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THE WORLD BANK

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PUBLIC DISCLOSURE AUTHORIZED

PRDDR - Soviet (General)
August -

1991

The World Bank Group
Archives



30382302

R1991-138 Other #. 9 Box # 19419B
Soviet - General - August to October 1991

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OFFICE MEMORANDUM

DATE: October 18, 1991

TO: See Distribution *h*

FROM: Lars Jeurling, Acting Director, EM5

EXTENSION: 32469

SUBJECT: Interim Guidelines for correspondence with the Soviet Union

CC: *DM*
 RECEIVED
 91 OCT 22 AM 9:30
 PRDDR
done 10/23

1. At the meeting last Tuesday with the task managers for the USSR TA Program, requests were made for guidelines as to how task managers and other Bank staff should interact with Soviet authorities and what clearances are needed from EMENA 5.

2. We would like to have some experience with the USSR TA Program before we lay down firm guidelines. However, in the interim, standard Bank procedures should apply. These procedures have been most clearly spelled out and applied in relations between country and technical departments, but should also apply to all other units involved in the USSR program. Accordingly, all correspondence:

- of a policy nature (i.e. letters to senior officials);
- involving coordination or interaction with other sector/policy areas; or
- committing the Bank to tasks, work programs or strategic action;

should be signed by the respective country (i.e. EMENA 5) division chiefs.

3. Task managers and other staff working on the USSR TA program should also take advantage of the various working groups which have been established for the USSR to seek advice on the substance in correspondence of a policy or strategic nature and when initiating a new task.

4. I would also like to take this opportunity to ask managers and staff who are planning to travel to the Soviet Union to inform EMENA 5 (Ms. Emilia Arriola) of:

- purpose of trip;
- duration and dates;
- visa status; and
- cities to be visited, in what order, and proposed hotels.

This information would help in coordinating activities, keep Foreign Affairs Ministry informed and obtain visas.

Distribution:

Messrs./Mmes. Linn (CEC); Golan (EDI); Grilli (EAS); Isenman (PRDDR); Bock (OPNSV); Kohli (EMNTD); Rao (IECDR); Kaffenberger

(CPOVP); Weigel (CEIFI); El-Rifai (MIGPA); Shihata, Goldberg (LEGOP); Niehuss (CFSVP); Stoutjesdijk (FRSDR); Koch-Weser (TREVVP); Adams (CCMDR); Sandstrom (EXC); Churchill (IENDR); Elwan (CFSPS); Hamilton (PHRDR); Petit (AGRDR); Pouliquen (INUDR); von der Osten (CGIAR); Dervis (EM4DR); El-Ashry (ENVDR); Steer (WDR); Kopp (OEDDR); Wyss (CODDR); Kavalsky (FRM); Birdsall (LATEN); Rao ((IECDR); Clark (GSDTR); Whitelocke (GSDTR); Cheetham (EM5DR); Nouvel (EM5CO); Gould (EM5PS); Brown (EM5IV); Harbison (EM4HR); Zaidan (EM5DR); de Melo (EM5DR)

cc: Messrs. M. Blejer, J. Shilling, M. Long, D. Kaufmann, R. Burcroff,
H. Wackman, J. Holsen, D. Goldberg, S. Talley, I. Newport,
A. Doran, B. Velic, B. Renaud, K. Young, P. Knight,
X. Simon, J. Schweitzer, D. Webb, J. Bergsman, J. Toureille
E. Rueda-Sabater, C. McPherson, W. Onorato, S. Faruqi,
S. Commander, J. Feather
Mmes. C. Wallich, K. Brooks

LJeurling:re

OFFICE MEMORANDUM

cc: GL done
10/21
RECEIVED
91 OCT 21 AM 9:59
PRDDR

DATE: October 18, 1991

TO: See Distribution Below

FROM: Martin Schrenk, CECSE

EXTENSION: 36985

SUBJECT: Alma-Ata Treaty

Attached is a recent press clipping of the full text.

Distribution:

Mmes./Messrs: W. Thalwitz (PRESV); L. Summers, D. de Tray (DECVP);
B. McCullough (OPNSV); R. Cheetham, M. de Melo,
R. Waxman (EM5DR); P. Isenman (PRDDR); J. Holsen (PADSS);
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G. Pfeffermann (CEIED); T. King (EDIST); P. Knight (EDIEM);
A. Gelb (CECSE); N. Birdsall (LATEN); L. Jeurling (AS5IN)

Attachment

ms:ab

between the sides concerned." At the same time, he noted: "The world is changing and hence the map of the world too." The day of the USSR Constitution is observed on October 7. KOMSOMOLSKAYA PRAVDA's commentator Leonid Nikitinsky writes this day is marked in conditions when either the USSR Constitution or the Union of Soviet Socialist Republics itself are in existence. "Under current circumstances, one should not rush to adopt new constitutions of the former constituent republics. However, their absence should not generate absolute arbitrariness."

Newspapers publish alarming reports by news agencies and their own correspondents from the country's flash-points: Georgia and Nagorno-Karabakh.

It is reported that Georgian National Guard units supporting the opposition decided not to lay down arms and not to leave the republic's capital as they initially planned to do. KOMSOMOLSKAYA PRAVDA thinks Georgian President Zviad Gamsakhurdia was clearly ahead of the events "when he congratulated the Georgian people on the victory over the putsch." People in the Tengiz Kitovani camp feel confidently.

PRAVDA writes the situation in the Nagorno-Karabakh Autonomous Region escalated. More than 20 people have already died there after the joint communique on a ceasefire was signed in Zheleznovodsk. The newspaper is stunned by the indifferent behaviour of the mediation sides, specifically Russia and Kazakhstan, which also signed the Zheleznovodsk documents.

In conjunction with Teachers' Day observed on October 6, several newspapers printed materials dealing with the teachers' deplorable status in the country. ROSSIISKAYA GAZETA writes the teacher is on the verge of poverty in the country. Telegrams are coming in from dozens of Russia's regions saying teachers in the cities of Kemerovo, Sverdlovsk, Barnaul and Taganrog are planning to go on strike.

RABOCHAYA TRIBUNA informs its readers "Russia's independent trade unions warn that people's patience is wearing thin. Laws on labour remuneration, its protection and labour disputes are urgently needed."

The same newspaper features a publication in support of Soviet sovereignty over Sakhalin. It criticises Russian parliament acting chairman Ruslan Khasbulatov for his attacks on the supporters of keeping the Kuril Islands under Russia's jurisdiction.

SOVETSKAYA ROSSIYA discusses the same issue. It carries an open letter by a large group of scientists to Russian President Boris Yeltsin asking him to use his influence as president "to leave the Kuril Islands under Russia's jurisdiction for good."

"After the collapse of the August putsch, investigators got an opportunity to find the true culprits not only of the January events in Lithuania, but also the inspirers of OMON (special police force) raids and the killers of

custom guards in Mjadininkai." Lithuanian Republic Procurator General G. Norkūnas said in an interview with the newspaper TRUD. He emphasised only the executors were in Lithuania, while "the masterminds of these crimes sat in Moscow offices."

NEZAVISIMAYA GAZETA contends the investigation group of the Baku prosecutor's office and the investigation commission of the Azerbaijan Supreme Soviet, probing the January events in Azerbaijan, simultaneously uncovered several facts showing that pogroms against Armenians in Baku from January 13 to 16, 1990 were organised and staged by KGB officers.

Under the title "The Academy of the Atomic Fleet" KRASNAYA ZVEZDA features a report from a secret navy centre in a Russian province where specialists for nuclear-powered submarines are trained.

French Prime Minister Edith Cresson received in Paris the editor-in-chief of NEZAVISIMAYA GAZETA and gave her first interview to the representative of the Soviet press. She said France favoured undelayed aid to the Soviet Union. Cresson voiced optimism over the country's future and emphasised the Russian miracle in the economy similar to the German, Italian and French miracle after the Second World War was possible.

KOMSOMOLSKAYA PRAVDA features an interview with Dalai Lama XIV, who made a stop-over in the USSR on his way from India to Mongolia.

Economic

ISVESTIYA Reports Economic Community Treaty

PM0410235791 Moscow IZVESTIYA in Russian
5 Oct 91 Union Edition p 4

["Treaty on the Economic Community"—IZVESTIYA headline]

[Text] Independent states which were also former components [subyekty] of the USSR, irrespective of their current status,

expressing the will of their peoples for political and economic sovereignty enshrined in acts adopted by the states' supreme legislative organs in protection of citizens' interests,

wishing to establish mutually advantageous economic relations between the states,

striving for radical economic transformations and bearing in mind the common nature of the problems facing the states in connection with the tasks of emerging from the crisis, moving to a market economy, and entering the world economy,

and cognizant of the benefit of economic integration and a common economic space, and of the expediency of preserving economic, trade, scientific, technical, and other relations,

The Alma-Ata Treaty

conclude this Treaty on the Economic Community.

Chapter I. Basic Principles

Article 1. The economic community is set up by independent states on the basis of voluntary participation and the equality of all its members' rights with a view to forming a unified market and pursuing a coordinated economic policy as an indispensable condition for overcoming the crisis.

Article 2. Membership of the economic community will entail adoption by the independent states of all the commitments and acquisition of all the rights envisaged by this treaty.

The member states of the economic community shall proceed on the basis of their mutual economic responsibility for the fulfillment of this treaty and shall refrain from any steps prejudicial to the execution of this treaty as a whole or certain of its provisions.

Article 3. Mutual relations between the economic community and states that have seceded from the USSR and have not joined the economic community shall be based on the generally recognized principles and norms of international law. Questions of common interest to the economic community and requiring settlement shall be decided by special agreement between the Economic Community and the state in question, such agreement to be concluded no more than three months from the time this treaty comes into force.

Article 4. A member state of the economic community is entitled to withdraw from the community. It is obliged to give the other economic community members no less than 12 months' notice of its intention. Withdrawal from the economic community shall be conditional upon the settlement of relations with respect to all membership commitments in accordance with a special agreement.

Article 5. Economic community members states shall agree to harmonize [sblizheniye] economic legislation and to implement a coordinated policy in the following spheres:

- entrepreneurial activity;
- the goods and services market;
- transport, power generation, and information;
- the monetary and banking system;
- finance, taxes, and prices;
- the capital and securities market;
- the labor market;
- customs regulations and tariffs;
- foreign economic relations and currency policy;

state scientific, technical, investment, ecological, humanitarian, and other programs (including the elimination of the consequences of natural disasters and catastrophes) of common interest to the economic community;

and standardization, patents, metrology, statistics, and accounting.

Article 6. Economic community member states shall pledge not to allow unilateral, uncoordinated actions to divide up property deemed to be jointly owned.

The composition of this joint property shall be determined by a special agreement.

Article 7. In order to implement a coordinated economic policy and general measures to emerge from the crisis, the economic community member states shall set up community institutions vested with the appropriate powers.

Article 8. This treaty shall be concluded for a three-year term. Not later than 12 months before this term expires the economic community member states shall decide whether to extend or alter this treaty or to conclude a new one.

Chapter II. Entrepreneurial Activity

Article 9. Economic community member states recognize that the basis for boosting the economy is private ownership, freedom of enterprise, and competition. They shall create conditions conducive to business activity and shall legislatively restrict state interference in enterprises' economic activity.

Article 10. Economic community member states shall pledge to ensure on their territories an identical legal regime covering the implementation of economic activity by physical and legal persons either from their state or from any other economic community member state.

Article 11. Economic community member states shall pledge to implement a coordinated antimonopoly policy and to promote the development of competition within the framework of their united market.

In the transitional period the economic community member states shall implement coordinated actions to regulate prices of output produced by monopoly producers.

Chapter III. Movements of Goods and Services, Prices

Article 12. Movements of goods and services on the territory of economic community member states shall be unrestricted and not subject to customs duty.

Imports of goods from third states shall be subject to customs duty in accordance with the rates set by the economic community unified foreign customs tariff.

Article 13. Striving to shape a unified market, the economic community member states recognize the impermissibility of restricting movements of goods and services, and pledge to remove such restrictions within an agreed period.

Article 14. Economic community member states shall pursue an agreed policy of moving to free pricing. Economic community member states shall apply agreed prices to a jointly defined list of products.

Chapter IV. The Monetary and Banking System

Article 15. Economic community member states recognize that agreed actions in the sphere of monetary and credit policy are of priority importance in order to emerge from the crisis and control inflation.

Article 16. Economic community member states recognize the need to maintain the ruble as the common currency of the unified monetary system and agree to make efforts to strengthen it. Economic community member states shall be permitted to introduce national currencies provided they fulfill conditions which rule out any possibility of the economic community's monetary system being damaged. These conditions shall be determined by special agreement between the state in question and the economic community.

Article 17. In order to elaborate and implement an effective monetary and credit policy to restrain price growth and support the ruble, economic community member states shall institute, on the principles of a reserve system, a banking union including the economic community member states' central (national state) banks, and shall set up an interstate emissions bank under the banking union.

Article 18. The legal status of the banking union's administrative organs and procedure for their organization shall be determined by special agreement.

The banking union's activity shall be regulated by its statutes, which shall be ratified by the economic community member states' supreme legislative organs.

Prior to the adoption of the banking union statutes, administration of the banking system shall be exercised by the USSR Gosbank [State Bank] board, which will include additional representatives from the central (national state) banks of the economic community member states.

Article 19. The banking union shall be charged with the following functions:

determining unified approaches to the implementation of monetary and credit policy and establishing quantitative parameters (quotas) on the operations of banking union members' central (national state) banks;

determining interest rates for loans provided by banking union members' central (national state) banks to commercial banks;

determining reserve requirements for commercial banks;
organizing interbank transactions;

regulating the ruble rate in relation to other currencies;

controlling that part of the gold and foreign currency reserves transferred to the banking union by the economic community member states;

organizing the supply of cash in circulation, including the sale of bank notes and coins;

and regulating the general rules covering commercial bank activity.

The banking union shall set quotas for the amount of credit which economic community member states' central (national state) banks can provide to budget systems in 1992.

Directives issued by the banking union's administrative organs shall be binding on all banking union banks.

Article 20. In setting up the banking union, the economic community member states consider it necessary to determine in a special agreement the procedure for transferring to them and to states not members of the economic community the corresponding proportion of the former USSR banking system's statutory, reserve, and other funds, and its share of joint-stock capital in limited liability companies, deposits, and the gold, diamond, and foreign exchange reserves.

Article 21. Economic community member states shall set up a supreme banking inspectorate on the basis of equal representation, charging it with:

monitoring the observance of the banking union and interstate emissions bank statutes;

hearing appeals from economic community members about infringements of their interests;

and annulling and suspending banking union decisions that contravene its statutes.

The banking union and interstate emissions bank are obliged to submit to the supreme banking inspectorate on demand all necessary documents and materials.

supreme banking inspectorate decisions adopted within the limits of its jurisdiction shall be binding on the banking union and the interstate emissions bank.

Chapter V. Finance and Taxes

Article 22. Economic community member states shall pursue a coordinated budgetary and fiscal policy, which shall envisage:

the agreed restriction of consolidated state budget deficits taking account of nonbudgetary funds, and the setting of growth limits for the economic community member states' internal debt. In the event of a state no longer being able to place its securities or of the set limits

being exceeded by one or several economic community member states, the excess amount shall be deemed to constitute a debt repayable to the other members under agreed rules;

the unification of the principles of taxation and an agreed policy in the sphere of taxes affecting the interests of other economic community member states, with a simultaneous reorientation toward indirect taxation principles.

Article 23. Economic community member states consider it necessary to conclude an agreement on dividing up and legally reordering USSR state internal debt as of 1 January 1992 among the economic community member states and nonmember states, and on the procedure for servicing that debt in the future. Some of the debt could be made the general responsibility of the economic community member states. At the same time, an agreement shall be concluded on distributing centralized credit resources among the states' banks. State internal debt shall be determined by taking account of state budget indebtedness to the banks on the basis of price differentials for agricultural products as at 1 January 1991.

Economic community member states shall reaffirm the continuity of commitments made on the USSR's behalf to holders of deposits at the USSR Bank for Labor Savings and Credit to the Population [Sberbank], USSR state securities, USSR Sberbank certificates, and insurance policies (bonds) issued by the USSR Main Administration for State Insurance.

Article 24. Economic community member states shall create an economic community budget to finance joint expenditure, including expenditure on the upkeep of economic community institutions.

The following special funds shall be set up within the framework of the economic community budget:

a fund to service that part of USSR state internal debt devolving to the joint responsibility of the economic community member states;

a fund to service the USSR state foreign debt and the economic community foreign debt (where denominated in rubles);

a fund for emergency situations and the elimination of the consequences of natural disasters and catastrophes, including Chernobyl, and the Aral and Caspian Seas;

a targeted programs fund;

and a financial reserve.

The economic community budget's income shall be drawn from its membership dues, determined as a set proportion of produced national income (GNP) in current prices. The size of these funds and the procedure governing their payment shall be determined by annual agreement among the economic community members.

The economic community budget cannot go into deficit.

Article 25. Economic community member states can establish nonbudgetary funds to finance targeted programs. Economic community nonbudgetary funds cannot go into deficit.

Article 26. Economic community member states recognize the need to implement targeted programs to promote the development of certain regions and provide social support for their population. To this end they shall establish a corresponding fund by diverting an agreed proportion of the national income (GNP) in current prices produced on their territory. This fund's activity shall be regulated by a special agreement and by statutes.

Article 27. In order to ensure continuity in Union budget expenditure, economic community member states shall conclude among themselves before 31 December 1991 an agreement to redistribute Union budget income and expenditure in order to ensure that, as of 1 January 1992, all expenditure takes place within the framework of state and interstate budgetary systems.

Article 28. Economic community member states agree that the regulation of the movement of monies and other financial resources, and the issuance and circulation of securities within the economic community framework shall be implemented in accordance with a special agreement on the basis of the need to ensure the free movement of capital.

Chapter VI. The Labor Market and Social Guarantees

Article 29. Economic community member states shall strive to implement the principle of the free movement of labor on economic community member states' territory and shall consistently create the conditions therefor, including the establishment of a housing market.

Article 30. Economic community member states shall not permit discrimination against citizens on ethnic or other grounds as regards job offers, pay, or the provision of other working conditions and social guarantees.

Economic community member states shall recognize workers' educational standards and qualifications obtained from other economic community member states and shall require no additional confirmation of same for acceptance to a job or course of study, unless such condition be binding on all applicants.

Economic community member states agree that their citizens shall not require visas for travel within community territory.

Article 31. Economic community member states shall conclude special agreements to regulate migration processes and mutual commitments in the sphere of social welfare and pension provision for citizens of economic community member states.

Chapter VII. Foreign Economic Relations and Currency Policy

Article 32. Economic community member states agree to coordinate foreign economic activity and currency policy.

Article 33. The economic community, as legal successor to all USSR foreign economic commitments, and of other countries' commitments to the USSR, guarantees their fulfillment. Each economic community member state reaffirms upon joining the community its participation in the joint fulfillment of these commitments.

Economic community members shall establish a bank to be the legal successor of the USSR Bank for Foreign Economic Activity [Vneshekonombank] and, through it, shall conduct transactions relating to the repayment of foreign debt by the economic community and the receipt of debts from other countries.

The economic community undertakes to regulate all relations regarding foreign debts with each USSR component which has not become an economic community member.

Economic community members consider it necessary to conclude a special agreement to determine as of an agreed date the proportion of total USSR foreign debt payments payable by each component of the former USSR, and the amount due to each component in the shape of other countries' debts to the USSR.

These proportions shall be used in calculations pertaining to the repayment of debts by states not wishing to join the treaty or withdrawing from the economic community. These states shall conduct transactions with the economic community until their total debt is cleared.

In the event that a state not wishing to join the treaty, withdrawing from the economic community, or becoming a community member reaches agreement with all creditors to reschedule [pereformleniye] its proportion of the total foreign debt, this proportion of the debt shall be repayable by that state independently.

Article 34. The economic community shall obtain new foreign loans on the basis of an agreed decision among all economic community member states.

An economic community member state is entitled to obtain foreign loans independently, with all the ensuing consequences as regards servicing and repayment of such loans.

The granting by the economic community or some of its members of loans or other economic aid to foreign states shall be governed by the same procedure.

Article 35. Economic community member states, using a single monetary unit, agree that the community's immediate goal is internal ruble convertibility. They pledge to

implement the necessary preparatory measures based on a coordinated program for the transition to internal ruble convertibility.

Article 36. Prior to the transition to internal ruble convertibility, Economic Community member states recognize the need to establish a unified procedure for accumulating foreign exchange revenue in order to service foreign debt.

Article 37. Economic community member states shall independently regulate foreign economic activity, quota setting, and the licensing of foreign economic operations within agreed quotas.

Article 38. Economic community member states agree to retain a unified customs territory for the economic community and shall implement a coordinated customs policy vis-a-vis third countries.

Questions connected with the procedure for setting and levying customs duties and export and import taxes for the relevant budgets shall be decided by special agreement.

Article 39. Economic community member states agree to common membership of the IMF, the International Bank for Reconstruction and Development, GATT, and other international economic organizations, and reaffirm the validity of the corresponding applications made by the USSR.

Economic community member states can also be individual members of these organizations.

Article 40. Economic community member states shall pursue independent policies in the sphere of foreign investment and, if necessary, coordinate those policies. Economic community member states shall also coordinate their actions in the sphere of technical, consultative, and other kinds of aid from foreign states and international organizations.

Chapter VIII. Legal Regulation of Economic Activity

Article 41. In the economic community member states, the legislative acts of these states have supremacy. Physical and legal persons engaging in economic activity on the territory of these states shall be guided by their legislation.

Article 42. During the term of the treaty the economic community member states shall agree to harmonize the norms of their economic legislation with a view to establishing more favorable and equal conditions for enterprise and free trade throughout the economic community. They shall pledge to ensure that their legislation corresponds to the norms of international law and economic community acts.

Article 43. In the event of this treaty, agreements [appended] to it, or normative acts adopted by economic community institutions within the limits of their jurisdiction establishing different rules from those contained

in economic community member states' legislation, priority shall be deemed to reside in the economic community treaty, agreements, and normative acts.

Article 44. During the period required for economic community legislation to regulate all aspects of economic activity, acts of USSR legislation shall be applied to unregulated issues under an agreed procedure, provided such legislation does not contravene this treaty or other agreements.

Chapter IX. Economic Community Institutions

Article 45. The economic community's institutions shall consist of:

a council of the heads of government of the economic community member states;

an interstate economic committee;

the banking union;

and an economic community court of arbitration [arbitrazh].

Decisions adopted by these institutions within the limits of their jurisdiction are binding for economic community member states.

Economic community institutions shall be staffed along strictly professional lines by representatives from the economic community member states on a parity basis.

Article 46. The economic community's supreme coordinating organ shall be the council of the heads of government of the economic community member states. This council shall act to elaborate and implement agreed economic policy and to monitor its implementation.

The council of the heads of government of the economic community member states is entitled to veto the decisions of the interstate economic committee. The veto shall require a specific [kvalifitsirovanny] majority vote.

Article 47. The interstate economic committee is the economic community's executive organ. Within the limits of its jurisdiction it shall ensure implementation of the economic community member states' economic policy as defined by this treaty and the agreements and decisions of the council of the heads of government of the economic community states.

The interstate economic committee shall monitor the implementation of the provisions of this treaty and the agreements adopted on the basis of it.

The interrepublic [as published] economic committee shall publish an annual economic report.

Article 48. The interstate economic committee shall be headed by its chairman.

The interstate economic committee chairman shall be nominated by the council of the heads of government of

the economic community member states and relieved of his duties by a conference of the heads of the economic community member states by a specific majority vote.

Article 49. The interstate economic committee shall establish relevant commissions comprising representatives from the economic community member states.

The commission leaders shall be ratified by the council of the heads of government upon submission by the chairman of the interstate economic committee from among the members of the said committee.

Regular conferences of ministers from the economic community member states shall be held to resolve questions of collaboration and the elaboration of a common policy on specific spheres of economic management.

Article 50. At the decision of the council of the heads of government of the economic community states the interstate economic committee may set up departments or other organs.

The procedure for establishing these organs, reorganizing them, or abolishing them, as well as the powers of their leaders, and the procedure for appointing and removing them shall be laid down by the interstate economic committee.

Article 51. The interstate economic committee, with the consent of the economic community heads of government, can establish standard time, weights and measures, standardization and certification, and statistical services, unified hydrometeorological and metrological services, a patents service, and other services.

Article 52. The economic community court of arbitration shall be established in order to resolve disputes and apply economic sanctions with a view to ensuring the uniform implementation of this treaty throughout the territory of the economic community member states.

Article 53. Economic community member states agree to transform sectorial USSR administrative organs into new organizational structures on an agreed basis.

Chapter X. Agreements

Article 54. Economic relations among economic community member states shall be regulated on the basis of this treaty and the agreements [appended] to it.

Article 55. Within no more than three months of the signing of this treaty and for the duration of same, agreements shall be concluded on the following issues:

on the status and powers of economic community institutions;

on the establishment of the banking union, including its statutes;

on the economic community's Vneshekonombank;

on the regulation of ownership rights in the economic community;

on the harmonization of economic community member states' legislation regulating economic activity;

on the regulation of migration processes;

on the establishment of a fund for regional development and social support for the population, including its statutes;

on the creation of nonbudgetary funds to finance economic community targeted programs and the provisions on them;

on the settlement of states' reciprocal commitments upon withdrawal from the economic community;

on the movement of capital and securities;

on antimonopoly policy within the framework of the economic community member states' unified market;

on reciprocal commitments in the sphere of pension provision and social welfare;

on the patents service;

on the procedure and conditions governing the introduction of national currencies by economic community member states;

on the procedure for moving to the general principles of international economic relations with states which were members of the USSR and are not members of the economic community;

on the division and legal reordering of the USSR state internal debt and the procedure for servicing it in the future;

on the principles and mechanism for servicing the economic community's foreign debt;

and on the procedure for resolving property and other disputes.

Article 56. Agreements shall be concluded for the duration of one year or another agreed term on the following issues:

on the economic community budget;

on an agreed policy in the sphere of taxes affecting the interests of economic community member states;

on customs policy and customs tariffs;

on the maximum level for economic community member states' consolidated budget deficits;

on prices and volumes of goods shipments under reciprocal (interstate) contracts and for general requirements;

on the setting of limits on the growth of the economic community member states' internal debt and the procedure for settling debt obligations;

and on cooperation in the event of emergency situations.

Chapter XI. Associate Membership of the Economic Community

Article 57. With the consent of the economic community members a state assuming only some of the obligations defined by this treaty may be granted the status of associate member of the economic community.

Article 58. The conditions for states to join the economic community as associate members shall be determined by members of the economic community.

Article 59. Mutual relations between the economic community and associate members shall be regulated in each individual instance by a special agreement envisaging, in particular, the resolution of issues relating to customs regulations, interstate deliveries and prices, and participation in shaping the economic community budget and nonbudgetary funds.

Chapter XII. Final Provisions

Article 60. Economic community member states shall be obliged to resolve questions relating to the violation of this treaty before the economic community court of arbitration in accordance with the powers vested in it, as well as through negotiation.

Economic community member states that commit blatant violations of their obligations under the treaty or supplementary agreements to it in specific spheres may be subject to the repercussions stipulated in the agreements, up to and including expulsion from the economic community.

Article 61. The economic community shall welcome membership applications from states recognizing this treaty.

Article 62. By decision of the council of heads of government of the economic community states certain states may be granted observer status.

Article 63. The treaty and the special agreements shall be subject to ratification by the economic community member states in accordance with their constitutions and shall come into force one month from the date of the ratification documents being lodged with the depositary state. Additional agreements shall not be subject to ratification and shall come into force from the moment of their signing.

Article 64. The treaty shall come into force after having been signed and ratified by no fewer than three states wishing to join the economic community.

Gorbachev Expresses Support for Entrepreneurship*LD0510030691 Moscow Radio Rossii Network
in Russian 0200 GMT 5 Oct 91*

[Text] USSR President Mikhail Gorbachev advocates developing entrepreneurship. He gave an interview to INTERFAX and TASS correspondents at the end of a meeting with entrepreneurs, farmers, and representatives of agrarian business circles. Such meetings, Gorbachev said, show that we all value and will support businessmen, who are moving our society to new forms of life. He commented that concluding a new Union treaty and economic union are impossible without stimulation of entrepreneurship and initiative in the agrarian sector. As president of the USSR, he said he would like to submit the question of entrepreneurship and development of private farming for the consideration of the State Council. Such meetings are a major part of any such preparatory process. Mikhail Sergeyevich Gorbachev pointed out that his meetings with businessmen in various spheres of the national economy are by no means evidence of interference by the center and the president in the affairs of the republics.

Law on Industrial Designs*914A1055A*

[Text] For this law published in the 12 August 1991 IZVESTIYA, see the JPRS Report Soviet Union: Economic Affairs, JPRS-UEA-91-035, dated 9 September 1991, pp. 1-7.

Agricultural**Gorbachev for Agrarian Reform, Government Support***LD0510023391 Moscow Radio Moscow World Service
in English 2300 GMT 4 Oct 91*

[Text] President Gorbachev, at the end of a meeting in Moscow with rural entrepreneurs, has called for private farming and for the reform of state and collective farms. He said nothing short of the agrarian reform would help the country's further advance. On private ownership of the land, the president said it was up to rural residents themselves to resolve the question.

Mr. Gorbachev called for government support to an updated economy of the countryside and for a greater role to the agrarian reform committee.

On other issues, Mr. Gorbachev spoke of the economic agreement being almost ready for signing and of work being in progress over the blueprint of a Union of sovereign states. He said the future of the Union hinged on the consensus by sovereign states and their drive for further democratic reform.

Mr. Gorbachev said the country's realities prompted the need for an active and dynamic center.

Grain Harvest Drops 25 Percent in Average Yield*OW0310050491 Moscow INTERFAX
in English 2254 GMT 2 Oct 91*

[From the "Soviet Business Report"; transmitted via KYODO]

[Text] Harvest is over at 9/10 of all area under grain crops, says the Soviet Ministry for Agriculture and Foodstuffs. The grain harvest is 151.7 mn. [million] tons [as received], as compared with last year's 211.5 mn. The average yield was 1.65 ton/ha [hectare] as of September 30, a 25% fall from the 1990 level.

The state bought 35.4 mn. tons of grain, less than half of what it had planned to buy. (It should be reminded that 96% of the Soviet population buy bread and cereals through the state distribution system). By this time last year, the state had bought 59.2 mn. tons of grain (and 67.8 mn. tons in the whole of 1990).

The state bought 15% less of sunflower seeds than by the same date last year, though harvesting is proceeding at a faster rate. The average yield dropped from 1.69 tons/ha in 1990 to 1.35 tons/ha this year.

Potatoes have been harvested on 4/5 of the area under potatoes. The average yield is 9.9 tons/ha, or 0.8 ton less than last year. The yield of sugar beets also dropped from 24.7 tons/ha last year to 19.6 tons/ha this year.

The garlic harvest is 25% of last year's (garlic is a Soviet export crop), first of all, because crops sown to garlic have shrunk. Garlic production is unlikely to be restored to its 1990 level in 1992.

The cotton harvest is 2,674,000 tons, or 36% of the planned figure, as against 4,166,000 tons at the same date last year. Last week the harvesting of cotton picked up its tempo, but unstable weather in Central Asia is a hindrance.

Goskomstat Reports Agricultural Harvest Situation*LD0510190291 Moscow TASS International Service
in Russian 0900 GMT 3 Oct 91*

[By TASS correspondent Sergey Telepnev]

[Text] Moscow, 3 Oct (TASS)—According to USSR State Committee for Statistics [Goskomstat] figures of 30 September, grains and pulses have been harvested from 93.4 million hectares (92 percent of sown area) and threshed from 92.1 million hectares (90 percent). A total of 151.7 million tonnes of grain have been threshed in the country as a whole. Last year, the figure was 211.5 million tonnes by this date.

Some 35.4 million tonnes of grain have been purchased for state stocks, or 46 percent of the state order.

Potatoes have been lifted from 1,432,000 hectares, which comes to 82 percent of the total area planted.

OFFICE MEMORANDUM

DATE: October 15, 1991

RECEIVED

91 OCT 16 PM 1:15

TO: See Distribution

FROM: Jonathan Brown, Acting Director, EM5

cc: [Handwritten initials] PRDDR done 10/21

EXTENSION: 3-2469

SUBJECT: USSR: Working Groups

1. Eight working groups to support the USSR Technical Cooperation Program have now been established. The membership of the groups, and the chairpersons, are shown in Attachment 1. Members were nominated by the directors of departments having institutional responsibility for the area covered by the working group. The areas covered by each group are shown in Attachment 2.

2. As you may recall, the purposes of the working groups, as explained in Mr. Cheetham's memorandum of 9/18/91, are:

- To advise EM5 and contracting departments on the overall design of the work program in the respective areas of the working group's responsibility;
- To advise individual task managers and EM5 on the formulation and design of individual tasks; and
- To provide a forum for review of draft reports and advise on the need for quality enhancement prior to the submission of reports to Soviet authorities.

3. As time spent on the Working Group is charged to the Trust Fund, chairpersons will need to be cost-conscious and to use their best judgement whether to convene the entire group or a subset of the group for a given purpose. Chairpersons will be responsible for monitoring charges to the Trust Fund from their group.

4. A meeting of the chairpersons has been scheduled for Wednesday, October 16 at 3:00 pm in Room H 3-118 to discuss the status of the Technical Cooperation Agreement and working group procedures. Chairpersons will then convene their respective working groups toward the end of this week or early next week.

Attachments

Distribution:

Messrs./Mmes. Linn (CEC); Golan (EDI); Grilli (EAS); Isenman
(PRDDR); Bock (OPNSV); Kohli (EMNTD); Rao (IECDR);
Kaffenberger (CPOVP); Weigel (CEIFI); El-Rifai
(MIGPA); Shihata, Goldberg (LEGOP); Niehuss (CFSVP);
Stoutjesdijk (FRSDR); Koch-Weser (TREVVP); Adams
(CCMDR); Shilling (CFSFA); Sandstrom (EXC); Churchill
(IENDR); Elwan (CFSPS); Hamilton (PHRDR); Petit
(AGRDR); Pouliquen (INUDR); von der Osten (CGIAR);
Dervis (EM4DR); El-Ashry (ENVDR); Steer (WDR); Kopp
(OEDDR)

cc: Messrs. Wapenhans [o/r], Hasan [o/r] (EMNVP); Thalwitz
(PRESV); Michalopoulos [o/r] (PRDDR); Summers (DECVP);
Rajagopalan (PRSVP); EM5 Management Team

M. deMeio:y/g
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WORKING GROUPS FOR THE USSR
TECHNICAL COOPERATION PROGRAM

MEMBERSHIP

	<u>Members</u>		<u>Alternates</u>
1.	<u>Fiscal Policy</u>		
	Mario Blejer	CECMG	CHAIRMAN
	-Christine Wallich	CECPE	Anwar Shah, CECPE
	-Peter Knight	EDIEM	
	-Robert Rocha	EMNTD	
	-Martha de Melo	EM5DR	
	-	EM5TC	
	-	FAD/IMF	
2.	<u>Debt Management</u>		
	Jed Shilling	CFSFA	CHAIRMAN
	-Ishac Diwan	IECDI	
	-Ulrich Zachau	CFSFA	
	-Herbert Morais	LEGOP	Tom Duvall, LEGOP
	-Matthew Fisher	FRSCR	
	-Lester Seigel	TRETA	
	-	EM5TC	
	-	IMF	
3.	<u>Financial Sector Development</u>		
	Millard Long	EMNTD	CHAIRMAN
	-Diana McNaughton	CECFP	Samuel Talley, CECFP
	-Faruqi Shakil	EDIDR	
	-David Goldberg	LEGOP	Nicolette DeWitt, LEGEM
	-I.Kuczynski/F.Khambata	CCMA2	
	-Elena Folkerts-Landau	FODG1	
	-Jacques Toureille	EM5PSD	
	-	EM5TC	
	-V. Sundararajan	CBD/IMF	
4.	<u>Trade Policies and Price Reform</u>		
	Daniel Kaufman	EM5TC	CHAIRMAN
	-Bill Easterly	CECMG	
	-David Tarr	CECTP	Finger/Keesing, CECTP
	-Simon Commander	EDIEM	
	-Manuel Hinds	EMNTD	
	-Alexander Yeats	IECDR	
	-Alan Gelb	CECSE	

WORKING GROUPS FOR THE USSR
TECHNICAL COOPERATION PROGRAM

MEMBERSHIP

Members

Alternates

5. Enterprise Reform, Privatization
and Private Sector Development

Michael Gould	EM5PSD	CHAIRMAN	
-Enrique Rueda-Sabater	CECPS		I.J. Singh, CECPS
-John Nellis	CECPS		
-Vladimir Kreacic	EDIFI		
-Andrew Ewing	EMTIE		Manuel Hinds, EMNID
-Lou Thompson	INUTD		
-Kevin Young	EM5PSD		
-Douglas Webb	LEGPS		Jonathan Pavluk, LEGEM
-Boris Velic	FIAS		Joel Bergsman, FIAS
-Heinz Bachmann	MIGPA		
-Anthony Doran	IFC		Vivek Talvadkar, CCFD2
-Leila Webster	IENIN		
-	EM5TC		

6. Labor and Social Affairs

Julian Schweitzer	EM5HR	CHAIRMAN	
-Emmanuel Jimenez	PHRWH		
-Branco Milanovic	CECSE		
-Elca Rsenberg	EDIHR		
-Stephen Heyneman	EMTPH		Fred Golladay, EMTPH
-Arvil Van Adams	PHRDR		
-Nicholas Barr	EM5HR		
-Bertrand Renaud	EMTIN		
-	EM5TC		

7. Agriculture, Food Distribution and Transport

Richard Burcroff	AGRAP	CHAIRMAN	
-Delbert Fitchett	EDIAR		
-Michel Debatisse	EMTAG		Somel/Honisch, EMTAG
-Karen Brooks	AGRAP		
-Odin Knudsen	EM2AG		
-Hans Peters	INUTD		
-Graham Donaldson	OEDD1		
-Donald Plucknett	CGIAR		
-Rory O'Sullivan	EM4DR		
-Mohindu Mudahar	EM5PSD		
-Jane Holt	EM5IE		
-	EM5TC		

WORKING GROUPS FOR THE USSR
TECHNICAL COOPERATION PROGRAM

MEMBERSHIP

Members

Alternates

8. Energy and Environment

Harold Wackman	EMNTD	CHAIRMAN	
-Robin Bates	ENVDR		
-Shanta Devarajan	CECPE		Gunnar Eskeland, CECPE
-Corazon Siddayao	EDIFI		
-Gordon Hughes	WDR		
-Ives Albouy	OEDD3		
-William Onorato	LEGEM		
-Charles McPherson	EM5IE		
-David Craig	EM5IE		
-	EM5TC		

WORKING GROUPS FOR THE USSR TECHNICAL COOPERATION PROGRAM
Group Focus

1. Fiscal Policy, including:

- intergovernmental fiscal relations, including those with regional and local governments;
- size and composition of fiscal expenditures;
- government finance, in cooperation with the IMF, with special emphasis on pricing of public monopolies, trade taxes and corporate income taxes.
- overall fiscal position and fiscal impact of other programs (price liberalization, social programs, enterprise restructuring, debt service, etc.).

2. Debt Management, including:

- external debt statistics; and
- management of external assets and liabilities.

3. Financial Sector Development, including:

- reform of commercial banks and specialized institutions; and
- development of capital markets.

4. Trade and Price Reform, including:

- external trade policy; and
- price liberalization and competition policy.

5. Enterprise Reform, Privatization
and Private Sector Development, including:

- industrial restructuring, including military conversion;
- demonopolization;
- privatization (both assets and firms);
- accounting and auditing standards; and
- private sector development, including deregulation and access to inputs.

- 6. Labor and Social Affairs, including:
 - labor markets;
 - employment creation programs;
 - cash benefit and social insurance programs;
 - housing;
 - health;
 - education and training; and
 - poverty.
- 7. Agriculture, Food Distribution, and Transport
- 8. Energy and Environment

OFFICE MEMORANDUM

CC: GL done 10/10

DATE: October 8, 1991

RECEIVED

91 OCT -9 PM 2:56

PRDDR

TO: See Distribution Below

FROM: Martin Schenk, CECSE

EXTENSION: 36985

SUBJECT: USSR: THE ALMA-ATA COMMUNIQUE

1. As you probably have gathered from the news, a potentially important new development seems to be under way in the USSR. Attached are the first Soviet statements on the "Alma-Ata Communique", all dated October 2. As Yavlinskiy mentions (page 24), it is the result of an ad hoc meeting of the heads of 12 of the republics "that lasted several hours". Given this backdrop, the full text of the communique is heavy on good intentions on how to cope with the acute crisis, but unlikely to be much more specific than the attached summary.

2. Nevertheless, a few points are worth mentioning. First of all, it is to be the basis for a "multilateral treaty on an economic community", to be signed by the republics by October 15. Second, the first paragraph on page 23 suggests that the Union had no hand in this and the summary does not mention the Union. Third, the communique acknowledges the possibility of republican authority in monetary and credit policy, including the introduction of separate currencies (p. 23, col. 2), although "coordinated". These points could signal the end of the notion of the "Union". Such development would give the study "From Soviet Union to Eastern Economic Community" (by Havrylyshyn and Williamson) presented yesterday by the Institute of International Economics, a great deal of acute relevance. In particular the suggestion of setting up a payments union among the members of the new "community", along the lines suggested last year for the members of the CMEA, could make sense if contractual discipline can be enforced on the members.

3. As of today, it is unclear whether the agreed "principles" will simply be stapled on to the Draft Union Treaty from mid-September, prepared by a group led by Yavlinskiy and adopted by the State Council under Silayev (included as item 4.62 in the batch sent to you yesterday) or whether this means a return to the drawing-board. The attached first comments (by Yavlinskiy and Silayev) are excruciatingly vague on this question.

Distribution:

Mmes./Messrs.: W. Thalwitz (PRESV); L. Summers, D. de Tray (DECVP); B. McCullough (OPNSV); R. Cheetham, M. de Melo, R. Waxman (EM5DR); P. Isenman (PRDDR); J. Holsen (PADSS); F. Levy (EAS); J. Linn (CECDR); C. Michalopoulos (PRDDR); G. Pfeiffermann (CEIED); T. King (EDIST); P. Knight (EDIEM); A. Gelb (CECSE); N. Birdsall (LATEN); L. Jeurling (AS5IN)

Attachments

ms:ab

Air Force Lieutenant General Vitaliy Pavlov, Army Aviation deputy chief, has contributed an interview to KRASNAYA ZVEZDA, which deals with problems facing Army aviation. He believes that "the root cause of the present situation is that Army aviation was first attached to the Ground Forces, then to the Air Force, but actually remained alien to both." General Pavlov stressed that there are 6,000 officers in the Army aviation, including 2,000 pilots, who have no flats for themselves and their families.

"Our public health service is still alive, but seriously ill," Professor Valentin Pokrovskiy, president of the Soviet Academy of Medical Sciences, said in an interview published by TRUD. He pointed out that "the financing of the medical science is absolutely insufficient."

TRUD writes about the experiment in Moscow with the privatisation of flats. According to the newspaper, at the moment there are more questions than answers connected with it.

General Merrill Antony McPeak, chief of staff of the U.S. Air Force, now on a visit in the USSR in accordance with a plan of military contacts between the USSR and the U.S., gave an interview to KRASNAYA ZVEZDA. He commented on some aspects of the President Bush initiative connected with the air force. The most important thing, he believes, is that they will take nuclear missiles off the planes and transport them to the places of stockpiling, which is a rather important step.

Economic

Twelve Republics Issue Alma-Ata Communiqué

LD0210203191 Moscow TASS International Service
in Russian 1830 GMT 2 Oct 91

[By TASS-KAZTAG correspondents Vladimir Akimov and Gennadiy Kulagin]

[Text] Alma-Ata, 2 Oct (TASS-KAZTAG)—Having fully renounced political and ideological pressure on each other, the leaders of 12 sovereign republics, who arrived in Alma-Ata at the invitation of N.A. Nazarbayev, president of the Kazakh Soviet Socialist Republic, have reached an agreement without the center's participation on the ways and methods of rapidly setting up mutual economic cooperation. The heads of the delegations from Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and the Ukraine signed a joint communiqué on the results of the meeting.

The document notes that the participants succeeded in determining and agreeing on common approaches to ensure the 1991 fulfilment and the 1992 accelerated conclusion of interrepublican economic agreements and treaties (especially in the sphere of supplying foodstuffs and fuel and energy resources in the forthcoming winter period), and also on the fundamental principles for

economic cooperation between sovereign states, interrepublican horizontal economic, scientific, technical and cultural links. The interrepublican economic agreements and treaties reached earlier have become the basis for the creation of a new economic environment.

Establishment of these relations is taking place in complex conditions. The economy of sovereign states is undergoing an acute crisis: the slump in production continues, the fulfilment of the commitments adopted for 1991 for supplying produce is not ensured, and the imbalance in money circulation, growing inflation and the drop in the standard of living of the population further complicate the already complex social situation in the republics.

The delay in organizing interrepublican and intereconomic ties for 1992 is producing special concern, the communiqué says. The conclusion of agreements for the delivery of produce, especially of fuel and energy resources and foodstuffs, is proceeding extremely unsatisfactorily, and this may turn into new, even more serious, difficulties in the forthcoming autumn-winter period.

The leaders of the delegations think that the only solution to the economic crisis that has gripped the country lies in the accelerated transition to market relations, the utmost development of enterprise, and the expansion of mutually beneficial ties in all directions. They unanimously favor the signing of a treaty on an economic community that will lay fundamentally new foundations for economic relations between sovereign states. It is also considered expedient during the transition period to maintain the economic links that have taken shape between the enterprises and organizations of the sovereign states, primarily as regards intersectoral and intra-sectoral coproduction. It is equally important to conduct an agreed-upon policy on the movement of goods and services (including transportation, energy and information ones) through the territory of each republic that has joined the community.

To ensure the normal functioning of the economy of the sovereign states in the period of the formation of market relations, it is acknowledged as essential to conclude interstate, bilateral, and multilateral agreements guaranteeing deliveries of the most important types of raw materials, foodstuffs, goods, and the provision of services at agreed prices. The conducting of a coordinated price policy should also be ensured in the period of transition to free price formation, a policy which would establish appropriate price levels on an agreed list of goods and services.

In the interests of getting out of the crisis as quickly as possible and in order to limit and regulate the inflationary processes, it is of priority importance to have coordinated actions in the sphere of monetary and credit policy. In regard to the introduction of national currencies, this should be carried out without detriment to the monetary system of the future economic community.

The communique states that the participants in the meeting state with all responsibility that the sovereign states will guarantee the observation of human rights and will totally exclude discrimination against citizens on grounds of nationality or other grounds on matters of providing work, of wages and of other social guarantees.

A statement signed by the leaders of eight sovereign states—the Russian Soviet Federated Socialist Republic [RSFSR], the Ukraine, Belarus, Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan—says that the dominance of totalitarianism over many years and the disintegration of the former system of government have caused a serious economic crisis throughout the country and led to the exacerbation of social and interethnic relations. A way out of this situation was outlined in the interrepublican bilateral and multilateral economic agreements and treaties reached earlier, which initiated the formation by the sovereign states of an economic space based on rational economic ties. The positive process of the creation of a new economic environment, its legal and organizational foundations, and the development of commodity-money and market relations is under way.

But the signing of the interrepublican agreement should not be delayed indefinitely either, according to the leaders of the eight republics. Given that further delay as the new economic year approaches risks precipitating a complete collapse of the economy and the finance and credit system and a catastrophic decline in the standard of living of the population, they have decided to sign a multilateral treaty on an economic community among themselves by 15 October 1991. Since, under this formulation, the remaining sovereign states find themselves not "on board" this union, they have suggested to the leaders of these states that they assess their position once again from the point of view of actual realities and the vital interests of their peoples, and that they join the treaty.

The leaders of the RSFSR, the Ukraine, Belarus, Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan expressed their profound belief in the desirability of the decision they had adopted, which in the present situation is a powerful means of stabilizing the socio-economic situation and the implementation of radical economic reforms.

Economic Details Cited

LD0210084391 Moscow *Radio Rossii Network*
in Russian 0700 GMT 2 Oct 91

[Text] The RUSSIAN INFORMATION AGENCY [RIA] reports that the Alma-Ata meeting participants signed a communique yesterday. The leaders of the delegations of 13 sovereign republics agreed on a common approach in carrying out interrepublican economic agreements in 1991 and speeding up their decision for 1992, primarily on food and fuel supplies, and also on the key principles of economic cooperation. The document notes that, in conditions of acute economic

crisis, the only way out is the accelerated transition to market relations and all-around enterprise development. The participants advocate signing a treaty on forming an economic community which fundamentally lays new foundations for relations between sovereign states. RIA reports that it has been deemed expedient to sustain, for the transitional period, the economic ties that have developed between enterprises and organizations and to implement a coordinated policy for moving the republics' goods and services in order to create a market area. The republics anticipate concluding interrepublican agreements that will guarantee supplies of important raw materials, food, and services at agreed prices. The sides expressed readiness to implement a coordinated policy in the field of monetary and credit policy. The introduction of national currencies has to be carried out without harming the monetary system of the future economic community. The meeting's participants pledged to guarantee observance of human rights and to exclude totally any discrimination against citizens on ethnic or other grounds.

Yavlinskiy Interviewed on Alma-Ata Meeting

LD0310012591 Moscow *Russian Television Network*
in Russian 2122 GMT 2 Oct 91

[From the "Vesti" newscast]

[Text] As yesterday, today universal attention has been focused on Kazakhstan in connection with today's launch of an international space crew and, most important, in connection with the meeting of the leaders of sovereign republics in Alma-Ata, the results of which surpassed expectations.

Our special correspondent, Mikhail Ponomarev, has just returned from Alma-Ata. His report gives the details of the results of the meeting:

[Begin recording] [Ponomarev] As already reported, the heads of 12 Union republics, who arrived in Alma-Ata yesterday, today visited the Baykonur cosmodrome, where the launch of a Soviet-Austrian crew took place. The launch of the spacecraft and approval of the draft for a new economic agreement really exhausted the program for the meeting in Kazakhstan. However, unexpectedly, the representatives of some republics decided to avail themselves of the opportunity and continued their work. Their unscheduled talks lasted several hours. The results surpassed all expectations. Despite the officially announced date for the signing of the agreement being 15 October, three signatures appeared on this document today. The birth of a new economic community is thus registered. As of today, 2 October, Kazakhstan, Belarus [Belorussia] and Uzbekistan are members of the community. [video shows launch of space crew attended by Nazarbayev, Yavlinskiy, and republican leaders; leaders attending Alma-Ata meeting; Ponomarev interviewing Grigoriy Yavlinskiy aboard aircraft]

[Ponomarev] What is the direct philosophy of this new economic agreement?

[Yavlinskiy] Well, if one views the essence of the matter, the philosophy on which it has been based by its drafters is that the process of the birth of free and sovereign states—in this case, this applies to our republics—is naturally an historic process. The purpose of this treaty is to give this process a civilized form and make this process as safe as possible, while, at the same time, without delay, to start to tackle the urgent economic problems of extricating ourselves from the crisis, setting up a market economy, and firmly establishing private ownership so that this process is accompanied by a stabilization of the economy and an improvement in people's lives. That is the main essence. It was very important when we were elaborating this treaty that this treaty would in no way link the republics with a totalitarian system and deprive them of independence, but would tackle only those urgent tasks, without which life is at present becoming simply impossible.

[Ponomarev] As the author of this document, you worked directly in close contact with the president of Russia and the president of the Union. What is their attitude on this agreement?

[Yavlinskiy] This is indeed a question of fundamental importance. I want to say that the Union president set this issue for discussion within the State Council. He has constantly been emphasizing the need for the promptest drafting and signing of this document. As for Boris Nikolayevich Yeltsin, he acquainted himself with the draft, studied it in great detail, and voiced a whole number of criticisms that were taken into account. In general, prior to Alma-Ata, he expressed himself in a very positive way. His parting words were very resolute and favorable. [end recording]

Our correspondent obtained that interview from Grigoriy Yavlinskiy a few hours ago aboard an aircraft returning to Moscow. Today we heard that Grigoriy Yavlinskiy has been appointed as another member of the Political Consultative Council under the USSR President.

Silayev Cited on Prospects of Economic Treaty

LD0210220991 Moscow TASS International Service
in Russian 2025 GMT 2 Oct 91

[By TASS special correspondent Nikolay Zheleznov]

[Text] On Board a "TU-134" Aircraft, 2 Oct (TASS)—The treaty on an economic commonwealth of sovereign states that was initialed as a result of the meeting between the leaders of twelve republics in Alma-Ata is, in essence, "the only guarantee for halting the chaotic collapse of the country's economy." This is how Ivan Silayev, chairman of the interrepublican economic committee, has evaluated the main result of the meetings in Alma-Ata and at the Baykonur launch site. On the way from Baykonur to Moscow, he gave an interview to journalists who had covered that meeting.

The leader of the interrepublican economic committee singled out two main factors determining the success of the Alma-Ata forum for the republics. They are: the unique composition of those participating; and, as he put it, "the distance from the center." The very fact that the talks between leaders of the republics did not take place in Moscow, but on neutral soil, in Silayev's view, made the talks open and exceptionally constructive.

Today one more stereotype was broken as a result of the delegations from the republics spending the day at the launch site. Having acquainted themselves with the unique potential of the launch site, the presidents and premiers, instead of the traditional "we are not wealthy enough to," started saying: We are not so poor as to squander the wealth amassed by the whole country and fail to jointly maintain the launch site, which is experiencing financial difficulties.

Regarding the essence of the agreement on an economic community, its definitive draft is now being taken to Moscow. Ivan Silayev stated that it is essentially the brainchild of the committee for the operational management of the country's national economy. "The treaty contains all the basic articles of the program of my deputy, Grigoriy Yavlinskiy, which was proposed a year ago to the Ryzhkov government, but which it turned down." In order to make up for the lost year, we need not only combined efforts, but things need to be done on a common economic basis; and this was agreed by all the republican leaders taking part in the discussion, Ivan Silayev emphasized. He said that among the main "unifying factors" were agreements on matters where none had existed previously. It is first and foremost worth singling out an essential point in the Alma-Ata declaration: The way to the development of the economy of each republic and the community as a whole is possible only with "the introduction of categories of ownership, within the framework of the law, which will be in effect throughout the entire economic space."

One more important "rule of the game" is common to all in the conditions of the republics' transition to the market, I. Silayev stated; namely, equal conditions for the activities of entrepreneurs everywhere, regardless of their nationality. And such a "contentious and tough issue" as a single banking system gave way under the pressure of enthusiasm and energy generated at the Alma-Ata meeting. The draft treaty, in the words of the chairman of the interrepublican economic committee, will liberate the sovereign republics from the diktat of the "bank in the center" and will create conditions in which a collective body, coordinating the financial and credit activities of the member states of the economic community, will be able to function.

As to whether the treaty will limit the USSR president's opportunities to influence the course of economic reform, Ivan Silayev said that today it is more important for the president not to occupy himself with the details of the actual process of economic reform, but to use these

details for the all-round reinforcement of a political union of independent states.

Hesitations 'Threaten' Economic Union Treaty

PM0210TS2691 Moscow IZVESTIYA in Russian
 2 Oct 91 Union Edition p 2

[Report by special correspondent I. Demchenko: "Political Reservations Threaten Economic Union"]

[Text] As we have already reported, the draft Treaty of Economic Union underwent substantial changes in the course of discussion by the republics' plenipotentiary representatives. One of the most serious changes is undoubtedly the removal from the document of the concept of private ownership, which, together with free enterprise, was proclaimed the basis of the economy's upsurge in the original version. It must be said that the international prestige and significance of private ownership in no way suffer because for some reason it does not enjoy popularity in Soviet official circles. Only our economy suffers because of this.

During the discussion at the first stage such very important life-support mechanisms of the future economic union as the obligatory nature of a common ruble space, the scheme for servicing the foreign debt, and also certain others were fundamentally altered. At the same time the republics' plenipotentiary representatives supplemented the draft treaty with certain new proposals, the most interesting of which is the creation, in addition to the interstate economic committee, also of a special economic parliament.

It can be assumed that the draft treaty agreed at the first Moscow stage will elicit a serious debate in Alma-Ata. In any case, G. Yavlinskiy, deputy chairman of the Committee for Operational Management of the National Economy, who heads this work, has declared that the structure, substance, and coordination of the articles in the original document do not make it possible to make such substantial corrections without detriment to the future union.

The fate of the Treaty of Economic Union will be still more dependent on the position which the republics' leaders and the USSR president take with regard to it. In a 30 October interview for journalists M. Gorbachev made it clear that he does not accept economic union without political union. He declared that a joint statement on this score by him and B. Yeltsin will be published in the very near future.

As is known, work on the Union Treaty was suspended after the August events. Now, once again, it is not known which republics are ready to participate in it and on what terms. At the same time it was planned to begin as early as October the conclusion of the Treaty of Economic Union, which is deliberately devoid of a political hue. Coordination of the economic treaty with a political one

could defer the signing indefinitely—forever for certain republics—whereas literally every day and every signatory counts.

Thus, we could perfectly well end up in a situation in which relations among the majority of the republics will be confined as early as next year just to intergovernmental agreements for the delivery of a certain range of products.

Three Republics Sign Economic Agreement

OW0210220091 Moscow INTERFAX in English
 2100 GMT 2 Oct 91

[Transmitted via KYODO]

[Text] On 2nd October in Alma Ata three republics, Belorussia, Kazakhstan and Uzbekistan, signed an agreement on economic cooperation. The President of the Council of Ministers, Vyacheslav Kebich, signed the accord on behalf of Belorussia. The Kazakh and Uzbek presidents, Nursultan Nazarbaev and Islam Karimov, signed on behalf of their republics.

The deputy president of the RSFSR Council of Ministers, Yevgeniy Saburov, said in an "INTERFAX" interview, that he had no principle objections to the kind of agreement signed by the three republics. "I would have signed the agreement, but I am not a politician and I cannot guarantee that Boris Yeltsin would also find it to his liking".

Yevgeniy Saburov was authorised by the Russian president to conduct negotiations in Alma Ata on behalf of the Russian Federation. The deputy president of the Committee for the Management of the National Economy, Grigoriy Yavlinskiy, told "Interfax" that it was possible that on Thursday Saburov would recommend to Yeltsin that he sign the document. Yavlinskiy said that what had happened was a unique occurrence. "In circumstances whereby the twelve republics are preparing to leave the union the fact that they are prepared in principle to sign a document of this level is a very hopeful sign", he remarked.

The president of the Interrepublican Economic Committee, Ivan Silayev, told correspondents that the three republics' decision to sign the agreement was "entirely regular".

Republics Discuss Foreign Economic Debt

PM0310090891 Moscow IZVESTIYA in Russian
 2 Oct 91 Union Edition p 2

[Report by M. Berger: "Ministers Confirm Readiness to Pay Debts"]

[Text] A conference of leaders of the sovereign states' foreign economic departments and ministries was convened in Moscow last week on the initiative of the Russian Soviet Federated Socialist Republic Ministry of Foreign Economic Relations.

RECEIVED

91 SEP 30 PM 1:35 ECONOMIC REFORM IN THE USSR AND THE ROLE OF AID.

PRDDR

Stanley Fischer¹

Handwritten signature/initials

By July 1991 there had been considerable convergence among economists in both the Soviet Union and the West towards an agreed economic reform strategy for the USSR. The reform strategy rested on four pillars:

- macroeconomic stabilization, which requires the virtual elimination of the budget deficit and tight control over credit to both the government and enterprises;
- price liberalization, an essential step not only towards the creation of markets, but also in restoring macroeconomic balance in a situation in which subsidies are as large as the budget deficit;
- current account convertibility of the ruble, at a heavily devalued exchange rate, accompanied by the removal of restrictions on imports and exports of goods, and rapid progress towards low levels of tariffs and other trade taxes;
- privatization of enterprises and property, as rapidly as possible, with immediate corporatization of large state enterprises as an intermediate step.

Implementation of such a reform program would have posed technical and political difficulties far greater even than those now besetting Eastern Europe, and would in the short run have imposed hardships on many people. The program would have had to be undergirded by a fifth pillar, a social safety net, and by Western financial assistance, to limit the inevitable short-term declines in consumption and other disruptions that would have threatened its political viability.

¹Department of Economics, MIT, and Research Associate, NBER and Institute for Policy Reform. This is a revised version of a paper prepared for a Brookings Panel Symposium on the Soviet Union After Communism, September 13 1991. I am grateful to Panel members for comments, and to Amy Carr for technical assistance.

The premise of firm central control on which the consensus program was based is now obsolete. Since there is little point in discussing infeasible plans, analysis of reform and aid plans has to start by examining alternative economic frameworks that may emerge from the terminal phase of Soviet history. Crucially, aid plans have to adapt to the uncertainties about both the framework in which they will be implemented and the course of developments in the former Soviet Union.

After describing two alternative scenarios for the next few years, I discuss reforms that can be undertaken within the frameworks that may emerge, and the role of Western assistance. I will argue that while many details of reform plans have to wait for greater clarity about the economic structure linking the successor states of the Soviet Union, there is much the republics and whatever central authority emerges can do to implement parts of the pre-coup reform strategy. Similarly, while general balance of payments support from the West cannot be delivered until the recipients are identified, there is an important -- and by now generally recognized -- role for immediate Western involvement in the provision of humanitarian aid and technical assistance. I conclude by stressing the need for coordination of Western assistance and proposing a coordinating mechanism.

I. Scenarios

The struggle over the political and economic frameworks within which the successor states of the Soviet Union will operate will continue for years. The framework that emerges within the next few months is unlikely to be final: at this stage of reaction against the strong centralization of the Soviet Union, the pressures of decentralization dominate; later, as the costs of

fragmentation and the advantages of cooperation become obvious, the republics are likely to move towards more integrated and cooperative arrangements.

Logically, the possible frameworks range from a strong federal structure similar to that of the United States, to a Latin American solution of totally independent republics each pursuing its own economic policies within the world economy. Rather than discuss these extremes, I will consider two scenarios, each of which could develop in the near future.

In the first, the Union scenario, the republics form an economic union in which there is a single currency, controlled by a single central bank, as well as free trade among the republics. (For basic data on the republics, see Tables 1 and 2.) The central government has spending responsibilities, primarily for defense, but has no independent power to tax, and is financed by contributions from the republics. This is close to the framework of the Union Treaty that was to have been signed on August 20 1991, the Tuesday of the coup.²

In the second, the regrouping scenario, the republics agree to maintain unrestricted trade, but have the right to introduce their own currencies and their own armies.³ The republics then regroup. As the scenario plays out, several republics and Russia agree to a weak federal

²The key difference between the Union scenario discussed here and the framework envisaged in most reform plans, and most explicitly in the Allison-Yavlinsky Window of Opportunity" Plan, (Strengthening Democratic Institutions Project, Kennedy School, Harvard University, June 1991) is that in the Union scenario discussed in this paper, the central government has no independent taxing authority. Although the Window of Opportunity provides a more coherent framework for reform than those discussed here, it does not currently appear to be a realistic option.

³The two scenarios are closely related to the economic-constitutional frameworks proposed in September 1991 by Grigory Yavlinsky and Stanislav Shatalin respectively.

structure (the Union of Sovereign States, or the USS) among them, using the rouble, and maintaining common defense forces. The Ukraine and perhaps other republics introduce their own currencies and operate as independent countries, while at least initially maintaining a common economic space. After contentious negotiations, the assets and liabilities of the Soviet Union would be distributed among the republics. Control over nuclear weapons would be assigned to the USS.

No matter what arrangements are made among the remaining twelve republics, the Baltics will have to negotiate transition and separation agreements from the Soviet Union. They are likely to introduce their own currencies, establish their own common market, and attempt gradually to integrate into Europe.

II. Consequences

Serious reform would be possible under either the Union or the regrouping scenario, but each framework has built-in weaknesses.

In the successful Union scenario, a strong, independent central bank keeps tight control over the quantity of money, rapidly establishes convertibility at a fixed exchange rate, and thereby provides essential elements of both macroeconomic stability and price reform. At the same time, the republics contribute enough revenue to keep the central government budget close to balance, reducing pressures to print money or borrow. In this scenario the republics quickly develop fiscal frameworks that allow them to balance their own budgets. They maintain free trade, imposing no restrictions on movements of goods or on inter-republican payments.

Within this stable macroeconomic framework, both the central and the republican governments implement structural reforms. The bulk of the structural reforms, especially in the areas of privatization and price liberalization, were in any case to have been carried out at the republican level even in the pre-coup strong-center reform plans.

While all this could happen, it is not likely. The weakness of the Union scenario is the weakness of the United States under the Articles of Confederation: the republics are unlikely to provide the central government the resources needed to meet its mandated expenditures. In evidence, note that the republics refused to give the center independent tax authority in the pre-coup attempt negotiations for the Union Treaty -- at a time when the center was much stronger than it is now. At the same time, the draft Treaty assigned an extensive range of responsibilities to the center, including defense. An optimist would argue that a tight revenue constraint would produce a massive and rapid reduction in military spending, but the political and social consequences of the rapid disintegration of the military preclude that.

What would happen next in the Union scenario depends to some extent on the strength of the central bank. Most likely the central government would find a way to draw on the central bank to finance the budget deficit, a process that ends in hyperinflation. However, hyperinflation is possible even if formally defined money growth could be controlled: in such circumstances, Treasuries lacking fiscal resources tend to emit money-like instruments. Or perhaps trade taxes would be imposed. At some point, the budget problems of the center would become overwhelming, economic disorder would again intensify,

and a new economic framework would have to be created. Some republics might choose economic independence while states that wanted to remain could negotiate the creation of a new Union, with a stronger center.

The republics too would face major budgetary difficulties in the Union scenario. They do not now have adequate tax systems, and would very likely have to borrow to cover expenses. And some of them lack the managerial capacity to implement the structural changes, including privatization, contained in the reform plans.

In the regrouping scenario, successful reform requires each issuer of currency to maintain control over the quantity of money, and to refrain from restricting inter-republican trade. As in the Union scenario, the bulk of the structural reforms, privatization and price liberalization, would be carried out at the republican level.

If each republican central bank were strong and independent, with clear policy guidelines -- for instance, maintenance of a fixed exchange rate for each currency against the others and a basket of Western currencies -- the regrouping scenario could provide monetary stability. But newly independent republics that have insisted on the right to issue their own currencies as symbols of their sovereignty, with weak tax systems, are likely to print money to cover budget deficits. They are also likely, for two reasons, to interfere with inter-republican trade and thereby to destroy the common economic space. First, if they both inflate and seek to maintain fixed exchange rates against a relatively stable currency, they will find the current account worsening and will tend to impose import restrictions; second, the natural inclination of political systems is to protect domestic industry, and that is particularly

the case for newly independent states emerging from a prolonged period of state intervention in the economy.⁴ The tendency to destroy the common economic space is the built-in weakness of the regrouping scenario.

Where does the regrouping scenario lead? If the USSR can maintain a reasonably stable currency and pace of reform, then some smaller republics that chose full independence might eventually join an economic union with the USSR in which they give up their currency and maintain unrestricted trade. The Ukraine and others of the smaller republics might attempt to negotiate another economic union with the USSR, pledging once again to allow unrestricted trade. More likely they would move away from the USSR, becoming more independent, maintaining their own currencies and trade restrictions, experimenting with import substitution policies and repeating many of the development experiences of Latin America.

III. Reform within the Regrouped Soviet Union

Although the State Council is supposed to choose the economic framework before the end of September, its decision is unlikely to stop the contest between the center and the republics. As of now, regrouping seems a more likely outcome than the Union scenario. Regrouping would produce a USSR of 6 to 9 republics, with Russia at its core, an independent Ukraine, and with republics such as Azerbaidzhan, Georgia and Moldova wanting independence but without much external support.

⁴Logically, the collapse of the centrally planned economies should incline policymakers towards free markets, and in a general way it does. However, there is also clear evidence that some republican leaders regard the breakup of the USSR as the occasion to substitute local centralized control for centralized control from Moscow.

The USS, the unit built around Russia and perhaps even consisting solely of Russia, would be the largest and most important of the successor states to the Soviet Union. Reform could proceed in the USS along the lines envisaged in the pre-coup reform plans and summarized in the introduction. There would be rapid moves towards budget balance within the Union and its constituent republics, convertibility of the rouble at a fixed exchange rate, price liberalization, the beginnings of privatization, and the introduction of necessary social safety nets.

Similar reforms could be introduced and implemented in the Ukraine, and the other independent republics. Those republics would have to decide on their exchange rate system and exchange rate peg if any. The presumption is that republics would prefer to try to peg to a Western currency or basket of Western currencies, but if the rouble is stabilized, there are likely to be advantages for some republics in pegging to it. In considering the regrouping scenario, it is only realistic to expect that some republics will show virtually no interest in reform, and to note that others lack the capacity.

One of the key lessons of the East European reform experience should be heeded in reforming the Soviet Union: existing trading relationships should if possible not be destroyed too rapidly. The abrupt end of CMEA trade at the start of 1991, and the shift to hard currency payments, is a major contributor to the recessions now besetting East European countries. Some transitional arrangements are needed to deal with existing inter-and intra-republican trade. A variety of mechanisms, including a temporary payments union,⁵ has been proposed, and urgently needs further study.

⁵See, for instance, the discussion by Peter Kenen in "Transitional Arrangements for Trade and Payments Among the CMEA Countries", IMF Staff Papers, 38, 2 (June 1991), pp. 235-267.

One possibility is to phase down existing barter arrangements gradually, for example by maintaining existing trading partners for three years while reducing quantities scheduled for delivery under each contract to zero over that period. All new contracts would be negotiated at new liberalized prices; any existing contract to deliver goods can be terminated by agreement of both parties. However, attempts to maintain existing contracts have been breaking down in the last year, and this approach may not be workable in practice.

If abrupt adjustments in quantities are disruptive, how about price changes? Should price reform and convertibility also be introduced only gradually? The basic answer in both cases is no. At the margin, prices on all contracts should be liberalized, and new trades should be free to take place at those liberalized prices.⁶ In addition, the currency should be convertible on current account. Tariffs and trade taxes could be used to bring domestic prices in line with world prices gradually, but in any case this process should not last more than three years, with a large share of the adjustment being made immediately.

In brief, economic reform along the lines outlined in the introduction is possible in each of the successor units of the Soviet Union. Maintenance of open trading links is less likely the greater the number of successor states, but the desirable directions of reform are in any case clear independent of the particular political solutions that eventually emerge -- and many of the reforms would have to be undertaken at the republican level whatever the final degree of centralization.

⁶Experience with U.S. oil price controls that tried to distinguish between new and old oil is not encouraging, but no clean solution is available.

IV. The Role of Western Aid.

The argument for Western aid before the failed coup was that it would support the forces of reform against its enemies, particularly in the army and the KGB. With the opponents of reform totally discredited, what reasons are there for providing aid now?

The West still has an interest in a peaceful transition from communism to a market economy and democracy in the successor states of the Soviet Union. In the short run, chaos in the area brings a threat of Yugoslav-type civil war, further economic difficulties for Eastern Europe, and immigration to Western Europe. Chaos also raises the question of the disposition of nuclear weapons, an issue that has been handled very delicately in analyzing the coup attempt.

In the longer run, the rest of the world will benefit from Soviet integration into the international economic community. The Soviet Union is extraordinarily rich in raw materials, is the world's largest oil producer, and will be a massive market for the West. This is the next economic frontier. Further, most Western economies, especially the United States, will benefit from the peace dividend that is already becoming visible as the Cold War disappears.

Three types of aid have to be considered:

- humanitarian aid -- food and medicines
- technical assistance for activities that would in any case be republican responsibilities
- general purpose financial aid -- such as a currency stabilization fund and balance of payments loans

Humanitarian assistance can and should be provided to Soviet citizens whatever the ultimate economic arrangements among the republics. Besides the humanitarian reasons for providing such aid, it is a highly visible form of support, which will have a large political impact. Food aid can go directly to the republics, through mechanisms that are being worked out now. Distribution of food is an important problem, which will be much easier to handle if food prices are decontrolled and some state trucks privatized: it is amazing to see how food can move when there are incentives for it to do so. In addition to food, the Soviets themselves emphasize their need for medical supplies.

Some economic reforms would have to be undertaken at the republican level no matter what the final political arrangements. Most privatization will be a republican and municipal task, as will price decontrol. Tax systems have to be created or improved at the republican level; so too with the legal systems, and the framework for foreign investment; much agricultural reform can be done at the republican level; similarly for financial system reform. Technical assistance is urgently needed in all these areas. Reports are that while foreign experts are falling over each other looking for work in Moscow, they are very thin on the ground in the republics.

Technical assistance to the republics can and should begin very soon. The European Community is ready and willing to move. So is the World Bank, whose Board has approved a \$30 million fund for technical assistance. Bilateral Western assistance is also expected. Some of the technical assistance may need to be accompanied by financial assistance, but this will be on a small scale. Some of the technical assistance should take the form of

advisory teams on reform that are placed in the capitals of the republics, rather than in Moscow. These teams should be available on a continuing basis to help set up the new economic framework and to assist in the implementation of reforms.

Thus important Western assistance -- namely, humanitarian aid and technical assistance to the republics -- can begin immediately, should begin immediately, and is likely to do so. This aid does not have to wait for clarity about the economic and political future of the Soviet republics.

However large scale general financial assistance cannot be provided until it is clear to whom the assistance will go. For instance, there is no point setting up a rouble stabilization fund when we do not know what the currency arrangements in the USSR or its successor states will be. Similarly, typical IMF-type balance of payments loans that support macroeconomic stabilization cannot be provided until it is known what governments will have the power to bring macroeconomic stability.

Should the West attempt to shape the transition in the Soviet Union through the leverage of large-scale financial assistance? Yes, in the sense that aid should flow only to governments reforming in a democratic and market-oriented direction. Yes, in that we have an interest in arrangements that reduce the risk of chaos. Beyond that lies a question for politicians rather than economists to answer: whether it is in the interests of the West to attempt to maintain a large centralized state in the former Soviet Union by announcing that balance of payments support would be available only to an all-Union government. My judgment is that we should avoid that temptation, except to the extent we believe we can help keep the transition to the new

arrangements more peaceful than it otherwise would have been. It is difficult to see a Western interest in maintaining a single successor state; nor would an announcement that aid would be available only to an all-Union government be credible, because the same motives that justify aid to the Union would justify aid to the successor states.

Since general financial assistance cannot flow until a new economic framework is in place, Soviet leaders have strong incentives to agree on the their economic constitution. Reform plans, including the details of Western assistance, can be worked out as soon as the economic constitution goes into effect. The USSR and those republics that become fully independent should gain full membership in the international agencies, through which much of the needed financial aid will flow.

While the G-7 has held back on aid on several key occasions, Western inhibitions about economic aid are fast disappearing. Food and medical aid, and large scale technical assistance is about to begin flowing. The West will have to show flexibility in dealing with different levels of government, and quite possibly with changes in governmental structure. It will also have to preserve flexibility in considering balance of payments support and in deciding when such support is warranted. But since it will take time to figure out the dimensions of the needed support, work should begin now, even before we know the political framework in which it will be delivered, or whether it will be delivered.

Preliminary calculations about aid suggest two important conclusions. First, the West can put together a large aid package without the United States having to provide a great deal of direct aid. And second,

because Japanese aid will be crucial, the Soviets and Russia have very good reasons to reach a territorial understanding with Japan.

V. Aid Coordination

A serious Soviet assistance program will be on a much larger scale than any effort mounted by the West since the early fifties. Technical and financial assistance will be supplied by a host of Western institutions: the multilateral institutions; directly by Western governments; by the commercial private sector; and by non-governmental organizations. The multiplicity of contacts on both sides is essential if Western engagement with the Soviets is to succeed in penetrating deep into the Soviet economy and society.

There are many overlaps in the responsibilities of the IMF, World Bank, other United Nations agencies, EBRD, OECD, European Community, and the governments providing direct bilateral assistance. The agencies are already engaged in a contest to capture their share of the Soviet market, and the competition will intensify as technical and financial assistance to the Soviet Union grows. Some of this competition is healthy, but most will be counter-productive, leading to duplication of effort, bureaucratic infighting, and turf battles. In addition, experience in Eastern Europe shows that the competition confuses policymakers in the recipient country and absorbs attention that would be better focused on economic reform.

The West needs a mechanism to coordinate official assistance. The need is temporary and requires no new permanent agency. A modest office, the Office of Soviet Aid Coordination (OSAC), headed by an experienced, authoritative, and widely respected individual, could provide the coordination needed.

OSAC would chair an international coordinating committee of representatives of the major donors and international financial agencies. It would report regularly to the G-7.

OSAC would not be asked to approve the activities of others, but would

- assure that information on programs, policies, and funding is shared;
- assure that duplication is identified and thus avoided;
- assist recipients in identifying alternative sources for technically suitable support;
- assure that the policy framework and reform program, as defined by the recipient states (USS and the independent republics) in agreement with the international community, is the framework within which programs are developed; and
- monitor implementation and report regularly to the major donor governments and the heads of agencies.

TABLE 1: USSR: Territory and Population of Republics, as of January 1, 1990

	Territory		Population		Percent Growth Rate ¹	Density per sq. km.	Percent Urban
	Thousand sq. km.	Percent of USSR	In thousands	Percent of USSR			
USSR ²	22,403	100.0	288,624	100.0	0.66	12.9	66
<i>Slavic</i>							
RSFSR	17,075	76.2	148,041	51.3	0.43	8.7	74
Ukraine	604	2.7	51,839	18.0	0.26	5.9	67
Belorussia	208	0.9	10,259	3.6	0.58	49.4	66
<i>Baltic/Moldavia</i>							
Estonia	45	0.2	1,583	0.5	0.89	35.1	72
Latvia	65	0.3	2,687	0.9	0.26	41.7	71
Lithuania	65	0.3	3,723	1.3	0.64	57.1	68
Moldavia	34	0.2	4,362	1.5	0.55	129.4	47
<i>Caucasus</i>							
Georgia	70	0.3	5,456	1.9	0.24	78.3	56
Armenia	30	0.1	3,293	1.1	0.15	110.5	68
Azerbaijan	87	0.4	7,131	2.5	1.32	82.3	54
<i>Kazakhstan</i>							
Kazakhstan	2,717	12.1	16,691	5.8	0.94	6.1	57
<i>Central Asia</i>							
Turkmenistan	488	2.2	3,622	1.3	2.49	7.4	45
Uzbekistan	447	2.0	20,322	7.0	2.09	45.4	41
Tadzhikistan	143	0.6	5,248	1.8	2.72	36.7	32
Kirgizia	199	0.9	4,367	1.5	1.79	22.0	38
<i>Composition by regions</i>							
Slavic	17,886	79.8	210,139	72.8	0.40	11.7	73
Baltic/Moldavia	209	0.9	12,355	4.3	0.60	59.3	62
Caucasus	186	0.8	15,880	5.5	0.70	85.3	56
Kazakhstan	2,717	12.1	16,691	5.8	0.94	6.1	57
Central Asia	1,277	5.7	33,559	11.6	2.20	26.3	40

Source: Narkhoz 1989 (1990), pp. 17, 19-24.

1. Percentage growth in population 1989-90.

2. USSR territory includes 127,300 square kilometers for the White Sea and the Sea of Azov, not included in the area of individual republics.

TABLE 2

USSR: Distribution of Population, NMP and Budget Revenue by Union Republic

	Population (percent of total in 1989)	NMP			State Budget Revenue Retained by Republic (percent of total, 1990 plan)	Deliveries to Other Republics (percent of republican NMP in current domestic prices)	Exports Abroad
		Total	Industry (current prices, percent of total in 1988)	Agriculture			
Armenia	1.1	0.9	1.2	0.7	1.4	63.7	1.4
Azerbaijan ¹	2.5	1.7	1.7	2.2	1.8	58.7	3.7
Belorussia	3.6	4.2	4.0	4.9	4.7	69.6	6.5
Estonia	0.5	0.6	0.6	0.7	0.8	66.5	7.4
Georgia ²	1.9	1.6	1.4	2.1	1.8	53.7	3.9
Kazakhstan	5.8	4.3	2.5	6.1	6.1	30.9	3.0
Kirgizia	1.5	0.8	0.6	1.3	1.2	50.2	1.2
Latvia	0.9	1.1	1.1	1.2	1.3	64.1	5.7
Lithuania	1.3	1.4	1.1	1.9	1.7	60.9	5.9
Moldavia	1.5	1.2	1.0	1.8	1.4	62.1	3.4
RSFSR ³	51.4	61.1	61.9	18.0	55.3	18.0	8.6
Tadzhikistan	1.8	0.8	0.5	1.2	1.1	41.8	6.9
Turkmenistan	1.2	0.7	0.4	1.2	0.9	50.7	4.2
Ukraine	18.0	16.3	16.7	17.1	15.9	39.1	6.7
Uzbekistan ⁴	6.9	3.3	2.3	5.2	4.7	43.2	7.4
Residual	—	—	3.0	4.4	—	—	—
Total	100.0	100.0	100.0	100.0	100.0	—	—

1. Includes 1 autonomous republic.

2. Includes 2 autonomous republics.

3. Includes 16 autonomous republics.

4. Includes 1 autonomous republic.

Source: Data provided by the Soviet authorities.

Source: Joint Study of the Soviet Economy

OFFICE MEMORANDUM

DATE: September 27, 1991

TO: See Distribution

FROM: Jonathan Brown, Acting Director, EM5

EXTENSION: 3-2469

SUBJECT: USSR: Working Group #1: Fiscal Policy

Discuss with Costas. T. Klen for.

1. In reference to Mr. Cheetham's memorandum to Mr. Wapenhans of 9/18/91 (Attachment 1), we are planning to establish working groups to advise EM5 on the design and implementation of the technical cooperation program for the USSR. The proposed working groups are those listed in the attached memorandum, except that we would have separate groups for fiscal policy and debt management, as suggested by several of you who commented on the original proposal. Thus, there would initially be 8 working groups. Over time, these groups may be redefined and/or expanded in number.

2. The purpose of this memorandum is to ask you to propose one or more of your staff or managers to participate in the working group on "Fiscal Policy". While we want to keep the working groups small, we also want to draw on relevant experience in the World Bank group in the various areas. We would therefore very much like your suggestions of who would contribute substantively to the functions of the group. We would appreciate these recommendations by Wednesday, October 2, so that we can proceed with the formal establishment of the group and the designation of the chairperson the following week.

3. Staff time spent in the working group will be charged to the Trust Fund under procedures outlined in my memorandum of September 26 (Attachment 2).

Attachments

Distribution:

Messrs. Linn (CEC); Golan (EDI); Grilli (EAS); Isenman (PRDDR)

cc: Messrs. Wapenhans, Hasan (EMNVP); Thalwitz (PRESV); Michalopoulos (PRDDR); Summers (DECVP); Rajagopalan (PRSV); EM5 management team

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OFFICE MEMORANDUM

Attachment 1

DATE: September 18, 1991

TO: Mr. W.A. Wapenhans, EMNVP

FROM: Russell J. Cheetham, EM5DR ^{PJC}

EXTENSION: 32552

SUBJECT: USSR: Technical Cooperation Program

1. As we move towards the start-up of a program of technical cooperation in the Soviet Union, we will need to establish various arrangements related to work programming, task management, budgetary procedures, and quality control. This is the first of a series of memoranda that will explain the administrative procedures being put in place to ensure effective management of the assistance program.

2. The overall conduct of our activities in the Soviet Union will be governed by the provisions of the technical assistance agreement that the World Bank Group, the Union and individual governments will sign. Only after the Agreement is signed would we begin implementation of the program and only with those governments who are signatories to the Agreement. We are working to a timetable to have this technical cooperation agreement signed in early November, possibly in Moscow.

Work Programs and Budgets

3. The technical assistance agreement will require that we submit a series of work programs to our Board for its approval. The funds of the trust facility for the Soviet Union will be spent only on those activities related to the work programs approved by the Board. Activities undertaken by staff independent of these approved work programs will not be eligible for funding from the facility.

4. We are preparing a program of activities that would start, but not necessarily be completed, during the three-month period November 1991-January 1992. The timetable that we are following in preparing this work plan was set out in an earlier memorandum (see Attachment I). In January 1992, we will submit a work program for February-June 1992 to our Board for approval. Thereafter, we expect to get onto an annual cycle of work plans, by submitting the FY93 proposals to the Board around May 1992.

5. The work programs would list the specific project activities that would be undertaken. The Technical Assistance Agreement will require that a project document be prepared for each item in the work program and that this document be agreed upon with the relevant part of the Union or Republic level government that is the beneficiary of the assistance. Each project document would indicate the scope and purpose of the activity, the intended

beneficiary and the budget and timetable associated with that particular activity.

6. For each project activity, a task manager would be appointed within the Bank. Some of the individual project tasks, or groups of tasks, would be contracted to various parts of the Bank, including Legal, Finance, PRE, EDI, IFC, FIAS, MIGA, etc. The management of each project activity, including the content of the work, staffing, and budgets and timetables would be the responsibility of the task manager concerned, subject to the normal quality control procedures of his/her department.

7. The selection of task managers would be handled in accordance with existing operational procedures. The choice of individual task managers in contracting departments would be up to the management of these departments, working in close collaboration with EM5 management.

8. Each project activity identified in the work program approved by the Board would have a budget code. All expenses, including staff time devoted to that activity, would be recorded following standard Bank procedures. These arrangements will permit task leaders to manage their budgets in a responsible manner and will allow EM5 to ensure there is a proper accounting of trust fund expenditures against the work plan approved by the Board.

9. We are working with PBD and the Finance Department to develop appropriate procedures and guidance for financial control. A separate memorandum will be issued shortly. It will deal with claims against the Trust Fund, reimbursement of program preparation expenses incurred retroactively, and related matters.

Working Groups

10. With this framework, we wish to establish a series of Bank-wide working groups to advise EM5 on the design and implementation of the technical assistance program. At this stage, we have in mind setting up the following groups:

- o Fiscal policy and debt management
- o Financial sector development
- o Trade and ~~exchange~~ policies and price reform
- o Enterprise reform and private sector development
- o Labor and social affairs, including education, training and health services
- o Agriculture, food distribution and transport
- o Energy and environment

Over time, these groups may be redefined and/or expanded in number.

11. The working groups would have the following responsibilities:

- o Advise EM5 and contracting departments on the overall design of the work programs in the respective area of the working group's responsibility.
- o Advise individual task managers and EM5 on the formulation and design of individual tasks.
- o Provide a forum for review of draft reports and advise on the need for quality enhancement prior to the submission of reports to Soviet authorities.

12. Working groups should be small enough to permit efficient operation and also to maintain a reasonable limit on the size of the Bank's resources absorbed by the USSR program. Chairpersons would be drawn from relevant parts of the Bank group. EM5 would be represented by at least one person on each working group; other members will include persons from various parts of the Bank group and the Region. I have asked the responsible EM5 managers to follow up with the organization of these working groups next week.

Advisory Group on Policy Coordination

13. An important aspect of our program of cooperation in the Soviet Union will be our ability to review the total package of advice proffered by the Bank program from the point of view of priorities, consistency, sequencing of reform, etc. For this purpose, we intend to establish an Advisory Group on Policy Coordination. This group will be chaired by the Director of EM5 and will consist of senior persons from DEC, PRS, LEGAL, TREVP, EMNVP, EMNTD, IFC, MIGA, and FIAS.

Distribution:

Messrs./Mmes. Bock (OPNSV); Hasan (EMNVP); Kohli (EMNTD);
Michalopoulos (PREDR); Rajagopalan (PRSVF); Summers
(DECVP); Linn (CECDR); Rao (IECDR);
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(MIGPA); Shihata (LEGOP); EM5 Management Team

SCHEDULE FOR USSR TECHNICAL COOPERATION PROGRAM

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| 1. | Prepare internal draft of technical cooperation agreement for subsequent discussion with Soviet authorities | Sept. 13 |
| 2. | Mission starts work in Moscow | Sept. 23 |
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| 6. | Board discussion of proposals | Oct. 29 |
| 7. | Sign technical cooperation agreement and start work plan implementation | Nov. 11 |

EM5DR
September 18, 1991

OFFICE MEMORANDUM

Attachment 2

DATE: September 26, 1991

TO: Distribution (See Below)

FROM: Jonathan G. Brown, Acting Director, EM5DR

EXTENSION: 32552

SUBJECT: Charging Time and Expenses to the Soviet Technical Assistance Trust Fund

1. On August 27, the Board approved a US\$30 million Technical Assistance Trust Fund for the Soviet Union to be funded out of the Bank's net income. We expect to present to the Board a technical assistance work program on October 29 for the three-month period, November 1991 - January 1992. The Technical Cooperation Agreement between the Bank Group and the Soviet Union and its Republics will be considered at the same meeting, and expected to be signed in early November. Once the Agreement is signed, we will be in a position to start formal implementation of the assistance program in the Soviet Union. The full cost of Bank staff, consultants, contractual services, and related administrative expenses for the above-mentioned approved work program should be charged to the Trust Fund (TF020775).

2. Expenses for the preparation of the program will also be reimbursed retroactively. In order to properly charge all staff time and dollar expenditures to the Trust Fund incurred during the preparation of the proposed USSR Technical Cooperation Program, before signing of the agreement, special accounts have been established in both the time recording and budget accounting systems. Attachments to this memorandum list the work program activities and codes against which time should be recorded and expenditures charged for the TRS (Attachment I) and Budget (Attachment II). All charges will be reviewed by EM5 prior to processing to ensure consistency with the agreed work program. Other activities in preparation for the start-up of the Technical Cooperation Program may be added if approved by EM5 Management.

3. New activities and codes reflecting the Technical Cooperation Agreement and the associated work program will be put in place upon the signing of the Cooperation Agreement.

Attachment

Distribution:

Messrs. Grilli (EAS); El-Rifai (MIGPA); Kaffenberger (CPOVP);
Koch-Weser (TREV); Rajagopalan (PRSV); Kohli (EMTDR);
Sandstrom (EXC); Shihata (LEGVP); Summers (DECVP); Weigel (CEIFI)

cc: Messrs./Mme. Qureshi (OPNSV); Thalwitz (PRESV); Cheetham (EM5DR)(o/r);
Fox (EMNCA); Lynn (PBDDR); Michalopoulos (PRDDR);
Moore (OPNIS); Ruddy (ACTDR)

EMENA Information Center

OFFICE MEMORANDUM

DATE: September 27, 1991

TO: See Distribution

FROM: Jonathan Brown, Acting Director, EM5DR

EXTENSION: 3-2469

SUBJECT: USSR: Working Group #4: Trade Policies and Price Reform

1. In reference to Mr. Cheetham's memorandum to Mr. Wapenhans of 9/18/91 (Attachment 1), we are planning to establish working groups to advise EM5 on the design and implementation of the technical cooperation program for the USSR. The proposed working groups are those listed in the attached memorandum, except that we would have separate groups for fiscal policy and debt management, as suggested by several of you who commented on the original proposal. Thus, there would initially be 8 working groups. Over time, these groups may be redefined and/or expanded in number.

2. The purpose of this memorandum is to ask you to propose one or more of your staff or managers to participate in the working group on "Trade Policies and Price Reform". While we want to keep the working groups small, we also want to draw on relevant experience in the bank in the various areas. We would therefore very much like your suggestions of who would contribute substantively to the functions of the group. We would appreciate these recommendations by Wednesday, October 2, so that we can proceed with the formal establishment of the group and the designation of the chairperson the following week.

3. Staff time spent in the working group will be charged to the Trust Fund under procedures outlined in my memorandum of September 26 (Attachment 2).

Attachments

Distribution:

Messrs. Linn (CEC); Golan (EDI); Kohli (EMNTD); Grilli (EAS); Iserman (PRDDR); Rao (IECDR)

cc: Messrs. Wapenhans, Hasan (EMNVP); Thalwitz (PRESV); Michalopoulos (PRDDR); Summers (DECVP); Rajagopalan (PRSVP);
EM5 management team

m:\group4

OFFICE MEMORANDUM

Attachment 1

DATE: September 18, 1991

TO: Mr. W.A. Wapenhans, EMNVP

FROM: Russell J. Cheetham, EM5DR ^{RJC}

EXTENSION: 32552

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