education and training relevant to economic growth, and economic-performance-related government organization and social and political policies. In support of research, educational and consulting activities of the IERBM, the Research Center will develop and maintain a specialized data base focused on systemic change in the Soviet Union and, as appropriate, Eastern Europe. The Research Center will maintain a close relationship with appropriate East European organizations so as to benefit from their experience, both positive and negative.

b. The School of Economics and Business Administration (SEBA) will provide two types of education and training:

(1) Intensive specialized courses, seminars, or workshops of a relatively short duration, ranging from three days to two months. This type of instruction could be of general applicability (e.g., how to organize an ESOP; marketing; advertising) or country-specific. It could also be combined with an appropriate experience - albeit short - in the Center for Consulting Services. Insofar as this would be in the interest of systemic change, SEBA would offer courses and seminars for American and other foreign business executives on Soviet economic systems, their trends, and the investment potential in the USSR.

(2) A regular curriculum, lasting two years and leading to a Master's degree or a certificate equivalent to a Master's degree. One-third of this period will consist of hands-on practical experience in the field, usually in the student's own organization (ministry, enterprise) where, in a specific project, he or she would be expected to apply the principles or techniques learned. Alternatively, the student would participate in a consulting project administered by the Center for Consulting Services described below.

Services described below.

The School will, in part, lean on the research performed by the Research Center in the formulation of its curriculum and for its reading material.

c. The Center for Consulting Services (CCS) will assist, on request of various organizations (governments, ministries, business associations, and enterprises) in restructuring their functions with the objective of improving performance, in privatization, improvements in management efficiency, establishment of regional cooperation, and other functions related to the enhancement of productivity and economic growth. Insofar as this would be in the interest of desirable systemic change, the CCS would provide professional assistance to American and other foreign companies with the implementation of their investment projects in the USSR. As needed, the CCS may request the Research Center for a study of the problem on hand and members of the CCS may participate in the study. The consultative services would, in part, be performed on the premises of the CCS; also, individual experts or teams of experts will be sent, as needed, for work in the field. Team leaders from the CCS will be utilized as instructors or workshop leaders in specialized courses, seminars, and workshops of the School of Economics and Business Administration.

5. Relationship to Other Organizations. Because of their comprehensiveness, depth, or scope, certain facilities and activities of the IERBM (e.g., its systemic change data base on the Soviet Union; basic research on optimization of economic and business systems; distillation of the best elements of U.S. economic and business systems and their adaptation to the various republics or components thereof; certain types of highly specialized training) could not be readily duplicated elsewhere. Accordingly, the Institute would be expected to assist and strengthen existing and prospective independent programs and services aimed at improving business management in the USSR; it would not be intended to compete with them. As an organization specializing in the optimization of systemic change for economic growth, the IERBM would be expected to provide intellectual leadership in this field. In the area of its specialty and as needed, the IERBM would provide professional assistance, including research, specialized training, and consulting services, to the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development. As appropriate, the Institute would lean on loans available from these institutions as a leverage to help implement its programs for systemic change.

6. Students. The great majority of the students are expected to be executives and managers from government and business organizations and enterprises of the Soviet republics. A certain

percentage, however, would consist of independent graduate students who, upon completion of their studies, would seek employment in the current reform process sweeping Eastern Europe and the USSR. Some may find the educational background of the IERBM suitable for pursuing careers in Third World countries, including China. A small part of the student body would consist of business executives from the United States and other countries interested in investing in the Soviet Union and Eastern Europe.

6. Location and Organization of the IERBM. The Institute will be a private, non-profit regional organization, located in the capital of a Soviet republic, with branches established in other Soviet republics. The Institute will be formed under a broad umbrella of a consortium of universities and leading independent institutes, such as Moscow University, University of Leningrad, University of Kiev, University of Vilnius, University of Tashkent, University of Tbilisi, Columbia, Georgetown, Harvard, MIT, University of Pennsylvania, Stanford, University of Texas at Austin, and perhaps some selected West European universities. The IERBM will be governed by an international board of trustees, it will have its own core faculty and staff and will also utilize visiting faculty on an annual or longer basis. The initial funding will be provided by the U.S. Government, foundations, and industry. After the original funding necessary to set up the IERBM, the Institute's operational expenses are expected to be self-liquidating since the user organizations will be paying for consulting services and the students will be charged tuition. The instruction at the Institute will be conducted in the indigenous language of the republic where the IERBM and its branches are located and in English, with simultaneous translation if necessary.

Victor Basiuk, 7/24/91 (rev.)
(703) 734-3294

U.S. POLICY FOR SYSTEMIC CHANGE: EASTERN EUROPE AND THE USSR

Statement of
Dr. Victor Basiuk

Consultant on Science, Technology, & National Security Policy

Submitted to The Subcommittee on Europe and the Middle East of
The Committee on Foreign Affairs, U.S. House of Representatives

This statement addresses the question of the degree of adequacy of U.S. policy for systemic change with regard to Eastern Europe and the Soviet Union. In recent years, systemic change as a component of U.S. policy has significantly grown. To a large extent, this was because of the collapse or near-collapse of the command economies in Eastern Europe and the Soviet Union and because of the widespread repudiation of Communism by the people in that region and elsewhere in the world. The United States and the West in general had to step in and assist with restructuring political and economic systems in Eastern Europe and, potentially, the Soviet Union. Both the urgency and the magnitude of the task catapulted systemic change to an unprecedented prominence in terms of public attention and requirements of resources.

This policy, however, is short of perfect. It suffers from the following:

1. An inadequately developed conceptual foundation for the policy.

2. In part stemming from the above, a less than satisfactory understanding on the part of a number of policy makers and administrators of the policy as to what the optimal objectives of the policy are and how to achieve them.

3. Shortages of resources notwithstanding, a persistence of the tendency to solve problems by resource allocation rather than appropriate concepts and strategies to effect optimal systemic change and thus ensure productive use of the capital applied.

4. Shortfalls in the coordination of the various factors and activities involved in systemic change.

5. An inadequate development of appropriate institutions to carry out the requirements of the policy.

These points will be discussed at greater length below, along with suggestions as to how the situation could be improved. In the latter category, the discussion will focus on the potential of an Institute for Economic Restructuring and Business Management proposed for Eastern Europe and branching out into the Soviet Union.

Before the subject of systemic change in Eastern Europe and the USSR is addressed, it would be useful to discuss the nature and evolution of policy for systemic change. This will help us to clarify criteria by which the adequacy of our policy in Eastern Europe could be assessed.

Policy for Systemic Change: What Is It? How Did It Evolve?

The term "policy for systemic change" is relatively new in the vocabulary of international affairs; it is about ten years old. Although the term is new, the application of the concept underlying it has been with us for centuries. But it was only in recent years that the concept has been sufficiently refined so as to give birth to a conscious policy.

"Policy for systemic change" entails the application of instruments of statecraft, from the most subtle and imperceptible to the most obvious and destructive, of one state or a group of states to another in order to change the internal system of the object of systemic change. In most cases, the purpose of the policy is national security, but it could be motivated by other considerations of the national interest - foreign policy, economic, environmental, or humanitarian. World War II was a case of policy for systemic change. The allies not only destroyed the pre-war systems of Germany and Japan, but purposefully remolded them into something different - an act which not only entailed re-writing their constitutions and restructuring their governmental systems, but also changing the value systems of their population.

Application of force and a subsequent restructuring of the governmental system are still practiced as part of policy for systemic change; perhaps the most recent example is the case of the U.S. invasion of Panama in 1989.(1) However, the noteworthy feature of the policy as it has evolved in recent years is the development of the more subtle concepts and instruments at the nonviolent end of the policy's spectrum.

The policy of containment initiated in 1947 was principally aimed at opposing Soviet military expansionism, and yet it included an important systemic change element. It consisted of the expectation that once the Soviet external drive was contained and the Kremlin's messianic movement frustrated, "pluralizing tendencies" would develop in the USSR and Soviet power would "mellow."(2) Later, the U.S. interest in stimulating economic growth in the developing world provided an important impetus for the evolution of policy for systemic change. U.S. assistance programs to the developing nations were often running into the problem that the aid given was not effectively used because economic systems of the recipient countries were not

particularly efficient in general or contained certain elements which impeded effective utilization of the assistance.

As a result, in the 1960s the U.S. Agency for International Development (AID) initiated "policy dialogue," a procedure whereby AID personnel would engage appropriate authorities in the recipient country in a discussion, trying to persuade them to modify a particular impediment to an effective use of the assistance rendered. Although the withholding of assistance was occasionally used as an incentive for change, policy dialogue as a vehicle for systemic change has not been conspicuous by great success. It is handicapped by its ad hoc nature, by the fact that it is confined to countries receiving assistance from AID, by the resistance of the countries receiving the assistance, and by the reluctance to pursue it vigorously.

In 1981, AID institutionalized a new instrument for systemic change - it established a Bureau of Private Enterprise (PRE), whose function is to promote private enterprise in the developing world by assistance to private companies and by fostering a climate conducive to the growth of the private sector in general. The rationale of this approach is that it would stimulate economic growth in LDCs, as distinguished from a considerable emphasis on humanitarian assistance of AID in earlier years. In the second half of the 1980s, a new dimension was added to the promotion of a climate conducive to the growth of private enterprise: it was expected that such a climate would attract foreign investment and thus diminish the need for assistance. Although the Agency has become more broadly involved in private sector activity, PRE itself, however, has not been a particularly influential bureau in the power structure of AID and its budget has been relatively low.(3)

In 1984, a more comprehensive approach to systemic change was initiated in the Department of State with regard to Mexico, a "post-AID" country. Several important considerations converged to provide a stimulus to this action: (1) Mexico was burdened by a huge debt which it was incapable of servicing; (2) the nation's economy was severely depressed, while its predominantly statist economic system protected by the ruling party, the PRI, was incapable of generating the requisite growth; (3) hundreds of thousands of illegal immigrants were crossing the U.S.-Mexico border annually; and (4) the specter of leftist instability in Mexico and the potential requirement to seal off the 2000-mile border posed a serious national security concern.

Studies of the Mexican system were undertaken; policies for systemic change outlined; conferences with Mexican officials, academicians, and industrialists were held; diplomacy was engaged; and assistance from U.S. private enterprise was sought. The effort was far from perfect, but it produced an important catalytic effect.(4) With the help of an enlightened Mexican

leadership, important changes were initiated in the Mexican economic system and by the late 1980s the Mexican economy had begun to turn around.

The case of Mexico was also important in that it provided an impetus for broader conceptual papers on policy for systemic change at the Department of State; they included other countries of Latin America, the Soviet Union, Japan, and the international system. (5) The focus of this work on systemic change was national security and economic growth, usually - but not necessarily - related to national security. In its economic dimension, the research extended into theoretical considerations with some fundamental implications for policy. In particular, systems and systemic change began to be viewed as a key factor of economic growth, co-equal with such generally recognized factors of growth as capital, labor, natural resources, and technology. (6) This suggests that systems - governmental, economic, social, educational, and value - require continuous study, re-assessment, change, or fine-tuning if economic growth is to be optimized.

At about the same time the field of policy for systemic change received assistance from an unexpected quarter - Peru. In 1986, Hernando de Soto, Director of the Institute of Liberty and Democracy (ILD) in Lima, published his book, El Otro Sendero (The Other Path). The book represented an in-depth study of the informal sector, in effect an economy which has grown side-by-side with the formal economy of Peru. The size of the informal sector - representing more than half of the population of Peru and producing 38 percent of its GNP - and its vitality vividly illustrated the shortfalls of the highly bureaucratized, over-regulated and stagnant formal sector, devoid of responsibility to the public. The book suggested that foreign assistance given to the governments and the formal sector is in effect misplaced, that reforms, based on free markets and private enterprise, were essential. De Soto's ideas became influential in AID and were instrumental in the establishment in 1990 of two reform-oriented organizations: Institute for Policy Reform, affiliated with the University of Iowa, and the Institutional Reform and the Informal Sector (IRIS) Project, affiliated with the University of Maryland. (7)

The above review of the evolution of policy for systemic change in the U.S. Government suggests that, at the time when the United States faced the monumental task of helping to restructure and optimize governmental and economic systems of Eastern Europe, U.S. Government agencies were not ready for it - in terms of concepts, approaches, organizational structure, or an appropriately trained personnel. Some useful concepts and approaches were developed in the earlier years and some experience in systemic change was gained, but they were limited and not effectively rooted or widely accepted in the relevant

agencies of the U.S. Government.

In spite of the recognition that we live in a global system of interdependence where developments in one country often affect events and systems in other parts of the globe regardless of whether or not governments are involved, a comprehensive development of policy for systemic change and of the boundaries of its legitimacy were handicapped by the lingering notion in a number of governmental circles that somehow policy for systemic change, regardless of its merits under given circumstances, involves "interference" and therefore is not appropriate. This was so in spite of the fact that in still other U.S. Government circles interference on an ad hoc basis was at times advocated and resorted to regardless of its merits or true need. Thus, in the area of policy for systemic change the United States did not have a clear or certain drumbeat to march to when the challenge of Eastern Europe exploded on the international scene. The U.S. Government had to improvise, and improvise it did.

The Challenge of Eastern Europe and the U.S. Government Response

Several factors influenced the nature of the U.S. response to the requirements for systemic change in Eastern Europe:

1. The prevalent perception that the collapse of the communist political and economic systems in Eastern Europe demonstrated the superiority and victory of Western systems, primarily of the U.S. variety.
2. The fact that the Agency for International Development was the only agency with operational experience in foreign assistance and systemic change, albeit it had no experience in Eastern Europe.
3. The U.S. budgetary crunch which severely constrained the potential for unilateral assistance to Eastern Europe.
4. The availability of the U.S. private sector, interested in investment and in other ties with Eastern Europe.
5. The availability of international banks - the World Bank, the International Monetary Fund, and, later, the European Bank for Reconstruction and Development - which had funds and the first two of which had some experience with systemic change in the Third World.

I will discuss the above factors and how they shaped U.S. policy for systemic change in Eastern Europe.

The perception that the developments in Eastern Europe and the USSR represented a victory of Western systems was basically

correct: the Communist systems were not viable and this ultimately resulted in their breakdown. However, this perception led to a policy-relevant corollary which, at best, was an oversimplification. The corollary was that all that systemic change required was principally a transplantation of the American system - especially the U.S. economic system - to Eastern Europe.

There is no doubt that the fundamentals of the American economic and business system - such as free markets and private enterprise - are essential to the economic viability of Eastern Europe and to the optimization of its growth. There are many U.S. business practices whose adoption would be beneficial to Eastern Europe. However, not all characteristics of the U.S. economic and business system would be suitable for the formerly centrally planned economies of Eastern Europe, and some characteristics would be distinctly counterproductive.

Do we really want to inoculate in Eastern Europe the propensity of our business to think in terms of short-range profit and neglect longer-range strategy and planning - the characteristics which are seriously hurting our own economy? Would a system which does not adequately encourage savings - as is the case with our system - be beneficial for Eastern Europe? Although educational systems in Eastern Europe could be strengthened and modernized to better serve the requirements of economic growth, does the present U.S. educational system truly offer a shining example for East European nations to emulate? Do we really want to transfer to Eastern Europe those elements of our system which contributed to such phenomena as the S&L crisis and the loss of an entire industry - consumer electronics - to a foreign competitor?

An undifferentiated projection of the U.S. economic and business system on Eastern Europe was therefore not the optimal approach to systemic change, and yet this was precisely the policy adopted by the U.S. Government or, to be more exact, by AID under a general guidance of an office created for this purpose in the Department of State. Under the circumstances, this was the road of the least resistance. AID's funding was limited - \$381 million for FY 1991.(8) Its thrust has actually been on economic assistance, and systemic change was subsumed in it.(9) The funds being limited, the Agency, to a large extent, has undertaken to use them as a leverage to stimulate involvement of the U.S. private sector in Eastern Europe. This included promotion of various university and independent training programs in management, market economics, banking, and similar subjects; support of American private investment in Eastern Europe; and the development of human resources. In this effort, there does not seem to be a clear assessment of the total requirements and the extent to which it would meet such requirements. It is more like an attempt at catalytic spending in the general direction of perceived needs.

Unlike AID, the international banks have at their disposal much more substantial funds for Eastern Europe, running into billions of dollars. However, in the area of policy for systemic change, they present problems of their own.

By definition, the mission of the banks is not a comprehensive or sophisticated strategy for systemic change; it is to loan money. The banks are thus primarily loan-driven. However, in the process of providing loans they have a voice in the standards of performance which may lead them to the need of affecting systemic change. The record of the international banks in this area in the Third World has not been exactly exemplary. Like AID, the World Bank has been known to resort to policy dialogue, with similar results. Its project loans have often been at variance with a professed over-all policy with regard to systemic change: they tended to shore up inefficient state-owned enterprises, while in recent years the policy called for the promotion of private enterprise. In 1980, the World Bank initiated structural adjustment loans (SALs) for the specific purpose of promoting policy reform, but their terms have not been vigorously enforced and many reforms were either not implemented on time or not at all. (10)

The historical record of the IMF in systemic change is perhaps even less encouraging than that of the World Bank. The IMF has been known to focus its attention on macroeconomic targets like the balance of payments, the budget deficits, and price stability. In turn, this tended to lead to highly restrictive policies which often stifled economic growth along with a particular systemic change potentially capable of promoting growth. Indeed, the stress of the IMF on "adjustment programs" and the corresponding propensity to neglect microeconomic reforms resulted in the Fund's lack of appreciation of systemic change as a process, as distinguished from setting up standards for account balances.

As to the European Bank for Reconstruction and Development (EBRD): it is as yet an untried institution and, given its structure, U.S. influence in the EBRD will be limited which will impose constraints on our ability to mold East European systems in accordance with the best U.S. business ideals and practices. Perhaps more fundamentally, however, as a bank the EBRD would be inherently handicapped - just as the IMF and the World Bank are - in being a truly optimal agent for systemic change. As loan-granting organizations, banks do not usually affect the total spectrum of institutions and processes relevant to the optimization of economic growth.

When faced with the requirements of a major expansion of operations in Eastern Europe, both the World Bank and the IMF have significantly increased their personnel related to systemic

change and their over-all capability in this area has improved. However, their primary mission as banks and their historical baggage still impose significant limitations. The propensity to give loans and not rigorously insist on conditions of systemic change to ensure that the money is effectively used tends to persist. The banks use East European consultants, but they still project themselves onto Eastern Europe and are not effectively engaged with the process of systemic change emanating from Eastern European societies themselves, the governments and social forces. They do not actually generate truly new concepts or knowledge in systemic change and adapt them to conditions in each country to optimize growth. And the coordination of their activity with AID in the area of systemic change leaves something to be desired.

In conclusion, there are three principal forces which shape future systems of East European nations, two external and one internal. The external forces are (a) the activity of the international banks and (b) U.S. policies and programs. The third, internal force, is the political process within each country, which ultimately decides on the type of systems that prevail. The two external forces project influence from the outside, but they are not effectively engaged with that process. Moreover, none of the three forces is truly focused upon or specializing in the optimization of systems for East European nations.

The internal political process principally involves an interplay of various political forces and interests seeking objectives of their own and the systems which emerge are a result of this interplay. U.S. policies and programs largely take the form of "unloading" the U.S. system on Eastern Europe through a multiplicity of university programs, numerous independent consulting services, foundations, and investment by American companies, usually assisted in varied degrees by the U.S. Government. However, there is no effective mechanism within this policy which assures that only the best of American economic systems and business practices are projected on Eastern Europe. The international banks are principally concerned with assistance loans and they project Western - including socialist - economic and business systems. The process of system formation in Eastern Europe is thus not very tidy or neat, and in some respects it is haphazard.

To improve the process of systemic change for Eastern Europe, there is a need for a mechanism or mechanisms which would accomplish the following:

1. Provide a more effective linkage between external forces for systemic change and the internal process and, in particular, engage the internal process much more effectively to ensure that optimal systems emerge with an effective participation of the

countries themselves.

2. Initiate a process which would help ensure that the best of America's economic system and business practices are adapted to Eastern Europe and take hold there, and that those which are less suitable or potentially damaging fall by the side.

3. Advance the state of the art of policy for systemic change for optimization of sustainable growth and effectively apply it to Eastern Europe in close cooperation with the three forces discussed above: the internal political process in East European nations, U.S. policy (including the relevant activity of the private sector), and the activity of the international banks.

These objectives could be accomplished by an Institute for Economic Restructuring and Business Management discussed below.

Institute for Economic Restructuring and
Business Management (IERBM)

The Institute for Economic Restructuring and Business Management (IERBM) would be a regional U.S.-East European organization operating under an umbrella of leading U.S. and Eastern European universities, such as Columbia, Georgetown, Harvard, MIT, University of Pennsylvania, University of Texas at Austin, The Budapest University, Charles University (Prague), and University of Warsaw. The headquarters of the IERBM would be located in Eastern Europe and associated with a leading East European university. It would have branches in the capital of each of the participating East European nations to ensure that its activity is effectively responsive to local needs and conditions and that appropriate personnel of each country is suitably involved.

The mission of the IERBM would be to assist East European nations to maximize economic growth and management efficiency in the transition from centrally-planned to market-oriented economies and to optimize sustainable economic growth in general. The IERBM's guiding philosophy would be the notion that systems (economic, social, management, value, governmental, educational, etc.) and the mode of their organization and functioning are a key factor of economic growth, along with such generally recognized factors of growth as capital, labor, natural resources, and technology. The activity of the IERBM would be pursued through three functions: (a) research through the IERBM's Research Center; (b) education and training through its School of Economics and Business Administration; and (c) consulting services through its Center for Consulting Services. The organizations assisted would include governments, individual ministries, business associations, and enterprises. Wide in scope, the IERBM's activity would range from assisting to build a

legal infrastructure for business activity to advising on an optimal form of privatization for an enterprise.

As an organization specializing in systemic change, the IERBM would assist other organizations involved in this activity. Thus, as appropriate, it would provide professional assistance, including research, specialized training, and consulting services, to the World Bank, the IMF, the EBRD, and AID. In turn, it may lean on loans available from these institutions as a leverage to help implement its programs for systemic change.

The IERBM would distill the best elements of the U.S. economic and business system and adapt them to various East European countries as well as do original research in systems optimization for economic growth. It would be expected to provide intellectual leadership in this area and offer guidance to private organizations operating in Eastern Europe, thus further enhancing qualitative aspects of the process. On an annual basis, the IERBM would prepare independent assessments of the progress of systemic change in Eastern Europe and indicate promising directions for the future.

The IERBM would be a private organization which would make its activity and penetration of societies more flexible and effective; unlike the World Bank, the IMF and AID which deal primarily with governments, the IERBM would be in a better position to interact with a whole spectrum of organizations relevant to systemic change. It would be a non-profit organization, and yet it would charge for its services; thus, after an initial investment in its establishment and some early support, the IERBM would be expected to be fiscally self-sustaining.

As appropriate, the IERBM would be expected to extend its activity to the Soviet Union on a republic-by-republic basis. It might establish its branches in the capitals of the Soviet republics. The rationale for this approach is two-fold:

1. The Soviet Union is much too big and too diverse a country to try to optimize market- and private-enterprise-oriented changes for the country as a whole, directed from the center. No doubt, important changes would have to be generated in Moscow. However, given the increasing authority of the Soviet republics in the economic sphere, the republic approach to economic systemic change would facilitate the adaptation of systems to regional and local conditions. Accordingly, the establishment of the IERBM in Eastern Europe would help the United States to radiate market-oriented influence onto the USSR in a flexible and pragmatic way and thus be more effective in fostering desirable systemic change.

2. In the fall of 1990, Gorbachev turned to a hard-line policy which has dimmed the hopes of the U.S. Government for desirable reforms through appropriate assistance to the All-Union government. Accordingly, U.S. policy has shifted to an inchoate approach of developing contacts with and assisting the more market-oriented and democratically inclined Soviet republics. This policy requires a certain delicacy, and at present the United States does not have mechanisms particularly suitable to implement it. A resort to U.S. Government agencies (e.g., AID) could create friction with Gorbachev which may not be desirable under the circumstances. The international banks also would not be very suitable instruments since they would have to act through the central government. As a private regional organization located in Eastern Europe, the IERBM would be sufficiently flexible to extend its activity to individual Soviet republics, as deemed appropriate.

Gorbachev's signing a pact with the nine Soviet republics on April 23, 1991, has increased the potential utility of the IERBM as an instrument of U.S. policy with regard to Soviet systemic change. The pact enhances the role and authority of the republics, but it does not guarantee that Gorbachev will follow through with economic reforms at the All-Union level. This new development would facilitate the IERBM's branching out into selected Soviet republics and, at the same time, its activity in the republics might serve as a catalyst for inducing Gorbachev to expedite market-oriented reforms by the Soviet Government.

Conclusion

Effective systemic change is central to the economic well-being, stability, and democracy in Eastern Europe and the Soviet Union. It is therefore in the U.S. national interest to develop concepts, policies, and institutions to promote systemic change in those regions. As we have seen above, the United States is not adequately equipped at present in this regard.

The focus of the above discussion was on the economic dimension of systemic change. There are at least two reasons why this dimension deserves a particular attention:

1. In a period of severe budgetary constraints and dwindling availability of resources, it is essential for the United States to develop concepts, approaches, and strategies whereby the available resources are more effectively used and go further in achieving desirable results. Historically, the United States has been rich in resources and superior in technological capability. There is thus a historically conditioned propensity to solve problems by massive application of resources and technologies - something we can no longer afford. We must therefore seek the attainment of our national objectives by optimizing utilization

of resources and by capitalizing on better concepts and strategies instead of resources and technologies.

2. Effectiveness in economic systemic change is fundamental to the development of democracy and stability; a failure in the economic sphere would doom both. Moreover, specific steps in promoting systemic change towards free markets, private enterprise, and competition promotes pluralistic vitality so essential for democracy to take roots. And, in turn, democracy is necessary to make a free enterprise system achieve its full potential.

Therefore, the focus on the economic dimension of systemic change does not necessarily mean a neglect of the other dimensions, especially political (democracy) and environmental. To optimize sustainable economic growth - the kind essential for enduring democracy and stability - the proposed Institute for Economic Restructuring and Business Management must pay close attention and help develop those other dimensions if its objective is to be effectively achieved.

The above should not be construed as implying that we can solve all our problems regarding an effective policy for systemic change by establishing an institute in Eastern Europe. In the last analysis, the problem is here at home, in the State Department, the White House, and in the U.S. Congress. It is in these institutions where the potential of policy for systemic change must be better understood, developed, and employed.

NOTES

1. For systemic change considerations of the invasion of Panama, see Victor Basiuk, "Force Basic Change in Panama," The Journal of Commerce, March 6, 1990, p. 8A. A potentially more recent example is that of the Persian Gulf war, but its systemic change component - in particular, with regard to Iraq - at this point is still inconclusive.

2. See "X" [George Kennan], "The Sources of Soviet Conduct," Foreign Affairs, Vol. 25 (July 1947), p. 582, and Harold Lasswell, "'Inevitable' War: A Problem in the Control of Long-Range Expectations," World Politics, Vol. 2 (October 1949), pp. 15-17, 35-39.

3. Thus, in FY 1990, PRE's budget was \$21.9 million, as compared with the total AID budget of \$6.6 billion. It was, however, in a position to leverage its funds through guarantee authority. Thus, the guarantee authority of PRE's Investment Office was about \$200 million. Source: PRE.

4. See, e.g., "Remarks by Dr. Victor Basiuk at the Conference on 'Industrial Policy and Strategy: Mexico and the United States,'" sponsored by La Secretaria de Comercio y Fomento Industrial de Mexico and the Office of Mexican Studies, The University of Texas at Austin (Cuernavaca, Mexico, August 3, 1984), and H. Eugene Douglas and Victor Basiuk, "The Private Sector and Technology Transfer to Mexico," Mexican Studies/Estudios Mexicanos, Vol. 2 (Summer 1986), pp. 253-274.

5. E.g., Victor Basiuk, "'Systemic Change' as a Component of U.S. Foreign Policy; A Paper for Discussion" (An unpublished internal paper, U.S. Department of State, October 10, 1985). For a discussion of a proposal for U.S. policy for systemic change with regard to Japan related to economic and technological competition which appeared in published sources, see Victor Basiuk, "Security Recedes," Foreign Policy, No. 53 (Winter 1983-84), pp. 64-68 and 71. This approach to U.S. Japanese policy was not actually implemented by the Department of State until about three years later.

6. My work on this subject appeared in internal papers of the Policy Planning Staff of the State Department in 1986-87; in a public forum, it was elaborated in my talk at the National Science Foundation on "Institute for Economic Development and Business Management (IERBM)," on May 4, 1990, pp. 2-3.

7. Institute for Policy Reform was established by AID's Bureau of Program and Policy Coordination, while the IRIS Program was created by the Bureau for Private Enterprise which became disenchanted with the limited effectiveness of policy dialogue. IPR and the IRIS Program do not focus on Eastern Europe in particular, although occasionally they may address an Eastern European topic.

8. This is a budgetary estimate, and not the final budget.
Source: AID.

9. Of the \$381 million of the AID budget estimated for assistance to Eastern Europe, \$271 million are allocated to "Economic Restructuring." The single largest item within "Economic Restructuring" is "Investment Support," amounting to \$116 million. (Source: AID.) An inquiry at the Polish-American Enterprise Fund, the largest entry (\$69 million) within "Investment Support," evoked a response to the effect that the Fund does not support programs in systemic change as such; its primary mission is to support private investment in Poland.

10. See Doug Bandow, "What's Still Wrong with the World Bank?" Orbis, Winter 1989, pp. 76, 78-82, 84-85.

4/29/91

VICTOR BASIUK
Biographical Sketch

Victor Basiuk is a Consultant on Science, Technology, and National Security Policy based in McLean, Virginia. He is a graduate of Haverford College (B.A. in political science) and of Columbia University (M.A. and Ph.D. in international relations). Dr. Basiuk taught at the U.S. Naval War College, Columbia University, and Case Western Reserve University, and was for ten years Research Associate at Columbia's Institute of War and Peace Studies.

In 1970, Dr. Basiuk came to Washington from Columbia to become International Relations Advisor to the Chief of Naval Operations and has been consultant in the Washington area since 1973. His consultantships included those to the White House, the State Department, the Department of Defense, and other U.S. Government agencies.

Victor Basiuk is the author of a book on Technology, World Politics, and American Policy (Columbia University Press, 1977), a monograph on Technology and World Power (Foreign Policy Association, 1970), and of numerous articles and contributions to collective volumes. He has been working on concepts and issues of U.S. policy for systemic change since 1980.

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THE WORLD BANK

ROUTING SLIP

DATE
4-28-91

FROM THE SENIOR VICE PRESIDENT,
POLICY, RESEARCH AND EXTERNAL AFFAIRS

NAME

ROOM NO.

Messrs. Summers

Rajagopalan
Holsen

Isenman
Linn

Gelb
Lamb

Michalopoulos

	APPROPRIATE DISPOSITION	NOTE AND RETURN
	APPROVAL	NOTE AND SEND ON
	COMMENT	PER OUR CONVERSATION
<input checked="" type="checkbox"/>	FOR ACTION	PER YOUR REQUEST
	INFORMATION	PREPARE REPLY
	INITIAL	RECOMMENDATION
	NOTE AND FILE	SIGNATURE

REMARKS

RECEIVED


91 APR 29 AM 8:00

PRDDR

FROM:

Wilfried P. Thalwitz

INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: April 26, 1991
TO: Mr. Moeen A. Qureshi
FROM: David R. Bock 
EXTENSION: 82858
SUBJECT: Potential Bank Involvement in EC Technical Assistance Program for the Soviet Union

STRICTLY CONFIDENTIAL
DECLASSIFIED
SEP 04 2019
WBG ARCHIVES

1. The recent PC discussion on the Soviet Union concluded that it is not appropriate at this time to reopen a dialogue with the Soviet authorities on a technical assistance program along the lines discussed last fall. The political and economic situation in the USSR is expected to remain uncertain, if not chaotic, for some time to come. Equally important, a Bank or Fund program focussed on a policy dialogue with the Union authorities continues to represent a major policy threshold for the Bank's shareholders, particularly the United States.

2. Notwithstanding these issues, however, the European Community will proceed with its own substantial technical assistance program to the Soviet Union. The scale and scope of this program presents the Bank and its shareholders with a number of difficult issues, similar to those that have concerned the G10 finance ministers in the context of Western financial assistance to central and eastern Europe. Specifically, this raises again the prospect of competition among the international institutions for influence/leadership vis a vis the countries in transformation, with the risk that the policy dialogue gets diluted and confused and that decisions on financial assistance become dominated by political considerations to the detriment of economic reform. The risk is particularly acute in the Soviet Union because of the lack of coherence in government decision-making. Fragmentation of advice/TA from the official institutions will simply reinforce the fragmentation within the Soviet Union.

3. At the same time, there are several reasons for the Bank to want to be somewhat more deeply involved in events in the Soviet Union than we have been over the past few months. First, we simply need to stay abreast of what is happening. Operationally, this is important for some of our borrowers (particularly CEE countries), and it is virtually impossible to do this without direct contact with the economic institutes and authorities in the Soviet Union. Second, the issue of Soviet membership is not going to go away; it is not a matter of whether but when and through what process. A lending relationship is likely,

and given the uniqueness of the Soviet case, we will not be able to rely all that much on knowledge and experience gained in CEE countries. We are not going to be able to deal effectively with the USSR without "living through" the current struggles and gaining a much better first-hand sense of the attitudes and politics that are shaping the transformation process. Even if a start-up of lending is 2-3 years away, we should not underestimate the time it will take us to build a knowledge base in the Soviet Union, particularly since we will have limited resources to devote to it and we are quite likely to be drawn into highly visible and complex adjustment lending right from the start.

4. Third, the Bank should play a leading role in the Soviet Union. We have unique skills, and we are going to be a far more acceptable and effective interlocutor with the Soviets than any regional or bilateral institution. Again, the question is not whether we should carve out a leading role, but the nature of that role and how best to develop it over time, taking full account of the internal and external circumstances confronting the Soviet Union.

5. Other things being equal, we would probably prefer to wait at least a few months before taking any further steps, say, until after the July Summit. But the EC program will raise questions about what the Bank intends to do. Saying that we are waiting for clarity about developments in the Soviet Union and a consensus among our shareholders will lack credibility. Also, we need to decide now whether we wish to join with the EC (as an executing agent) in their technical assistance program, and if so, on what terms. Given the scale of the program (ECU 400 million to be committed by the end of the year), the EC is quite open to channeling part of these funds through the Bank. Is there a way, therefore, that we can capture part of the EC's program that: (a) helps us achieve our longer-term objectives in the Soviet Union; (b) is consistent with the low-profile approach that we prefer at this time; and, (c) does not cross the policy threshold that is such a problem for the US?

6. This question has been carefully considered by those of us who have been working on possible proposals for EC funding. We believe we have developed an approach that is workable. It seeks to break out of the present stalemate by an essential and critical shift of emphasis in Bank technical assistance from policy dialogue with the Union government to research and training that directly benefits a much wider set of institutions and groups. The heart of the approach is a joint venture with a consortium

of Soviet economic institutes through which Bank staff and consultants would conduct economic and sector work focussed on the transformation process and EDI-managed training programs related to this work. Emphasis would be on the Bank's comparative advantage in integrating the macro and sectoral issues. The proposal would include both a core program of general research/training and special studies/training programs in key areas such as financial sector development, FDI, privatization, agriculture, etc. A preliminary description of the core program is attached.

7. The US problem is whether and when to defrost their special associate status proposal. Whether the approach outlined above will finesse this problem would need to be explored, but it may be seen as a half-way house that the US can acquiesce to without either pre-empting or conflicting with a decision on special associate status that they are not quite ready to make. The Soviet authorities, on the other hand, may need a little convincing that a program that emphasizes a kind of humanitarian approach to technical assistance is the only thing that they are going to get for the time being. In this connection, it is important to note that we will need agreement from the Soviets on issues of access to information, privileges and immunities for staff, openness of the program to a broad range of participants and non-interference in its management.

8. If this approach is generally acceptable, we would need to move fairly quickly in deciding how to handle discussions with the EC, the Soviets and the Board. I would suggest that the PC take up this issue early next week.

Attachment

Cleared with & cc: Messrs. Holsen, Grais, Knight, Weigel,
McCulloch

cc: Messrs. Thalwitz, Stern, Ryrie, Shihata, Wapenhans,
Sandstrom, Cheetham, Golan
Isenman, Kavalsky, Goldberg, P. Hasan, Levy

Proposal for World Bank
Training, Advisory and Research Group in the USSR

1. As part of technical assistance to the Soviet Union, it would be desirable to establish a "Training, Advisory and Research Group" that could provide an "umbrella" for a number of closely related and mutually supporting activities. Such a Group would assist in building relationships between institutes and organizations concerned with economic reform, particularly by their participation in joint research and policy analysis tasks. It would be a vehicle for transmitting the "lessons of experience" from other countries that have implemented structural adjustment programs or are "marketizing" their economies. The members of such a group could also be a source of technical assistance and advice where the involvement was short-term, a quick response was essential, and the subject was one in which the group had the necessary expertise. Such a group would not in any way substitute for larger and sector-specific or problem-specific technical assistance projects.
2. The World Bank would be prepared to manage such a "Training, Advisory, and Research Group" (TARG) in Moscow. The Bank would be able to draw on its experience in many other countries and on staff members and consultants who were experts in a wide variety of areas. The training activities could be implemented by the EDI, with the TARG providing local administrative support. The suggested EDI training program for the USSR is outlined in detail in the attachment.
3. While managed by the Bank, the TARG would have a National Advisory Board made up of representatives from a range of Soviet economic research and training institutes which would help establish the desired links to both Union and republican institutions. Institutions represented on the Advisory Group might include, among others, the Institute of Market Economy (Petrakov), the Institute of Economic Policy (Gaidar), The Institute of Economics (Abalkin), the Academy of National Economy (Aganbegyan), and the Economic and Political Research Center (Yavlinsky). As the National Advisory Board's role function would be advisory, final responsibility for TARG activities would rest with the Bank. The TARG would be administratively responsible to the appropriate Operational department at headquarters.
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8. To carryout collaborative research with Soviet scholars and institutions, provision should be made to fund each year approximately 10 researcher-years by Soviet nationals. These national researchers might be either "in residence" with the Group or come only for short visits while maintaining their normal offices and affiliations. This collaborative research budget would also be used to support participation in conferences by national researchers and for honoraria for papers.

9. It is proposed that the TARG initially be established and funded for a three year period. The desirability of continuing it beyond that time, and the appropriate level and sources of funding, would be examined after the completion of the Group's second year. Tentative estimates of a three year budget for the TARG are provided in the accompanying table. Local costs will depend heavily, of course, upon changes in prices and exchange rates which cannot be accurately predicted.

Proposed 3-Year Budget for a
 "Training, Research and Advisory Group"

(in thousands of US dollars)

	Annually	For 3 Years
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Contingencies (including for EDI)	638	1914
Sub-Total	4088	12265
EDI Program expenses	2412	7235
EDI Headquarters staff (4 HL, 2 SL)	1000	3000
Total	7500	22500

[S1042301.DOC]

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: APRIL 29, 1991

TO: Larry Summers (LARRY SUMMERS)
TO: Visvanathan Rajagopalan (VISVANATHAN RAJAGOPALAN)
TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: Paul Isenman, PRDDR (PAUL ISENMAN)

EXT.: 33957

SUBJECT: You may be interested in the attached exchange of memos and

ems on the Soviet Union. (Please don't spread them around, though; there is no sense publicizing widely this difference of views on what are more tactics than strategy.)

CC: Amnon Golan (AMNON GOLAN)

P. Please read
these. They have
(special instructions for Alex)
with the P
brief for last
Wed. (labelled as
on USSR such) and Berts
memo to Gushki
done of last Friday.
P.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 01:23pm EST

TO: See Distribution Below

FROM: Wilfried Thalwitz, PRESV (WILFRIED P. THALWITZ)

EXT.: 36860

SUBJECT: Mr. D. Bock's memo of April 26 re Potential Bank Involvement

in EC Technical Assistance Program for the Soviet Union.

I was a bit surprised to see the wide distribution of David Bock's memo to you on the USSR, since it does not seem to have taken account of the PC discussion only two days earlier. Rather it seems to be dealing with some detailed aspects of the "high option", while at the PC we were talking of the "low option". In fact, we had assumed, evidently incorrectly, that the purpose of David's meeting with his committee was to inform them of the current state of play at the PC.

As agreed at the PC, let's see what signals we get from shareholders on this. As suggested by Ibrahim, we can certainly respond informally to the EC that while it is premature for us to use their funds at this point that the situation would be likely to change if our shareholders urge us to become more active. We could indicate, in this context, that if we were to move ahead, one key issue would be how to do so without reducing funding available for existing borrower countries; in this context EC funding would be quite helpful.

I understand the enthusiasm that lies behind David's memo. Like him, I think that the Bank has a great deal to contribute to economic reform in the Soviet Union, **but at the proper time.**

DISTRIBUTION:

TO: Moeen A. Qureshi	(MOEEN QURESHI)
CC: Ernest Stern	(ERNEST STERN)
CC: William Ryrrie	(WILLIAM RYRIE)
CC: Ibrahim Shihata	(IBRAHIM SHIHATA)
CC: W. A. Wapenhans	(W. A. WAPENHANS)
CC: Sven Sandstrom	(SVEN SANDSTROM)
CC: Russell Cheetham	(RUSSELL CHEETHAM)
CC: Amnon Golan	(AMNON GOLAN)
CC: Rest of Distribution Suppressed	

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 29-Apr-1991 02:53pm EST

TO: See Distribution Below

FROM: David R. Bock, OPNSV (DAVID BOCK)

EXT.: 82856

SUBJECT: Potential Bank Involvement in EC TAP for the Soviet Union

Wilfried,

This must be the season for surprises as I was surprised by your note to Moeen. The intent of my memo was not to reopen the PC decision but to get clarification on how far we can safely go in discussions with the EC at this time, recognizing that we would need to be non-committal and circumspect in any event. In re-reading the memo, I realize that the reference to yet another PC discussion was a mistake. As a practical matter, all that is required is a bit of guidance from the President based on his conversations with ministers this week.

The wide distribution of the memo stems from the fact that I was writing on behalf of the group that has been drawn together to coordinate the planning of possible TA to the USSR. As Operations is not the only complex interested in this subject, I thought it best to copy my report to you and others.

David

DISTRIBUTION:

TO: Wilfried Thalwitz	(WILFRIED P. THALWITZ)
CC: Moeen A. Qureshi	(MOEEN QURESHI)
CC: Ernest Stern	(ERNEST STERN)
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CC: Ibrahim Shihata	(IBRAHIM SHIHATA)
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SOVIET UNION:
CURRENT POSITION AND NEAR-TERM OPTIONS FOR THE BANK

This note discusses (1) the political/economic situation in the USSR, (2) JSSE follow-up activities, (3) action by other international institutions, and (4) options for the Bank under various assumptions. Three options are discussed: the status quo; a high case, with strong Soviet commitment to reform and strong shareholder (G-7) support for quick membership; and an intermediate case, with little commitment to reform and strong shareholder support for closer Bank ties with the Soviet Union. We will see soon what the shareholder position is. The likeliest case seems to be some variant of the third option.

(1) THE POLITICAL/ECONOMIC CRISIS IN THE SOVIET UNION

The fiscal crisis and sharply declining output have not been halted by recent actions. The currency reform in March reduced broad money by only 1%, while the fiscal benefit of this month's large price increases is reduced by an estimated 85% wage and pension adjustment. Refusal of the Russian and other republics to transfer most tax revenues to the Union Treasury is leading to very large fiscal deficits, and reducing ability to meet even essential commitments (e.g. army pay) without resort to the printing press.

The Soviet government is due to announce further economic reforms today (April 22). So far the center, led by President Gorbachev, has lacked the political capacity to impose an economic program on the republics -- whether it is a "reform" program or recent attempts to return to greater administrative controls. Unless some compromise on political and economic issues can be worked out, however, the near term outlook is for continued economic deterioration, with uncertain political consequences.

(2) JSSE FOLLOW-UP ACTIVITIES

A small mission to the Soviet Union is planned for two weeks beginning about May 10, to discuss both the strategy of reform and more specific measures in areas which were examined in detail by the Bank team, including key sectoral issues such as energy and agriculture, pricing policies and enterprise reform. It will meet with Union officials and, with the approval of the Soviet authorities, with republican officials in Moscow and perhaps Kiev. This proposal awaits Moscow's confirmation. Bank and Fund have both received informal invitations from the Institute of Economics, USSR Academy of Sciences, to participate in a "retreat" to discuss the JSSE recommendations. However, the status of this proposal is

uncertain. The Institute plans to publish a Russian translation of the December "Summary and Recommendations" report, possibly this month. Prof. Aganbegyan has offered, in an April 18 letter to Mr. Conable, the staff and facilities of his Institute of National Economy for a discussion of the JSSE technical papers.

(3) ACTION BY OTHER INTERNATIONAL INSTITUTIONS

The Fund and OECD have also proposed small JSSE follow-up missions: the Fund mission, led by the chief of the new European Department division covering the USSR, Bulgaria, Romania and Albania, will go in mid-May, though the chief of mission is in Moscow this week. EBRD's economists accompanied Mr. Attali to Moscow in March.

An EC mission visited Moscow in March to discuss their proposed ecu400 million technical assistance program for calendar 1991. The EC recently decided to proceed with preparation of the program, although disbursements will not occur before approval at the May EC summit. It is probable that the EC will seek Bank participation in this program. The EC has also established a bilateral "macroeconomic group" within the framework of EC-USSR cooperation, due to meet for the first time in Moscow April 29-30.

While it makes sense for each agency to pursue discussions with the Soviets individually rather than through cumbersome joint arrangements, more will need to be done to ensure coordination and mutual information. This is already proceeding well with the Fund and, increasingly, with the EC.

(4) OPTIONS FOR THE BANK

Three scenarios are set out below, to focus discussion of the underlying choices. They are based on the current position, a "high" expansionist case, and a moderate increase. For each option, initial conditions are identified, followed by a brief discussion of possible program content, financing modalities, staffing and organizational implications, and the nature of Board decisions required.

OPTION 1: Status quo, more or less

This consists of completing agreed JSSE, doing a small amount of additional economic analysis on aspects of the Soviet economy which have a direct bearing on Bank members and Bank business, and maintaining a minor "watching brief" on Soviet developments.

Initial conditions: Continuation or worsening of Soviet political and economic reform climate; major shareholders remain unwilling to support significant Bank effort beyond JSSE.

Bank program objectives under these conditions would be to carry the JSSE dialogue somewhat further, but beyond that to do little more than maintain low-key contact with Soviet developments for the time being. This might involve:

- JSSE follow-up mission to USSR and related discussions
- Limited work on the Soviet dimension of issues of direct concern to the Bank and its members -- e.g. CMEA break-up, energy prospects and deliveries to Eastern Europe.
- Occasional Soviet visitors and professional exchanges, including minor participation in EDI seminars on a full-cost basis.
- Some effort to maintain currency of JSSE information.

Financing: Essentially none. That is, beyond JSSE these limited activities would be a minor part of ESW and research tasks, would be externally funded (in the case of visits and occasional Soviet EDI participants), or would be included in normal data collection and synthesis.

Staff and organization: Zero or virtually zero. No new organizational entities are needed, and existing staff in EMENA and PRE (primarily Socialist Economies Unit and IEC) would be involved. A small amount of specialized consultancy would be necessary from time to time.

Board involvement: Under this option presumably no specific Board discussion or decision would be required.

OPTION 2: Major Expansion

At the other extreme is a major near-term expansion in the Bank's role in the Soviet Union. It is useful to look at a high case option for two reasons: it may occur -- although the probability currently seems relatively low; and it provides an endpoint of reference for assessing what needs to be done in an intermediate or transitional phase.

In this option the Bank would be rapidly deepening its knowledge of the Soviet economy, launching a large program of analytical work, technical assistance and training, and gearing up for an early start to substantial lending.

Initial conditions: Decisive change in attitudes of major shareholders, for example G-7 agreement that Soviet membership application should be accepted and acted upon, or that the Bank should be part of a major international effort to help the Soviet economy. A tougher condition to meet will be real Soviet progress (as condition of G-7 shift?) towards stabilization and

systemic reform. (A push for membership but without progress on reform is treated as a variant of Option 3.)

Bank program: This would be geared towards membership, a strong policy dialogue and a substantial lending program. The program would focus on advice, lending and technical assistance for both systemic reform and sector priorities (as did both the JSSE and the T.A. proposal discussed earlier with the Soviets), and on ESW in support of these priorities.

Financing: The very early phase of such a program might be initiated with EC funding, G-7 trust funding or some other special arrangement. As the Soviet Union moves closer to membership, this option would require a regular budgetary allocation (except that TA and training beyond a scale comparable to that of other borrowers would still require external funding.)

Staff and Organization: This scenario implies that at some point a country department growing to normal size -- 80 to 90 staff years -- would be established in which the Soviet program would clearly be dominant. There would for a period be far more direct provision of T.A. and training than is normal. A key management issue (also relevant to external recruitment) would be to balance the need for high-quality staff for the Soviet program against the needs of other borrowers: a rush of some of the Bank's best staff could be expected, and shareholder sensitivities (on all sides) would be high.

Board involvement: Board agreement would of course be required with respect to budget and in due course membership. The most difficult aspects of Board involvement would presumably relate to capital and shareholding issues.

OPTION 3: Moderate program

This option is less a specific program than a range of actions between standing pat and a large expansion. It involves a discrete choice for the Bank because anything in this range would signal a significant change in stance, and because such a change would require a substantial commitment in terms of political support, money, staff and organization.

A program in this range could carry on for 1-3 years, or more, while the political and economic drama plays itself towards some clearer resolution. After whatever period of transition, the program could fall apart if the Soviet political situation deteriorates, or could move to membership, with or without major commitment to major policy reform.

Initial conditions: Moderate easing of shareholder unwillingness to support closer Bank relationship -- e.g. forthcoming G-7 meetings might agree to encourage renewal of some Bretton Woods

involvement, ranging from reviving special association-type proposals to a push for full, but not immediate, membership. No significant retrogression in Soviet economic or political policies, but little near-term prospect of decisive movement towards strong market-oriented reform.

Bank program: Broad objectives would be to deepen Bank knowledge of key features of the Soviet economy -- including its republican dimensions; to position the Bank to play a strong future policy and advisory role if/when reform moves ahead; and provide advice, technical assistance and training which helps the economy despite the policy constraints and which meets some of the starvation for knowledge about market-oriented reform.

The core of a program of this sort should probably be a limited set of sectoral technical assistance tasks; a modest program of collaborative research; and the establishment of a set of institutional relationships -- for training, advisory work and policy discussion -- which connect with important groups without being too closely associated with only a narrow range of the many official and quasi-official institutions. There should be a republic-level dimension to this program, possibly including Russia and the Ukraine in the first instance.

In terms of topics, the technical assistance would be broadly similar to the program sent to the Soviets last November, with two important differences stemming from lower current receptivity of Soviet government entities to systemic reform proposals. First, assistance and advice to government on systemic as against sectoral issues would be a smaller part of the program, and might need to concentrate on things with longer lead times, for example institutional and legal reform. Second, (even) greater weight than formerly should be given to educating and preparing present and potential Soviet policymakers, and influencing the climate of debate. This would include a carefully designed EDI program, and a deliberate effort to build institutional partnerships.

Financing: Initial needs might be modest (a few ESW-type tasks, some EDI activity), but could be expected to build to the \$5-10 million range annually. At a minimum, at the outset there would be a need to finance a number of staff members plus overhead, travel, and some training activities in Washington and the USSR. A budget request does not seem a desirable course until the Soviet Union is getting close to full membership. Indeed until events reach such a point it will be important to ensure that finance for a Soviet program is really additional to the Bank's budget, and is seen as such. It would therefore be necessary to use clearly additional external funding or at a minimum a transfer from net income, until the Soviet Union was on the threshold of full membership and an allocation from a commensurately increased budget became appropriate.

The feasibility of using external funding is enhanced by the apparent desire of the EC to have us carry out some of its ECU400 million 1991 commitment. For a program of the sort envisaged, the EC would need to give us a kind of "block grant" rather than contracting for specific studies. We would also have to get at least one or two other donors to participate. In any event, substantial EC financing could permit rapid scaling up or replication of Bank-devised training and T.A.

Staff and Organization: The uncertainties surrounding the Soviet program make it at this point a risky anchor for a new Country Department. Whether a new Department can be justified on the basis of other Central and Eastern European countries and is desirable (re splitting SODs) is now under study by CPB. In either case, the riskiness of the Soviet situation suggests that it is better to start with a WDR-type of task force than a permanent organizational unit; the task force could either be in a new Department or an existing one.

A second issue is that of representation in Moscow. Some presence will be necessary at an early stage for logistical and administrative reasons. Beyond that, there is broad agreement that a substantive capacity on the ground would be critical to the effectiveness of a Bank technical assistance program. A large resident mission, however, would again send too strong a signal, and would be an embarrassment if things went sour. It seems preferable to start with only a modest representative office.

Board involvement: Under this option the legal and other issues involved in assisting a non-member would recur: Board agreement on the program and commitment of Bank resources would be required. This would presumably be somewhat simpler in the event of a Soviet application for membership being in the works.

OFFICE MEMORANDUM

DATE April 26, 1991

TO Mr. Moeen A. Qureshi

FROM David R. Bock *DRB*

EXTENSION 82858

SUBJECT Potential Bank Involvement in EC Technical Assistance Program for the Soviet Union

STRICTLY CONFIDENTIAL

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WBG ARCHIVES

1. The recent PC discussion on the Soviet Union concluded that it is not appropriate at this time to reopen a dialogue with the Soviet authorities on a technical assistance program along the lines discussed last fall. The political and economic situation in the USSR is expected to remain uncertain, if not chaotic, for some time to come. Equally important, a Bank or Fund program focussed on a policy dialogue with the Union authorities continues to represent a major policy threshold for the Bank's shareholders, particularly the United States.

2. Notwithstanding these issues, however, the European Community will proceed with its own substantial technical assistance program to the Soviet Union. The scale and scope of this program presents the Bank and its shareholders with a number of difficult issues, similar to those that have concerned the G10 finance ministers in the context of Western financial assistance to central and eastern Europe. Specifically, this raises again the prospect of competition among the international institutions for influence/leadership vis a vis the countries in transformation, with the risk that the policy dialogue gets diluted and confused and that decisions on financial assistance become dominated by political considerations to the detriment of economic reform. The risk is particularly acute in the Soviet Union because of the lack of coherence in government decision-making. Fragmentation of advice/TA from the official institutions will simply reinforce the fragmentation within the Soviet Union.

3. At the same time, there are several reasons for the Bank to want to be somewhat more deeply involved in events in the Soviet Union than we have been over the past few months. First, we simply need to stay abreast of what is happening. Operationally, this is important for some of our borrowers (particularly CEE countries), and it is virtually impossible to do this without direct contact with the economic institutes and authorities in the Soviet Union. Second, the issue of Soviet membership is not going to go away; it is not a matter of whether but when and through what process. A lending relationship is likely,

and given the uniqueness of the Soviet case, we will not be able to rely all that much on knowledge and experience gained in CEE countries. We are not going to be able to deal effectively with the USSR without "living through" the current struggles and gaining a much better first-hand sense of the attitudes and politics that are shaping the transformation process. Even if a start-up of lending is 2-3 years away, we should not underestimate the time it will take us to build a knowledge base in the Soviet Union, particularly since we will have limited resources to devote to it and we are quite likely to be drawn into highly visible and complex adjustment lending right from the start.

4. Third, the Bank should play a leading role in the Soviet Union. We have unique skills, and we are going to be a far more acceptable and effective interlocutor with the Soviets than any regional or bilateral institution. Again, the question is not whether we should carve out a leading role, but the nature of that role and how best to develop it over time, taking full account of the internal and external circumstances confronting the Soviet Union.

5. Other things being equal, we would probably prefer to wait at least a few months before taking any further steps, say, until after the July Summit. But the EC program will raise questions about what the Bank intends to do. Saying that we are waiting for clarity about developments in the Soviet Union and a consensus among our shareholders will lack credibility. Also, we need to decide now whether we wish to join with the EC (as an executing agent) in their technical assistance program, and if so, on what terms. Given the scale of the program (ECU 400 million to be committed by the end of the year), the EC is quite open to channeling part of these funds through the Bank. Is there a way, therefore, that we can capture part of the EC's program that: (a) helps us achieve our longer-term objectives in the Soviet Union; (b) is consistent with the low-profile approach that we prefer at this time; and, (c) does not cross the policy threshold that is such a problem for the US?

6. This question has been carefully considered by those of us who have been working on possible proposals for EC funding. We believe we have developed an approach that is workable. It seeks to break out of the present stalemate by an essential and critical shift of emphasis in Bank technical assistance from policy dialogue with the Union government to research and training that directly benefits a much wider set of institutions and groups. The heart of the approach is a joint venture with a consortium

of Soviet economic institutes through which Bank staff and consultants would conduct economic and sector work focussed on the transformation process and EDI-managed training programs related to this work. Emphasis would be on the Bank's comparative advantage in integrating the macro and sectoral issues. The proposal would include both a core program of general research/training and special studies/training programs in key areas such as financial sector development, FDI, privatization, agriculture, etc. A preliminary description of the core program is attached.

7. The US problem is whether and when to defrost their special associate status proposal. Whether the approach outlined above will finesse this problem would need to be explored, but it may be seen as a half-way house that the US can acquiesce to without either pre-empting or conflicting with a decision on special associate status that they are not quite ready to make. The Soviet authorities, on the other hand, may need a little convincing that a program that emphasizes a kind of humanitarian approach to technical assistance is the only thing that they are going to get for the time being. In this connection, it is important to note that we will need agreement from the Soviets on issues of access to information, privileges and immunities for staff, openness of the program to a broad range of participants and non-interference in its management.

8. If this approach is generally acceptable, we would need to move fairly quickly in deciding how to handle discussions with the EC, the Soviets and the Board. I would suggest that the PC take up this issue early next week.

Attachment

Cleared with & cc: Messrs. Holsen, Grais, Knight, Weigel,
McCulloch

cc: Messrs. Thalwitz, Stern, Ryrie, Shihata, Wapenhans,
Sandstrom, Cheetham, Golan
Ysenman, Kavalsky, Goldberg, P. Hasan, Levy

**Proposal for World Bank
Training, Advisory and Research Group in the USSR**

1. As part of technical assistance to the Soviet Union, it would be desirable to establish a "Training, Advisory and Research Group" that could provide an "umbrella" for a number of closely related and mutually supporting activities. Such a Group would assist in building relationships between institutes and organizations concerned with economic reform, particularly by their participation in joint research and policy analysis tasks. It would be a vehicle for transmitting the "lessons of experience" from other countries that have implemented structural adjustment programs or are "marketizing" their economies. The members of such a group could also be a source of technical assistance and advice where the involvement was short-term, a quick response was essential, and the subject was one in which the group had the necessary expertise. Such a group would not in any way substitute for larger and sector-specific or problem-specific technical assistance projects.

2. The World Bank would be prepared to manage such a "Training, Advisory, and Research Group" (TARG) in Moscow. The Bank would be able to draw on its experience in many other countries and on staff members and consultants who were experts in a wide variety of areas. The training activities could be implemented by the EDI, with the TARG providing local administrative support. The suggested EDI training program for the USSR is outlined in detail in the attachment.

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