

Session 6

Evaluation of Bilateral and Multilateral Cooperation

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Taking Stock and Challenges Ahead

Unknown: Mr. Mladek, Deputy Finance Minister, Czech Republic.

Mr. Jan Mládek: Thank you for the introduction. Ladies and Gentlemen, I would like to start this session with the statement that I am committed to keep to the time schedule because this is the last session and I want to encourage the speakers from the very beginning to keep to the time schedule. Second, I think this is a good opportunity to discuss the important questions of transformation. The most important question about transformation is, what is the key issue, because there are many people, in the early 1990s, who were sceptical about the easy process of transformation in Central and Eastern Europe and that was the general motto at this time.

I must say that, fortunately for the institute, and, unfortunately for the countries in transition, the institute was right, and that means that this institute has a much bigger legitimacy to develop analyses and suggestions for countries in transition and many others. Now, I would like to encourage Ms. Rika Ishii from EBRD to start speaking.

* Mr. Domacek substituted Mr. Yo Maruno, Deputy to the Director-General of UNIDO

Ms. Rika Ishii: Thank you very much, Mr. Chairman. Ladies and gentlemen, it's a pleasure for me to be given the opportunity to present this speech, which is about taking starts and challenges ahead. Since we don't have much time, I would just like to say a few things. I'll start with the good story. First, all the governments in the region have been elected in free or almost free elections, and we should recall that, recently, in Yugoslavia the president was elected in free elections and we should welcome that. In the area of economic reforms, there have been substantial advances in trade, privatisation, and institutional reform.

And, in the 26 countries included in our operation, the private sector now accounts for over 50% of GDP. And (the) other good news is that the region as a whole is projected to grow by almost 5 % and this is the highest growth ever since transition began.

So this is the good news, and the question now is if transition is over. Of course not, otherwise I would probably not be standing here. I would probably be looking for a job right now. In our EBRD view, there has been significant progress but transition is not over. So in today's speech, I'd like to dwell on the lessons learned from the experience of transition, after the first ten years, from the EBRD perspective as an investor, and the challenges of the next decade. That's why my presentation might be different from those of other people who are here today. I'd like to present to you some of the findings from our transitional report, the richest source, which was published two weeks ago. I just would like to take the opportunity to do a little bit of marketing exercise. This year's report is called "The subtitles, employment skills and transition" that covers and depicts Polish steel works. You can purchase this on our web site www.ebrd.com and it's £30 from your credit cards.

Now, let me first begin by introducing what EBRD is about, because maybe some of you have heard about us but do not know what we do. EBRD is an international institution founded in 1991 with the specific aim of assisting the countries in Central and Eastern Europe and CIS in developing market-oriented economies. And, specifically, the EBRD seeks and promotes the development of the private sector within these economies through investment operations and (the) mobilization of foreign and domestic capital. We have capital based on 20 billion euros and by the end of June this year we committed 40.5 billion euros for 642 projects. We have been active in all countries since our creation. Now, I think, people are laughing because, you see, on the right hand bottom there was supposed to be a logo, but, unfortunately, the logo cannot be read by the computer. As you can see, we are active and you can see what the portfolio rate is.

Now – next. Because we focus on the private sector, as you can see, most of our projects are concentrated on private sector operations. And the other unique thing about EBRD is that we do not only provide loans for state and private companies, but we also invest in equity. You can see our target was 30 % and we have already reached our target, having portfolio in equity up to 31%. Also I would like to mention that we are continuously trying to increase the number of instruments we are offering to our clients. For example, we are trying to think of ways for our clients to survive market risks such as currency risk in an operation. Now you can see that we have invested in pretty diverse sectors. A large part of the investments have been in the financial sector, because we believe that the strengthening of the banking sector in the region is very important. By direct investment, for example, in banks, we believe we are actually contributing to the building of institutions in the countries included in our operation. That shows that we have actually mobilized quite a lot of investment in addition to ours – about three times more than what we have invested.

Now, finally, I would like to draw your attention to the fact that EBRD is actually the largest single investor in the region and, by the end of this year, we will be associated with almost 14 billion of FDI and this represents over 9 % of total accumulative FDI in the region.

Let me turn to the lessons we have learned from our experience so far. You may not be surprised that what I am going to say has not been mentioned by the previous speakers. The first lesson is that building institutions that support markets takes much longer than implementing liberalisation and privatisation. We all know that the lack of supporting institutions counters the functioning of the markets.

The graph is taken from this year's transitional report and is actually comprised of what you were able to see, which is table 2.1. The series of transitional reports, beginning in 1994, has been providing a detailed assessment of progress and structure reforms. We provide assessment shown by numbers 1, 2, 4+. 1 represents no development and 4+ rates (the) level of reform that is equivalent to the level of developed market economies or Western market economy.

Now for the strongest slide. It is clear that the development of market supporting institutions, such as government and enterprise restructuring, competition policy, banking reforms and the development of secure markets and non-bank financial institutions, has lagged behind the progress in globalisation and privatisation. The forty-five degree line, as you can see, traces the development and evolution over the years for each country, and you can notice that most of them have that forty-five degree line. That means that the countries progress more rapidly in privatisation and liberalisation and not so much in institutional reforms. I know this is a bit of an interesting presentation, but you can see that there are marked differences between Lithuania, Hungary, and Georgia. You can see that Hungary has implemented price liberalisation and privatisation and institutional reforms more or less at the same time. Whereas, for example, if you look at the yellow line, which represents Lithuania, this country embarked on liberalisation and privatisation at an earlier stage and moved rapidly forward, but somehow lagged behind in institutional Reform. However, in recent years, primarily due to (the) European Union accession aspirations, they pushed the institutional reform forward.

Now, looking at Georgia, we can see that Georgia's institutional reforms are still slow. So lesson number one is that building institutions takes longer than implementing privatisation and liberalisation.

Now the second question is that reform choices actually matter. So maybe this is related to the discussion we had previously about the role of the government. There is a growing diversion in (the) progress of reform and economic performance between the front-runners for European Union accession and (the) less advanced countries in the CIS. My former boss - we were talking about that in the last two years - said in his last presentation, jokingly: "The closer you are to Brussels, the more advanced you are in reforms". To some extent this might be true, because the countries in the Eastern Europe have better starting positions. Indeed, the correlation between initial conditions such as level of development of trade, dependence on CMES, which would be negative, macroeconomic disequilibrium, distance to (the) European Union, natural resources and domains, market memory, state capacity, and progress in reforms is positive as you can see.

What we would like to really highlight is that there are countries that have been much more successful in implementing reforms, although the initial conditions would suggest otherwise, which you can see in the Baltic countries - Lithuania, Estonia, Latvia, Poland, and Kyrgyzstan in Central Asia. And further, as this slide shows, the liberalisation of market and the progress in privatisation have contributed positively to growth. And the yellow one does not actually consist only of Central European countries - because we all know that Central European countries are much better - but it also includes countries like Kyrgyzstan, Macedonia, and others. There is late liberalisation in big countries like Russia, Ukraine, and other countries from the CIS and no liberalisation in countries like Belarus, Uzbekistan, Azerbaijan.

Now the third lesson is that because reform choices matter, political will and its implementation are decisive. Reforms have tended to progress further when governments have come into power in free and fair elections. However, where democracies are young and weak, the state is also weak and there remains a risk of capture. What do I mean by state capture? That is the efforts of firms to shape and influence the underlying rules of the game. Consequently, the competitive process is distorted, inefficient firms survive artificially, and new firms are discouraged from entering the market.

Last year the EBRD conducted a business survey together with the World Bank, which showed that state capture by vested interests is a serious problem in the region. Now, the survey was among 300 enterprises in the region and we asked questions about, for example, microeconomic environment and tax characteristics of the environment, which more or less constitute the government's index. We also asked the companies whether they or other companies had benefited from some kind of favours given, for example, to the government, and not only to the government, but perhaps to judiciary or central clerk. So, if you take the government's index as an indication of investment climate, you can see from this graph that (the) investment climate weakens from private interests to capture state. As for the next graph – I think state corruption is the substitute for state capture. We also asked the companies to what extent they actually pay money as bribes and you can see that different countries have responded differently.

So the third lesson is that political will and its implementation are decisive and from these lessons, of course, let's turn now to challenges. It's clear that challenges for the years ahead are building institutions, consolidating in order to meet economic liberalisation, and promoting open, democratic, and accountable government.

Let me now mention some of the specific challenges of the subregions. Now – Central Europe, Eastern Europe, and the Baltic republics – it is clear that the challenge for them is European Union accession. Now in association with European Union accession – what are the challenges we see? The European Union accession will require substantial investment in public infrastructure and that we estimated to be over 2 or 3 % of the GDP annually. Now the European Union will provide pre- and post-accession transfers. Fiscal pressure is likely to occur. So, to cope with the background of ready, large public sectors and high statutory tax rates, the government needs to cut spending and, for example, increase the effectiveness of the services they provide. For instance, they have already been implementing pension funds. The capacity of the government for infrastructure investment should be improved, especially at the municipal level, and EBRD is focusing on offering support to the municipalities to make it possible for them to introduce public and private initiatives.

Finally, the European Union accession will also eliminate many of the remaining trade and non-trade barriers and expose weakness in the cooperate sector, particularly in agribusiness, financial services, and heavy industry. Managing the painful structures in the remaining large-scale enterprises is a key challenge. We know the restructuring of industry is very difficult, because - we are trying to be very frank - there are few successful examples today. In South Eastern Europe the challenge is obviously how to overcome the post-war conflict situation that has actually held back the development of the region. This reform challenge, in our view, remains more daunting than the challenge that is faced by the CEE and the Baltic countries.

The most immediate challenge refers to cementing the precarious democracy in Yugoslavia and implementing economic reforms. Now, other areas for investment in the region have remained far less in Central and Eastern Europe, largely reflecting uncertain political environment but also unfavourable investment climate. It is unlikely that investors' confidence will increase rapidly in the short term. Therefore, the hope for economic restructuring increases with the growth of new businesses and that is where SME development comes in and we are ready to provide assistance to the banks in the region. We have already established the Microfinance Bank in Bosnia and Herzegovina for instance.

Now another immediate and critical challenge is to rebuild the regional links and, I think, for this purpose, the European Union is playing a significant role in the Stability Pact, and I don't think I should discuss this any further, for I don't have much time.

The transition process in Russia and Ukraine has been slower than expected, especially in the area of institutional reforms. Administrative interference in all levels and high level of corruption are seriously undermining the business environment and the growth of new businesses. They have also hindered the much needed enterprise restructuring. Nevertheless, development over the past two years has encouraged profits after the Russian crisis. Russia has recorded two consecutive years of growth and Ukraine has experienced growth for the first year ever since the transitional process began. Of course, this as an achievement (that) backs on the real exchange depreciation and the high oil prices in the case of Russia. In those countries, there are provisions for new boldly formed programs to be adopted. However, restructuring challenges remain enormous. First, (the) competition network and, second, the role of the government must be improved. The EBRD as an investor has experienced a number of cases where weak governments undermine investments. A recent case in Russia highlighted how both creators and shareholders' rights can be abused. Nevertheless, the threat to the international reputation of the company involved in the situation and, in extension, Russia itself has rectified the situation, so I think we should have some hope in this field.

Finally, what I think is more related to the future work of the World Bank, the social safety net should cushion the people who suffer from the impact of redundancy associated with enterprise restructuring.

Now Southern CIS. The countries outside Russia cover a vast territory from the Black Sea to the Chinese border and have (a) population of 70 million, which is equal to the population of the of Central and Eastern Europe and the Baltic republics. However, their economies constitute less than 5 % of the total regional GDP. As the vast natural resources of diamonds attract foreign investments, there is a real risk for their economy of facing the problem of economic jewellery, between the natural resources sector and other sectors of economy. The present market, especially in Central Asia remains highly concentrated and subject to CEE interventions. Therefore, we urged the government to commit a transparent process involving making contracts and natural resources development and also to improve the business environment for SME development.

Now the conclusion. The past decade has been one of the greatest achievements. People in the region have demonstrated tremendous resilience and ingenuity in the face of dramatic change. It's clear that we had setbacks in the reforms along the way. The principles of free markets and pluralist democracy have not been fundamentally questioned. There is no turning back. Although the challenges ahead are also enormous, EBRD hopes to continue to help successful transition by its investment activities. Thank you.

Mr. Jan Mládek: Thank you for keeping to the time schedule. Nevertheless, I must be bolder and clearer. Every speaker has maximum 15 minutes and then I will try to intervene. The next speaker is Mr. André Barsomy from OECD. Please go ahead.

Mr. André Barsony, OECD

The OECD and the Economic Transition in Central and Eastern Europe

Mr. André Barsony: Thank you, Mr. Chairman. Ladies and Gentlemen, I am grateful for this opportunity to address this international conference. The organisers of this meeting have asked me, first, to report on (the) OECD contribution to transition in Central and Eastern Europe and, secondly, to highlight some policies that should be implemented in order to help the development of competitive enterprises in the region. That is the total order for the 15 minutes, so I will try to be brief. There is a longer version of my intervention, which has already been distributed.

Today, clearly, the external anchor for institutional and policy change in Central and Eastern Europe is the accession process to the European Union. But at the beginning of the process, OECD played a similar role as an external anchor for a number of countries in the framework of what we call the partners in the transition program. Back to 1990, when the former Czechoslovak Republic, Poland, and Hungary were already engaged in the transition to market economy and democracy, OECD decided to bring its full support to these countries. And as a result of that, today, the four countries, the Czech Republic, Slovak Republic, Hungary, and Poland are now members of OECD. It was an important anchor because the ultimate objective for OECD membership was signalled as a target but, of course, the exact date was not indicated. It depended on the progress each country made toward its capacity to comply with the objections of OECD membership.

Clearly, a total assessment of the lessons that we learned from this exercise, is beyond the scope of my intervention, and I would also add that most of what can be said at the moment is provisional. After ten years, it is still difficult to arrive at a stable and clear conclusion about what these lessons are. So, more modestly, I would say that I would like to underline four points. First, I would say that macroeconomic and structure policy issues are closely linked, and, therefore, the transition process needs to be seen in the broadest possible sense. Of course, this statement is mainstream. Many people have been working on transition from the same view. But what's different, are the working methods. The OECD applied an exchange of national policy experiences in the context of a lack of conditionality. The impact of this, of course, was that the four countries concerned, that I mentioned, had a feeling of ownership for the programs. And this approach clearly signalled that the countries always found various ways to build efficient market economies, which were in line with their historical and cultural background. So, it was possible to have different ways to solve the same problem, and I think that played an important role.

The second point I would like to underline is the importance of reform in the financial system, because financial development impinges directly on the nature of the budget constraints faced by enterprises and governments. In fact, the most difficult aspect of the accession of these four countries to the OECD was related to the way of liberalisation in terms of current account and capital account. However, the countries took some bold decisions and they reformed the financial system, and, as a result, that contributed heavily to the restructuring and, if necessary, to the liquidation of enterprises which failed to function in the market system.

The third point I would like to underline is in fact the most fundamental. OECD has contributed to the development of institution building and reform, which considerably reduced the transaction costs in establishing appropriate legal frameworks in key areas. I would be more specific, of course, this is rather abstract. The OECD's Fiscal Committee has contributed to the reform of the tax systems in these countries and to the development of efficient tax authorities. The Committee on Competition Law and Policy has advised these countries in the development of the legal context for competition and establishment of efficient competition authorities.

Finally, I would say that these programs have contributed greatly to (the) creation of (a) new culture of public service, under radically new conditions of real democratic pluralism. I think this problem has already been raised today. It is very important to have an effective public service in order to implement policies. There is no doubt about this. Countries in transition to market economies need good public governments so as not to leave everything to the market. The question is, what is a good government in the context of market economy and democratic pluralism? So the officials of these four countries had access to a network of officials, and they had the opportunity to exchange news and experiences. I think that they upgraded their own public service in this way.

So, Mr. Chairman, these are, in a nutshell, the main points that can be retained from the OECD engagement in the transition process, and, after to this overview, if you allow me, I'll turn to the key challenges ahead, most specifically, how to develop competitive enterprises. In most instances, Central and Eastern European countries have successfully liberalised trade, the exchange rate, and also (a) large basket of prices. As a result of this liberalisation, both internal and external demand became apparent and the prices adjusted. Stabilisation policies have ensured that the overall level of inflation will not rise indefinitely, and we can say that stabilisation has worked in these countries. Privatisation in many of these countries is also very advanced, although some are still struggling with large-scale privatisation.

But, I would like to say that from the OECD prospective, that liberalisation, stabilisation, and privatisation are necessary but not sufficient. There are two other policies, which are of key importance, and they, of course, are linked to the previous ones. The first one is restructuring, or if necessary the liquidation of firms that are of no value in (a) competitive market economy. And the second one is the entry of new enterprises, which are profitable in competitive markets. And I would (like to) refer to the discussion today. One should not be scared of learning it – the only way to have competitive enterprises in an economy is by establishing competitive conditions. If you don't have competitive conditions for your enterprises, you won't have competitive enterprises. And if this means restructuring, if this means liquidation in some cases, one has to move ahead, if he or she wants to pursue (an) increase in productivity and (an) increase in growth.

So, I'd like to submit that there are a number of key challenges. The first challenge is to strengthen the domestic framework for liberalisation. I think, that labour liberalisation has intensified competitive pressure in the economies and it will continue to do so and to support the allocation of real resources from unproductive to more productive firms. The current negotiations in WTO are particularly important, because they deal with agriculture and services, and, as you know, agriculture and services have been areas in transition economies that have been neglected for a long time. So, the possibilities of enhancing productivity in agriculture and services are quite high. So, I do hope that these countries will actively participate in these negotiations and (that) they will liberalise their trade. Free trade agreements with the European Union, the so-called *Europe Agreements*, have played a key role in trade relations undertaken in Central and Eastern Europe. Now, most of these countries have really liberalised trade by establishing (a) formal legal context for liberalised trade. The major challenge, in the area of trade, would be to build effective domestic legal institutions. What I'm trying to say, is that it's not enough to have trade liberalisation or law on books. What you really need, is trade liberalisation or law in action. You need institutions internally capable of implementing the commitments that had been undertaken and to ensure that these commitments are implemented by enterprises.

The second challenge that I would underline, is to create a better environment for (the) inflow of private capital. This has been discussed, so I can go through this quickly. I think everybody agrees that FDI is a major source for increasing productivity in an economy and growth. This was indeed the case in Spain, in the 1970s, and in Ireland, in the 1990s, and it's still the case in some Central European countries. But, it was also said that while incentives and tax breaks are considered useful by multinational enterprises, multinational enterprises of foreign investors are really more generally looking for favourable economic and social conditions, stable legal frameworks, which can function in an environment that won't be changing. In this sense, given the fiscal costs of tax breaks and various incentives, I think transition economies should be careful in providing those incentives.

They should probably focus much more on (the) creation of (a) legal framework for FDI, to ensure that FDI will come. In this aspect, I would (like to) signal that there are two major instruments for this. The OECD Declaration and Decision on International Investment and Multinational Enterprises, and this instrument is accepted by all OECD member countries, Argentina, Brazil, Chile. At present there are considerations to open this instrument to non-member countries, (countries) other than the three Latin American countries that I mentioned.

Secondly, FDI would be seriously impeded, if there was a danger that the returns of such investments would be taxed twice – once by the country where the money is invested and once by the residence countries of the investors. And the OECD model tax convention and the worldwide network of tax treaties based upon it help avoid this danger by providing clear rules for taxing income and capital.

The third challenge is to promote efficient markets. Of course, the essence of an efficient market is to let enterprises compete in order to satisfy the demand of consumers. Of course, there are cases of market failure, but, generally speaking, this is the case. So we should embark on (a) competition law and policy in Central and Eastern Europe, focusing on the identification and the elimination of laws, rules, and policies that unnecessarily prevent enterprises from competing in efficient ways on factor and product markets.

The fourth challenge is to fight corruption. The social, political, and economic cost of corruption is very high, of course. The economic costs are sharp distortions in the allocation of public resources and less competition in markets. First, corruption distorts the allocation of resources by governments, not only because contracts do not go to the most efficient enterprises, but also because it turns the composition of the public sector, public spending, and public regulations to an area where bribes can be paid. Thus, that has a major inefficient impact on the allocation of resources. Also, by allowing the reaping of benefits through criminal means instead of competition, corruption hinders the development of competitive enterprise. Again, I'd like to refer to another OECD instrument – the OECD Convention on Combating Bribery and Foreign Public Officials in International Business Transactions. This is a major step forward, because it criminalizes corruption in the countries that signed this convention. For the moment, all OECD member countries are part of these conditions, and Argentina, Brazil, Bulgaria, and Chile are also participating in this convention.

The fifth challenge is to improve the rules of corporate governments. While the various legal and market disciplines that I have just described go a long way to make firms more competitive, improved corporate governments can also greatly contribute. Of course, transition economies face a particular challenge here. Privatisation transfers the ownership of enterprises from public to private interests, but privatisation also requires a strict definition of rights and corporate governments rules. The need for better corporate governments is clearly understood, and, again, I will signal that, in this respect, the OECD member countries adopted a set of corporate government principles to help policy-makers and corporations raise their government standards. And these principles are, of course, open to all non-member countries ready to comply with them.

Mr. Chairman, in conclusion, I would like to underline that productivity growth and competitiveness are no longer in use in Central and Eastern Europe. As I highlighted in my intervention, governments will need to take a number of important steps to underpin a more competitive international framework and domestic policy framework for enterprises. The OECD stands ready, within the limits of its resources of course, to support this process in transition economies in Central and Eastern Europe. Clearly, for several countries the prospect of convergence toward OECD and European Union productivity levels and high living standards are now real. If this tendency is confirmed in the coming years, we will be able to say not only that transition is a success for the people in this region, but that it is a source of new hope for many people around the world. Thank you, Mr. Chairman.

Mr. Jan Mládek: Thank you for the presentation of the OECD approach, and it seems to me that at least two topics for discussion can be opened. One is the level of liberalisation demanded for the newly entering countries, which was quite high when the Czech Republic became - and it was the first of the post-communist countries - (an) OECD (member) in 1995. The demand was full liberalisation of the current economy, full liberalisation of the capital economy. It would be interesting to know, if the same thing will be demanded from other newly entering countries. The second issue you raised is the issue of tax incentives for FDI. Here, we are in a tricky situation, because the Czech government was once advised by the European Union Commission not to have those tax incentives for FDI with the argument that all we can do is add incentives and this was not a desirable practice. It was said that new applicants should start the new policy without incentives. So it is rather difficult to do it this way. Anyway this will be afterwards.

Now I would like to encourage Mr. Domacek from UNIDO to present the next paper.

Mr. Domacek*, UNIDO
UNIDO in Central and Eastern Europe

Mr. Domacek: Thank you Mr. Chairman. Ladies and gentlemen. First of all, I want to apologize for the absence of Mr. Maruno, the Deputy Director General, who could not come today to make his presentation. Due to some other commitments, he is the officer in charge of UNIDO today. Therefore, he asked me just to make a short presentation. I wanted to introduce ourselves shortly. UNIDO is the UN organisation that promotes sustainable industrial development. We are a group of almost 120 countries, including almost all countries from CEE. Our technical cooperation expenditures in 1991 were around USD 84 million.

UNIDO underwent deep restructuring three years ago, and it was downsized and much more focus (was put) on responding better to the changing outside environment and also on being more efficient. Our activities involve promotion along the line of (the) 3 Es - to create competitive economy, productive employment, and sound environment. UNIDO has two major functions. It performs the global forum function and deals with integrated programs. As for the global forum function, UNIDO organised the first global forum in Vienna last year, and after this forum a number of regional forums were organised. This year, we organised a forum for the Eastern European countries in Budapest with three major subjects, namely globalisation versus transitional economic problems, energy and environmental efficiency, and private sector development.

* Mr. Domacek substituted Mr. Yo Maruno at the conference

We are planning to organise a forum for our region next year, here, in Vienna, on the technology foresight program. It will be held in late March, in cooperation with the Hungarian mission. Apart from the global forum function, UNIDO's promotion activities focus, first of all, on technical cooperation activities. Technical cooperation is funded by various sources provided, of course, in the form of grants.

Based on (past) experience, UNIDO entered the field of integrated programs. An integrated program involves one country and several – three, four – components (and) addresses, the various development issues of the given country. Opposite the integrated programs, we also have regional projects or programs that address one issue but combine a few countries in the region. I will talk about this later on. As to the services UNIDO is providing and offering to its clients, we have 16 service modules. These service modules are grouped according to our core areas of activities.

As for the aspect of competitive economy, we are promoting five service modules, namely industrial policy formulation and implementation, statistical and information networks, metrology standardization, certification and accreditation, continuous improvement of quality management, investment and technology promotion. Our solutions, as far as productive employment is concerned, apply first of all to the SME policy framework, the policy for women entrepreneurship development, entrepreneurship, and the like, and (the) upgrading agro-industrial technical skills.

Finally, our response to (a) sound environment is through (an) environmental policy framework, a climate convention and protocol, energy efficiency, rural development, cleaner production, pollution control and waste management, and (the) Montreal Protocol. UNIDO is one of the implementing agencies within the Montreal Protocol, which combats ozone-depleting substances. We are very active in this field, helping countries (to) reduce the consumption and production of all substances like foams, refrigerators, and so on, that are polluting and influencing the ozone layer.

As for our cooperation in the region, we grouped the countries - almost 30 countries - in four categories: advanced transition in Europe, less advanced in Europe, CIS – mainly Russia - Ukraine, Belarus, Transcaucasus, and CIS countries. And in each of these country groups, UNIDO is trying to pursue a slightly different strategy, depending upon the level of development problems they are facing and, of course, the available resources at our disposal. As for the more advanced countries in Europe, first of all, we try to help these countries in restructuring their industrial enterprises. Much assistance was provided, in particular, to Poland and Hungary. However, of course, these countries are already quite advanced and many of them are trying to share their experience with less advanced countries. These more advanced countries like Hungary, Poland, the Czech Republic, Turkey - which is also included in this group - are becoming our leading donors. They are also trying to provide financial resources and to share their experience with other countries that are less advanced.

Here, we also have, with regard to the future program, a kind of regional approach. We are no longer promoting the country approach, according to which we provide assistance to only one country, but we are now trying to attack one single issue, for example pollution of (the) environment by industrial enterprises, and to diminish the pollution caused by the enterprises. We recently developed a big project for the Danube river, which will combine five countries. And under this project we will try to identify the hot spots around 40 enterprises and to provide assistance, technology to change the technological equipment and thus reduce pollution in the Danube river.

Another regional program (that) we are pursuing now is the foresight program, (the) technologic foresight program, which is a somewhat new UNIDO activity aiming to release the ingenious potential resources in those countries and to accelerate technological progress. Also, as for the assistance to this region, we are trying to promote productivity. As you know, competitiveness is achieved by increasing productivity. Now, we are trying to establish a productivity centre in Poland that will not serve Poland only but also other countries in this region.

As for the less advanced countries, which are mainly the Balkan countries – Albania, Bulgaria, Romania - we are trying, first of all, (to provide) assistance in the field of industrial governance, industrial restructuring, entrepreneurship development, business advisory services, as well as clean technologies, namely to promote the network of cleaner production centres. We have such networks established not only in Europe but also worldwide. In Europe, we have these cleaner production centres in the Czech Republic, Slovakia, and now we (have) also established centres in Croatia (and) Hungary. We are going to the East, namely to Uzbekistan and Moscow.

The important problems that we are attempting to solve within this framework are the standards and norms. Namely, UNIDO actually helped to prepare these countries to standardize the quality of their products, particularly in their specific region, in order to be more competitive. In fact, these countries were allowed to standardize their norms according to Euro rules. These are the new activities UNIDO is undertaking in this region.

As for CIS Europe, which is mainly Russia, we are supporting above all the industrial development of some selected Russian regions. We have selected four regions for the time being, where we (have) prepared integrated package of services. These are Komi, Barkoshtostan, the Petersburg region, and (the) Moscow region. Within this framework, we are providing assistance, first of all, to help the countries in the field of industrial governance, in the field of entrepreneurship building, in the field of capacity building for investment promotion and in the field of agro-industries.

Another activity that we are promoting in this region is investment promotion as such. We organise investment forums. Recently, there was such a forum for Ukraine organised in Vienna. In the past, we organised a lot of forums in various countries, including those which are already more advanced in Europe like Poland, Czech Republic, and so on, which dealt with the other two activities that I already mentioned - business and advisory services as well as technologies.

The last group of (the) countries are the Transcaucasus and (the) Central Asian republics. We have here the country and the regional approach. Our activities are concentrated on (an) integrated package of activities for two countries, namely Tajikistan and Uzbekistan, but also Armenia, plus stand-alone projects and programs that only address the issue within one service module. For example, within these integrated programs, our activity in Tajikistan provides assistance to the governments for designing a post-conflict development strategy and policy in the field of industrial development, small sector promotion, capacity building in order to attract foreign investments, and also environmental issues – in this case, this is mainly energy efficiency. We have quite a large program for the field of business advisory services in Kazakhstan, in Kyrgyzstan, in Uzbekistan, but also in Armenia. We established a network of business advisory centres and our activities attracted the financial support of some private donors, like, for example, Chevron, which is financing one of our projects in Kazakhstan. One very important domain of our activities is investment promotion. In Uzbekistan, for example, we have close cooperation between JICA and UNIDO in investment promotion. Some projects are funded by the Japanese Trust Fund resources.

Last but not least, the issue of quality standardization and certification is very important, as we know that the norms are different and, therefore, UNIDO is trying to promote this kind of activities.

The last slide, I wanted to show, is about the sources for funding UNIDO's activities. At the moment, we have 92 ongoing projects in the region, with a total value of USD 21 million. We have various sources of funds. First of all, we have our own regular budget, which is unfortunately rather small. A lot of money is coming from the United Nations Development Program, but, unfortunately, this program is shrinking now and, therefore, we are relying more and more on bilateral donors, including also the major donors from this region, namely the Czech Republic, Hungary, Poland, and Turkey. As I mentioned before, we also have the projects funded by the Montreal Protocol funds associated with ozone depleting substances. Just a few months ago, UNIDO became engaged in the implementation of the global environment facility and, within this project, we'll have the first project, the project for the Danube river, funded by these resources. Finally, we are also trying to develop the partnership agreements within the private sector. We have already succeeded in getting financial support from Soros and Chevron. Thank you very much.

Mr. Jan Mládek: Thank you for your presentation and for keeping to the schedule. Now, I would like to encourage Mr. Yasuo Izumi from EBRD and World Bank to present his paper.

Mr. Yasuo Izumi, IBRD

Financial and Private Sector Reform in Transition Economies of the ECA Region

Mr. Yasuo Izumi: It is now 4:25 and I understand I have time until 4:40. Mr. Chairman, I will try to save your time and work and also to provide good transparency for the discussion.

First of all, let me tell you something about me. Twenty years ago, I was sitting in Tokyo, working for a Japanese investment bank, our so-called Corporate Bank, dealing with FDI, with incoming US and European companies in Japan, rushing them to establish their unit in Tokyo and (in) all of Japan. Almost ten years ago, I was sitting in London, working for EBRD, looking for projects for the Balkan countries and other areas, and now I am sitting in Washington, working for the World Bank and working for the Balkan countries and other Eastern European countries.

In fact, I must apologize. Most of the handouts you have today are completely out of date and changed. So let me apologize to you and let me promise you that as soon as you give me your address or e-mail address, I will send them to you right away, if you are interested. Today's agenda covers the World Bank Group itself and (the) overall approach, particularly attaching, just for your fun, some of the priorities and strategies in financial and other activities.

First of all, the World Bank, as you know, consists of three major institutions: the bank itself, an IFC which is engaged in their activities, mainly investment activities; and MIGA, the Multinational Insurance and Guarantee Agency which offers insurance and guarantee activities. The mission of the bank, for the time being, is to fight against poverty, knowing that more than 20% of the people on the globe suffer from it. This should be the first priority for us to fight against and, obviously, anti-corruption, and a number of other fellow so-called institutions, people already mentioned. CDF is an acronym that I would (like to) explain. And it is obvious for ECA that this is an acronym for the region we are working on - Europe and Central Asia - where most of the countries are undergoing European Union accession or in transition to achieve European Union accession.

As for my intervention, you may already know – policy reform, institution building, and capacity building. A number of people have identified what I mentioned. A reform approach is not easy, but I would say that's the one way to go. Obviously, we are taking longer for institution building and capacity building. We pay particular attention to capacity building in the government sector, in the public sector, and in the private sector. As for the instruments, we have structure adjustment loans, programmatic adjustment loans, and sectoral adjustment loans. These are, more or less, policy reform loans and also investment loans, which are more specific on investment projects and technical assistance, together with other services.

Let me go on with the next one. Obviously, I would say that, (when) talking about ECA or Central and Eastern European countries, there are several categories of countries. I am happy to say that half of them are advanced reformers. There are also intermediate reformers and late reformers. Furthermore, I'm glad to tell you, most of you, who are from the so-called advanced reforming countries: we need your help and assistance to teach the intermediate and late reforming countries how to catch up. I am going to explain to some extent the data, but we have different sets of programs to offer to each country. This is just picked up from J....., when toward the end of his career in EBRD he attended (the) ABCD Conference in 1999, but there has been a reform in the last ten years. I have just picked up one sheet, and, if you are interested, I can provide you also with copies of this presentation. It's about ten pages. Obviously, at the end of the presentation, the principles of foreign aid and shareholder privatisation basically worked, but in various respects, they didn't, or (they) had mixed results. Some of the results and some of the expectations that you already discussed yesterday can be found in his so-called subsequent sheets, and, if you are interested, I can provide you with them.

We already discussed privatisation in the last decade. But where will be after another ten years? Maybe we don't have to go into (this). Obviously, I should focus and talk about how we see that, because it is something important for all of us to understand. I will just pick up some other key issues. Clearly, most of the large enterprises - talking about manufacturing, telecom, airlines - went through privatisation, whereas in large enterprises - talking about utilities such as energy, water, transportation excepting airlines - such as rural transportation and railway - the process of privatisation has slowed down. And even after going through privatisation, we have several issues that we have identified and we are trying to tackle. First of all, incomplete privatisation. (This includes) most of the enterprises that have a government share and remained in the so-called privatised companies. How do we do this and how can we secure these strategic investors and other private sector investors?

And also what we talked about already – the pre-privatisation period. We are still tackling a number of countries where the state-owned enterprises dominate, particularly in the case of large enterprises. This is described in the second column, here. The more time you spend dealing with these problems, the more troubles you have. The issue we are discussing is privatisation. But do we apply privatisation to every single enterprise in the public sector – such as the water sector for example, where, frankly speaking, the situation is terrible? In some cases, where (a) regional monopoly still exists or needs to exist, we need to think about ways of privatising or, at least, introducing competitive mechanisms for the operation of these public services.

Obviously, we should not forget social aspects. This is one of my biggest concerns and the reason why I switched from EBRD to World Bank. The social aspects are essential. A number of large enterprises go through restructuring, liquidation or turnaround, or whatever you call it, but inevitably you see a number of spin-offs, or so-called commonly found issues in company towns. Talking about foreign direct investment after ten years, as we all know, proven keys to success in economic development are new management, technology capital, and job creation. But, obviously, there are still a number of issues for some countries, and I think I need to make it clear again that this presentation, as I mentioned earlier already, is designed for intermediate and slow reforming countries. Obviously, I'm not addressing advanced countries, and I repeat again: I need your assistance, I need your help.

Now, coming back to foreign direct investment, let's say, a number of barriers exist for legislation and even for the entire process. The investors are facing changing legislation almost every day, from morning till night. These are the things we tackle together with the so-called sister company or sister, let's say, institution. We are working on these institutional barriers and also on some of the policy implementation.

We talked about SMEs today. In these ten years, I would say, the privatisation of SMEs has almost been completed in this region, roughly speaking, or let's say, in general terms. We understand that SMEs are growth engines for the national economy, and we can see that they alleviate the poverty, which is also a very important mission of the bank. Obviously, there is a lot of assistance offered by international donors and institutions. We understand that supply-driven assistance and consulting assistance was mainly provided and that is what we need to, let's say, summarize in the end. How can we see the role of international agencies? So in the end, touching on the issue of SME, we found some of the points and tried to implement them through our activities. Fortunately, the issues, such as management capacity, are natural for SMEs. I am speaking of the so-called fully-fledged corporate management staff and also corporate management capacity. Unfortunately, as many of you pointed out, commercial banks are unwilling to give loans and credits to SMEs for several reasons.

Now, a little bit of self-criticism. Since I am relatively new to the bank staff, I can be critical. The question of the efficiency of the World Bank operation. This means we spent a certain amount of money to implement the SME activities. How can we see the impact of these activities on economy? These are questions that we are raising and discussing every day. And the last issue I will raise here is, how to deal with the new economy or venture business with your own capital and (how to) tackle these new emerging activities together with the government in order to assist rapid growth?

Now let me touch briefly, since I have four minutes left, (on) financial sector reform. Obviously, people already know that through the financial sector, reform banks are mostly privatised by foreign investors. There are still a number of countries where state-owned banks are dominant and they also need to go through privatisation. As for bank supervision or central bank capacity, this has been enhanced, but I don't think this is enough. Capital markets have been developed, but, frankly speaking, I would say they remain small and inactive. I would rather make another comment. Personally, I would say that it was too early to develop capital markets. Probably, you are familiar with most of the still existing issues in some countries – non-cash economy, dark lending, and so on.

Business environment. Obviously FDI had mixed results in the different countries. Competitiveness has not yet been good. There are a certain number of studies, but, from my point of view, it has not yet been proven, how the business environment has developed in the last ten years. Obviously, corporate governance is increasingly important for us. As for the other issues – administrative barriers, administrative holders, corporate accounting, and taxation issues, together with investment conditions, and others, let's say, management skills to run corporate SMEs – are rather important.

Let me tell you briefly about the private sector development strategy priorities of the bank. Obviously, it is necessary to transform the role of the private sector from competitor to business partner - I am talking about public sector companies - and from adversary to facility - now I am talking about the government. We are obviously trying to eliminate the unnecessary barriers for entry-exit profits and risk taking. And, item number two for the private sector, we continue to assist (the) government in facilitating matters such as investment technology and so on. And, item three - I have only one minute - is FSD, finance sector development. We are now talking about the ability to finance sector infrastructure. There are still a number of finance sectors that need global supervision and so on. We need to have sufficient financial sector capacity in banks, by (means of) tax building, and also in non-banks, which will eventually enter the scene in all countries, by (means of) institution building. And item four, the financial sector. As I mentioned earlier, the building of human capital in the financial sector, in particular of regulators and supervisors, is very necessary. Obviously, private policy advice and (the) guidance of the financial sector is open to what we are doing now.

Finally, let me talk about the instruments in ten seconds. These are the principal, traditional policy recommendations - partnership and donor coordination, adjustment lending, investment lending, guarantees. The new instruments we are adopting are SME development facilities, enterprise restructuring projects, enterprise performance, and enhancement of loans. These instruments are (being) introduced to state-owned enterprises that might be rather slow in privatisation or difficult to privatise. We are still introducing some financial measures to monitor the financial activities, and, as regards the efficiency of state-owned enterprises, we are preparing bilateral agreements between the government and the state-owned enterprises. We are working on investment development for (the) financial sector side, which is obviously financial sector assessment conducted together with a fund called F-sub for a number of countries, and also some other activities, which are also known.

And then (the) new products in the name of the bank, some of which you might be familiar with. The second and the first involve our framework, which is overall communication with a country, not only with the government people. We communicate with NGOs or special groups or our development group, we talk always to all of them, so the people, I would say, stay close to the country and the country gate, which is a new kind of equipment, the Internet.

So, I think, that's the end of the story. Thank you very much. In fact the last part was about the role of the World Bank, but you can see the change in our strategy and priorities and all those new products and instruments we are working on. I hope that we are helpful and again I must ask the representatives of Central Europe to assist (us) in our efforts to help the intermediate and slow-reforming countries. Thank you for your attention.

Mr. Jan Mládek: I thank the first speaker for (the) self-improved discipline in terms of the time schedule, although I must say he promised a shorter speech. Anyway, he fit more or less in the limit and that is great. Now, I would like to encourage the last speaker, Mr. Yoshiaki Nishimura from Japan, to speak about (the) Japanese experience in providing assistance to Central and Eastern Europe.

Mr. Yoshiaki Nishimura, Japan
Transition to Market Economy and JICA Cooperation

Mr. Yoshiaki Nishimura: So, thank you very much, Mr. Chairman. I don't belong to JICA but, recently, I was involved in several projects conducted by JICA for Central and Eastern European countries. I have some practical experience from the field of technical cooperation, so I would like to try to explain JICA activities in this area objectively, instead of them.

As you know, JICA was established as an organisation in charge of one aspect of ODA (Ocean Development Assistance), I mean technical cooperation with the former OECF, now JBIC (Japan Bank for International Cooperation), for financial assistance. Technical cooperation is aimed at transferring technology and knowledge, which can serve (the) social economic development of a country. As far as the Central and Eastern European Countries are concerned, I think JICA concentrates on technical cooperation to develop local human resources as players or actors in the market economy. Since most of the actors in transitional economies did not have adequate knowledge, know-how, and experience in market economy, especially on the first stage of transition, this type of cooperation is of great significance. I can say that JICA makes up for much of what is missing or undervalued in the radical liberal approach. I think that JICA activities hit the mark in this respect. JICA has a wide menu of technical cooperation projects, but, I think, what is relevant to the Central and Eastern European Countries is limited to (the) foreign flow of activities. So look at this table. I tried to explain these four forms of JICA activities. As a whole, technical cooperation conducted by JICA up to now, generally speaking, has a good reputation among its partners in Central and Eastern European Countries. For example, it is said that, in the Prime Minister's office in Hungary, JICA is number one in terms of quality and quantity of technical cooperation among all OECD member countries.

First, I'd like to refer to retraining. As far as a training courses are concerned, it is said, on the partner's side, that the number of trainees is very big, the term of training is long, and the contents of training are rich and comprehensive. Look at this table. These are the names of the states, the second column shows the number of trainees, the third is the number of months multiplied by the number of trainees. You can judge from these columns (that), on average, the term of training is more than a month. The topics of the training courses are very rich, and it's really difficult for me to compile the complete list of topics.

So, I'd like to present to you a list of topics of the training courses for Central and Eastern Europe experts in this area. Please look at this very quickly. The trick is the management of medical equipment for Bosnia and Herzegovina. This is not an economic program, but all others are. So, as regards the support for forming key government policies on industry, we can see a typical example in Poland. Three long-term experts, I mean two or three years, were dispatched to the Polish Ministry of Economy as in-house advisors to help experts of the ministry work out industrial policies in three fields: SME promotion policy, regional development policy, and technical innovation policy. Proposals given by Japanese experts were adopted in the government documents after certain modifications. I can show you an example, but in order to save time, I would like to omit that. So please look at my paper.

As for the evaluation of their activities, I think, it is sufficient to tell you one story. The Bulgarian government made an official request to JICA to apply the same scheme to Bulgaria after hearing about the effects of this scheme directly from the Polish Ministry of Economy. With regard to transferring know-how of enterprise management, JICA promoted the organisation of productivity centres by dispatching specialists to Hungary, Poland, and Bulgaria. Corporation with HPC – Hungarian Productivity Center – has been relatively successful. The centre has already conducted inspection and training in more than 200 companies and proposed management improvements for five years. The centre organised open seminars and more than 2,000 people took part. It is very interesting that many of HPC's customer companies are joint ventures or foreign companies. A typical case is Audi, the famous carmaker that asked HPC to train 100 managers of (the) middle class. So, I think that Western companies trust the effects of Japanese methods to raise productivity and quality. Besides, the cost of training by a local agency is very low and, moreover, language problems can be avoided. I'd like to underline the fact that those who are here are Hungarians. Now the focus of HPC is moving to SME promotion and this shift seems to be appropriate from the economic point of view of development.

There is another case, in which JICA dispatched long-term experts as in-house advisors directly to the state enterprises. I could mention the case of IMAG, which was a Hungarian producer of cassettes. The experts sent to IMAG taught IMAG managers how to produce, for example, prototype products and trial products and how to make decisions about investment and make R&D plans. The management of this company was improved and later it was privatised successfully. Now it supplies products to Hungary and Suzuki, a carmaker from Japan. The managers said that what they learned from Japanese experts in terms of Japanese culture and Japanese way of thinking is very useful for them to do business with the Suzuki company. This type of activity was successful itself, but it could also serve as an example, a model. Therefore, efforts for the diffusion of experience are necessary, but I think they are unsatisfactory.

The last one is the development study. Concerning the development study, the study key was able to raise realistic proposals to reform the public sector. There are several cases where proposals were accepted – in the governmental plan in Poland and in Hungary.

The preparation is step-by-step and now the Polish government has made another request to JICA to conduct a study, a new study for the next stage. So, I think, I explained the four forms of technical cooperation relevant to Central and Eastern European countries. I think the above-mentioned four forms of JICA technical cooperation have one remarkable common feature – the knowledge transferred from JICA experts was utilized by partner experts in various ways.

So, I'd like to show you the ways. According to my internal study, you have the following ways. First, as a chance for a partner expert to expand (his) knowledge and know-how about what is done in the market economy. Second, as a useful references for working out concepts of economic policies and institutions. Third, as a strong argument for policy proposals to the government and to the parliament. Fourth, as a proposal and suggestion adopted in government documents after certain modifications. Fifth, as effective tools for improving enterprise management in practice. Especially with regard to long-term in-house advisors, they worked hard. They were like walking encyclopaedias and it seems to me that (they) have a good reputation among JICA partners and have a strong influence over them. There is a serious shortcoming in JICA technical cooperation. It is, in principle, separate from materialistic cooperation such as financial assistance. I think that if we are to take into account materialistic cooperation, technical cooperation would have (a) much stronger impact on partner experts.

Last but not least, I think, from the economic point of view, (that) there are some fields that JICA should notice. Needless to say, transitional countries should survive in the world market on (a) commercial basis. Therefore, reinforcing the competitiveness of their industries and export trade and economic development are crucial for them. Accordingly, they need (the) promotion of export development industries of comparative advantage, infant industries, and (the) promotion of SME. What is more, Central and Eastern European Countries want to become members of the European Union, but there is a very complicated problem to which I'd like to draw your attention. On the one hand, they have to develop their economies very quickly, but, at the same time, they have to follow the various European Union standards of economic policies and institutions. Nevertheless, the application of European Union standards restricts their economic policies only to the narrow sphere that the European Union approves. The European Union gets them (not) to follow (the) sector approach of industrial policy, export promotion with financial and fiscal subsidies, and development of special economic zones. Because of that, the scope of policies on which Japanese experts can work is very much limited. Here the question arises, whether the narrowed field of economic policies is rational and sufficient for economic development, for example in the South Eastern European countries. I think this question should be examined consciously from (the) economic point of view. Thank you very much for your attention

Mr. Jan Mládek: Thank you for keeping to the time schedule and, now, I would like to encourage two commentators, Mr. Kamil Janáček, Chief Economist of Commerce Bank in Prague, and Mr. Osamu Hayakawa from Japan, to make five-minute comments each.

Commentators

Mr. Kamil Janáček: Thank you, Mr. Chairman. I will try to be shorter, to leave more time for general discussion. I must say that it was very interesting that all five speakers, from different points of view in their intervention, focused on one common problem. The problem is how to increase the efficiency of aid so that emerging economies become standard full-fledged market economies as soon as possible. I think, from this point of view, the experience I have (gained as) a chief economist in one of the biggest Czech banks - via this bank some part of (the) aid from international institutions is being provided to the Czech companies - tells me how to improve efficiency. I think, one problem is the lack or the low degree of coordination between the international institutions active in Central Europe or on the territory of the Czech Republic. I think the problem was, of course, already mentioned in the interesting intervention of Mr. Izumi from the World Bank.

The first point is to increase or change the role of Central European institutions and then to overcome some barriers in coordination or cooperation between international institutions. But I must say, that the most common project is assistance, (which is) of vital importance not only for the Central European applicant countries but for some other countries as well. I would like to quote one example from the early 1990s, when a common project existed, the common project of (the) OECD, the European Union, (a) Brussels Commission called Sigma, with the aim of improving public service activities in Central European countries. I think that despite all (the) problems, I know what I'm talking about, it is a good example for the cooperation between two big institutions One, let's say, has (the) funds, and the other - I'm talking about OECD - the other the experience. I think that (the) results of Sigma in Central European countries are good. This type of cooperation, I mean cooperation between the biggest banks - the World Bank and the EBRD - is of vital importance. The assistance of the consulting institutions, like OECD and to some degree UNIDO - it has LEE funds - would be of great importance for developing standards and market institutions in our countries.

Mr. Jan Mládek: Thank you for the intervention and for keeping (the) time limit. Now the comment of Mr. Osamu Hayakawa.

Mr. Osamu Hayakawa: Thank you, Mr. Chairman. Because I have only five minutes, I just want to thank JICA for making this conference possible. Having said that, I have four or five comments to make. First, one of the most important issues that have been raised by some of the speakers in this session was the relationship between initial political and economic conditions, on the one hand, and policy choices, on the other hand. In this respect, I think, Ms. Ishii made more sweeping statements than the other speakers, whereas Mr. Barsony was more or less cautious. I tend to agree with Ms. Ishii that the positive reform matters and I also agree with Mr. Barsony that the interaction between those two factors explains the difference in outcome. I would say it is still worth asking which factor plays a more important role. I would also like to ask whether we could assume that, let's take for example Romania, there was any political will in the beginning of the transition stage and that the policy reform by the Romanian government had made real difference. We should be aware of the fact that the actual decisions made by the government are not only a reflection of the general economic theory but also a reflection of the will of the public.

My second comment is related to the overall impact of accession to the European Union on the one hand, and OECD accession on the other hand, both serving as anchors for the policy of Central and Eastern European Countries. I admit that accession to the European Union has been playing a very important role and I would say that accession to the European Union is not a matter of preference, but a matter of loyalty. I think that there is not only a strong incentive given to the countries in Central and Eastern Europe, but it is also very rational, from the economic point of view, for the European Union to set or apply that kind of conditionality, because it is important for the European Union to ensure (the) harmonisation of competition policy and also elimination of any source of distortion to trade and internal competition. In this respect, I would give credit to Mr. Barsony for highlighting the role of OECD and I admit that OECD has played an important role by encouraging the four front liners to comply with the OECD standards. I would say that OECD has been facing the challenge of maintaining their credibility. OECD has chosen four countries to accede to the OECD, but we have a question. Why has Slovenia not been offered the same kind of status as the other front liners? Because of the political decision to freeze accession to OECD, Slovenia has, unfortunately, not been given the opportunity to join OECD. I am not blaming OECD for doing that, but I would like to draw your attention to that situation facing OECD.

My third point concerns the relationship between SMEs on the one hand, and (the) promotion of FDI on the other hand. Having listened to the discussions today, I have a feeling that promoting these two objectives may not necessarily be compatible with each other, because, inherently, promoting FDI favours large firms by sacrificing small- and medium(-size) firms that are developed by local sources. We could have spent more time on the possible compatible relationship between these two objectives.

My fourth comment is related to (the papers of) Mr. Nishimura and Mr. Wada. The issue is related to the role and future of Japanese technical cooperation, especially with respect to industrial policy advice. I agree with Professor Nishimura that JICA has provided a valuable contribution to Central and Eastern European countries. This is demonstrated by Dr. Wada's personal experience. Having said that, I wonder whether European Union accession has given Japanese technical experts less opportunities. I must admit that I have no answer to this question, but I can point out that, in the case of South Eastern European Countries, there is a strong desire, on their part, to join the European Union, as is demonstrated by Croatia, Macedonia, and possibly by the Federal Republic of Yugoslavia. So, I think, we should accept the situation where those countries yearn for European Union accession, while we pursue the opportunities for Japanese technical experts to make a valuable contribution to those countries. Thank you very much.

Mr. Jan Mládek: Thank you for your comment and now the floor is open for discussion. Please go ahead.

Free discussion

Mr. Ikufumi Tomimoto: Thank you very much. First of all my name is Tomimoto from JICA and I appreciate your contribution. As for Professor Nishimura's comment, I quite agree that JICA has been providing assistance and support to Central and Eastern European Countries for the last ten years. There is obviously assistance for Eastern European countries through the Japanese model, Japanese way of thinking, Japanese approaches toward modernisation and privatisation, as well as government and private sector partnership and fundamental formulation of industrial policy. So, even though your countries are aiming at European Union membership and European Union standards, the JICA or the Japanese model could be another way of attaining modernization. That's my first point.

And the second point is about the implementation of this conference. We gained a lot of knowledge and experience. Moreover, various comments have been raised at this conference. I think that those implications could be transferred to other less developed areas in this region, particularly Western Balkan countries or former Yugoslavian countries. Bosnia and Herzegovina, Macedonia, Albania are still struggling after (having suffered) the war damage. And then they should also strengthen the process of privatisation or development of the enterprises. So, what will be the implication of this conference to those less developed areas? I think, that this is a very good starting point for sharing the experience and know-how with those countries. Obviously, Poland, Hungary, the Czech Republic, and Slovakia might be success stories, although they still have a lot of challenges and issues. Those countries could be a good model for the less developed countries. My suggestion is why not use this experience in the future. One examples is the usage of JICA's project for productivity centres or computer centres in Poland as a focal point for third-country training for those less developed countries. These are my comments, not questions. Thank you very much.

Mr. Jan Mládek: Thank you for your comments. And now the lady on my right hand side.

Ms. Iren Petrounova: Thank you. Only two comments. Mr. Janáček talked about (the) coordination and cooperation between donor institutions. We are holding regular donor meetings thanks to the World Bank in Sofia. Mr. O'Bryan is a representative there. These meetings take a look at all the activities in the SME field in order to avoid overlapping. It's very interesting, because everybody is proposing programs and so on and so on. I think this is the way to solve this problem, just as we avoid overlapping.

And the second thing – in the presentation of Professor Izumi from the World Bank, he stated that Bulgaria has a high degree of state involvement in the bank sector, which is not true, because we have privatised more than 80 % of the banks already. That's true.

Mr. Jan Mládek: Thank you for your contribution. Yes please.

(Unknown): I fully agree with the comment made by Mr. Janáček, we need international cooperation. We have the same issue within Japan. Professor Sato and Professor Nishimura tell me that quite often. We have several organisations, such as SME development organisations, universities, and industrial productivity centres, and even regional organisations that have instruments and measures to give assistance including financial assistance. But how to combine all the resources in the most appropriate way for certain countries, for example Bulgaria and Czech Republic? Unfortunately, we do not have any coordinating body within Japan. This is a great challenge for us. Thank you very much for your comment.

Mr. Jan Mládek: Thank you very much for this comment. I would like to add one small remark to Mr. Janáček comment on the Czech Republic. The problem of coordination does not exist for the moment, because the main line of foreign assistance is carried out through the European Union, (the) European Union Commission. In the case of organisations like the World Bank, we registered another stage of so-called graduation after the annual meeting. This means that within two to five years we should change from a country that is taking money and technical assistance into a donor country for international assistance. Please comments over there.

(Unknown): Thank you, Mr. Chairman. First, I would like to congratulate Mr. Izumi for his presentations. Congratulations! It was very impressive. I was surprised to hear the term industrial policy in your presentation. When I was in the World Bank, the term industrial policy was a taboo. So, as it is in the official statement of the World Bank. I would like to ask what the definition of the World Bank is for industrial policy. That's my first question. And the second question - I welcome the World Bank's initiative to enter venture business, especially in (the) high technology area, in this region, very much. The reason why I am quite interested in this region is your high scientific technology level that is hard to find in countries other than European countries, like Asia and Latin America. So my question is: What do you think are the sources of innovation in these countries and how do you transform potential and initial ideas into market products? That is the second question.

I would like to make one proposal about cooperation between the World Bank, JICA, EBRD, and other institutions. I understand we can exchange information and views at this kind of conference, but if we really want to enrich our intellectual resources, we need to conduct a joint development study. I proposed this once to JICA last year and JICA started to work with the World Bank on SME policy, but, unfortunately, (the) SME policy unit in the World Bank is not developed and it was stopped. So I would like to propose a joint development study in this region between the World Bank, JICA, EBRD, and so on, again. Otherwise, we cannot understand what they mean. One says "It's human resource development". What does this mean? We won't understand each other, unless we work together in this field. That's my proposal. I would like to comment on the relation between SME development and FDI. When we think about (the) Japanese experience, that's not FDI but regional development. Once large companies establish a new factory in a greenfield, inside an area, helping industries (to) prosper, – like restaurants, catering services, transportation services, and SMEs - (to) develop. So, I would say, FDI and SME promotion can be complementary. Thank you.

Mr. Jan Mládek: I will misuse my position as Chairman to comment on this, because the issue of (the) Japanese role in Central Europe has been raised. This is moving from nothing to (a) very vital (issue). In my opinion, there is a possibility for the target to be realistic. There is one positive example from the Czech Republic. Japanese companies can be very successful, if they create some kind of islands within every industry. What I have in mind is a Japanese company – Matsushita producing TV sets in Puzen. Nowadays, they are developing the whole supply industry, including SMEs – they will supply the TV set parts in the future. In this way, a very efficient sub-sector of economy can be created and this is also a realistic target. On the other hand, I would be rather sceptical about some kind of wholesale introduction of the Japanese method of management, because we are entering the European Union and we are (being) pushed to accept the Euro rules sooner or later. We can negotiate a bit about when it will happen, but, basically, the standards in Central and Eastern Europe for the upcoming probably ten years, with all transition periods, are given. It can also be advantageous for Japanese countries, because by coming earlier, they may prepare the position within the European Union in a few years time. Further comments, please.

Mr. Hajimu Watanabe: My name is Watanabe and I am a member of (the) Intellectual Collaboration Group, Japan. I would like to address a question to the representatives of former socialist Eastern European countries in connection with foreign matters. Everything has its positive and negative sides. In her presentation, Ms. Ishii pointed out some of the problems – corruption and bribery. Mr. Izumi from the World Bank also pointed out, or raised, some doubt about the doctrine that market economy and privatisation are almighty. Also, Professor Nishimura introduced the activities of JICA and he also mentioned the experience of Suzuki training workers in Hungary, showing the mentality of Japanese people. Yesterday, the managing director of Matsushita, Czech Republic, also made a presentation of activities in the Czech Republic. In the presentation, he mentioned that employees of the Czech Republic were trained to keep smiling. Of course, that is quite natural in Japan. People in Central Europe understand that the countries of the Far East like Japan and China are the land of the smiles. The Czech Republic had 300 years of absolute monarchy. There is quite a famous saying “Obedience in the face and resistance in the heart”. The Czech people have quite (a) character and if a Japanese company is forcing them to keep a smile that might be, I'm afraid, taken as a kind of harassment. Of course, this kind of affliction takes place not only in the socialist countries. I have been working as chairman and chief director of (a) Japanese subsidiary in Canada, quite (a) small company with currently 15 million dollars capital and even in Canada I had a lot of problems. In (the) case of ancestors of (the) socialist regime, there are many difficulties. Take, for example, Germany – the accommodation of East German people in Western German society was very difficult. When such a big difference exists, it is difficult to say how the people in former socialist countries will react to the policy of Japanese companies. I said Japanese companies, because in the case of European companies the difference is not so big. However, (the) Japanese mentality is quite different. That is quite a frank opinion after ten years of transition to market economy. I would like to have comments, especially from people from the Czech Republic and Hungary in connection with Matsushita or Suzuki. Thank you.

Mr. Jan Mládek: Thank you for mentioning 300 (year)s of monarchy. That's the proper place for it. Next comment. Well, no comments, no reaction from the speakers.

Ms. Rika Ishii: Let me say (something) about (the) coordination between institutions. We are aware of it and whenever possible we try to meet. The best example is some work done in terms of the Stability Pact. Of course, the leading institutions of the Stability Pact were the European Union, of course EBRD, the World Bank, and also bilateral institutions and they stand together. We identify the projects that can be done by each institution. Another example is the case of EBRD, coordination with FIAS, which is an advisory group at the World Bank (assigned) to the government to improve (the) investment climate. We are trying to develop a web site, listing all the business barriers that companies or foreign investors trying to invest in the region have faced. That is in process. So we do try to coordinate and to be complementary. I think that is the key word. To be complementary to each other, because we have different objectives. For example, EBRD focuses on (the) private sector, whereas the World bank primarily focuses on dealing with the government. So they are complementary, and we would like to explore that.

Now, regarding the policy choices for reform in this year's report, we actually looked at (the) evolution to see whether there has been any impact on the choices during the course of the ten years. The bad news is that it appears that the initial conditions actually played a key role and they actually defined the positions of the countries at the time. I mean, I highlighted the exceptions such as the Baltic republics, Kyrgyzstan, and Poland. Nevertheless, for example in the CIS countries, it seems that those factors actually play a great role in terms of prohibiting further reforms after, say, four years of reform, as divested interests and transvested interests actually prevented further reforms from taking place. So the lesson is that we just have to do the reforms and try to talk to the government. Of course, when we are facing countries that have been conducting free and firm elections, that is, in a way a reflection of (the) people's choice. So we just have to try and advocate. Institutional reforms actually take longer. I mean, building a sound bank system is not going to be done within a year. Therefore, the government has to make efforts in creating good institutions.

Now, SMEs versus FDI. I think, there a good comment has already been made about the linkages that FDI could create, but I would also like to mention the effects of FDI on competition. In a lot of countries, I think, SME development is in a way prevented by the interests of loss-making state-owned enterprises on large scale. A lot of resources are being wasted in maintaining these enterprises. SMEs actually do suffer from this environment. If FDI actually promotes competition and scales down large state enterprises, I think it could have other potential positive impact on SME development. Thank you.

Mr. Jan Mládek: Thank you. Further concluding remarks.

Mr. André Barsony: Yes. First, as regards Mr. Janáček's question on international cooperation between various organisations. The OECD itself has a limited budget for this. But as you kindly mentioned, we had the Sigma program, which was a collaboration between the European Commission and the OECD. The program was financed by the European Union Commission and implemented by the OECD. It was a program of support for the enhancement of public administration in Central and Eastern Europe. We have similar programs in the framework of cooperation with the World Bank, although financing in this case is shared. Mr. Ulfman and Mr. Johnston have signed an objective of cooperation.

And there are two major areas I would like to signal, because they are part of my presentation. We are doing joint work with the World Bank on corporate governance and on anti-corruption. We are jointly supporting an anti-corruption network in Central and Eastern Europe. These are two areas in which we are working together and we are trying to develop further opportunities for cooperation. So it is not as bad as it looks. We cooperate and we do our best to cull together the expertise we have developed in all spheres.

Mr. Hayakawa raised the difficult question about what was more important – initial conditions or policies. In my opinion the initial conditions were crucial for the decision of OECD to select the three countries in 1990, as I mentioned former Czechoslovakia, Hungary, and Poland as partners in transition. At that time, the situation in Bulgaria, Romania, and, as you mentioned, Slovenia was a little bit different from a political point of view. Probably, the perception of our member countries was that it would be difficult to cooperate with those governments at that time. But afterward policies clearly matter. There is no doubt that both initial conditions and policies matter. So I consider the fact that initial conditions were different to be, to some extent, an accident of history, both due to the political situation but also, later, due to the fact (that) countries had had much stiffer communist governments than those in Central European countries. So the development of market economy was almost non-existent at that time. It is an accident of history, but that is the situation. This, of course, is a personal view, it should (not) be attributed to the member countries of OECD. Besides this is a political question.

Now the question of FDI versus SMEs is one of the points I wanted to raise, of course, together with entrepreneurship and SME development, but I am out of time so I cannot address it. I would like simply to say that what SMEs really need is to eliminate discrimination against SMEs. In the present situation all the tax breaks and the incentive programs are tilted to large enterprises, whether they are domestic or foreign. As you have seen in the presentation, there are always levels of investment, whether domestic or foreign, which have to be attained in order to get this support, whether in the form of tax breaks or other advantages such as incentives for investment. Of course, we need various programs to support SMEs, but the main consideration, in my opinion, is to give them a level playing field with the large companies. If one looks at the domestic structure of economies in transition, he or she can find, even today, that the number of SMEs is much smaller than in OECD countries and even in some more advanced emerging market economies in East Asia. So, clearly, SMEs do not participate enough in the development of transition economies. Once again I'll repeat, it's not so important to give them favourable advantages and support, it is more important to give them equal rights, equal playground. I think that this is one of the major challenges for the years ahead in order to create competitive small- and medium-size enterprises. Thank you.

Mr. Jan Mládek: Thank you for this comment. Perhaps, I should say, there is one new element of helping SMEs. That is providing them with free-of-charge information about other companies, about their trading partners, and the like on web sites. That will be very helpful for SMEs. Some other comments. Please go ahead.

(Unknown): I'll be very brief. First of all, some of the Bulgarian representatives were talking about (the) coordination of IFIs in Sofia and I know that is the best case in the region. I would thank (like to) them any time I can. They were talking about this very carefully, but in detail, and every donor knows what the others are up to. So far, we have been talking about the coordination of international financial institutions around Brussels, but we should also include bilateral donors. These bilateral donors quite often have, let's call it, own political interest, whereas we can still accommodate each other to avoid overlapping. So, thank you for referring to the Bulgarian case. That is the best, I'll repeat, in the region.

Now, I have time for industrial policy. And I am amazed, once again, why we didn't look at that in the presentations. In fact, we started to discuss gradually, still gradually, but, so far, we have not started to discuss the formulation of industrial policy itself at all. Rather, we are talking about (the) international competitiveness of industries in the country, and, so far, you may tend to think, you have still kept some competitiveness from before 1989. But some of it, we identify, is lost. Something is already over or something is already obsolete. So, we are gradually coming to the question - what is the real competitiveness of each country, what can we (do to) help and what can they ask us to help with, and so on? That's the way we still face these issues, and, so far, I can guarantee that the World Bank is not going straight into (the) industrial policy discussion. Thank you.

Mr. Jan Mládek: Thank you. Last comment.

(Unknown): I wanted to make three points, but I was told by Mr. Yonemura to shorten my comments, so I'd like to tell you only one thing. I wanted to emphasize that the application of the European Union standard to Central and Eastern European countries will narrow the latitude of economic policies. It is usually limited to three fields - SME promotion, technical development policy, and regional development policy. Here I would like to make two points. First, even if the latitude of economic policies is limited to this narrow field, there are many things that the government and JICA can do. Second, I raised the problem whether the application of the European Union standard to South Eastern European Countries is rational or not. I would like to put a stress on the fact that I raised this question not from the point of view of Japanese economic development experience but from the point of view of the economic development of those countries. That's all. Thank you very much.

Mr. Jan Mládek: Thank you. As our session is over, I would like to pass the chair to Mr. Yonamura. He is supposed to be the chairman of the next session.

Ms. Iren Petrounova: Excuse me. May I make a technical proposal? This is again an example of lack of coordination. We don't have the e-mails of the people here. So, if I want to send somebody something, I won't be able to do that. So if it's possible, (could) somebody write the e-mails down so that we can connect.

Mr. Jan Mládek: We shall arrange this.

Mr. Noriyuki Yonemura: Now, before going to the final session, I would like to ask three gentlemen to say something in five minutes each. The first is Mr. Mladek on the Czechoslovakian economic situation, the second, the gentleman from Ukraine, and, the third, the gentlemen from Moldavia. Now the three gentlemen, please.

Mr. Jan Mládek: Ok. I will impose a strict discipline with regard to the timing. What has been happening in the Czech Republic in the last two years can be described as "back to the roots". We have realised that some kind of experiments regarding privatisation, like voucher privatisation, were not really a success and we have come back to more traditional ways of privatisation. This means we are stressing the search for strategic investors. The goal of the government is to find strategic investors for the remaining part of privatisation, and, in particular, for the bank sector, because, in 1998, when the time of the current minority government started, three out of four major commercial banks were half state-owned. In the meantime, we have (had) only three banks, because one of them was technically nationalised and then re-privatised and merged with another private bank. There is only one state commercial bank left for privatisation. That is Komerční Banka. It will be privatised in (a) few months, because we are already at the stage of (a) short list for Western European Banks that are billing for these ventures. The issue of how to handle badly implemented privatisation could be an interesting contribution to the debate about restructuring, because the general answer is the use of bankruptcy law and settlement. But some of the companies where privatisation was unsuccessful are rather difficult to put into (a) bankruptcy process. We have been looking at the world experience and we have discovered it in Chile. When general Pinochet's government realised that some of the privatisation was not really successful, they re-nationalised the companies and started again. But this was general Pinochet. He had special possibilities that are not available to the government of the Czech Republic. So we were thinking hard to solve the problem, because we realised that, basically, private property is untouchable and something like direct re-nationalisation is not possible. However, we have realised that in the market economy not only the private owners are protected but also the creditors, who are providing the monies to other entities. The creditors are protected and should be protected in a similar way. So, if you are providing the money and this entity is not paying you, you have the full right to acquire collateral or to capitalize in order to do debt equity swap.

The next question was whether the same thing would be possible if the entity that has the credits and is not paying back were a state entity. We have discovered that the answer is yes. Though what is happening in a limited number of cases is that the state-owned consolidation bank – that is an agency for solving this issues – is basically capitalizing the collectibles. In this way, the state is capable of starting privatisation again. In some other cases, the problem is solved by (a) bankruptcy administrator, because within the bankruptcy process you are writing off all bad debts that were created within the company. We have been very successful in launching this program, because in the last two years the strong message that was delivered to the Czech economy was that even the biggest companies were sent into the bankruptcy process. The message is clear, no Czech company is too big to fail. What is our problem? We have just recently discussed at the seminar with the World Bank the issue of (the) efficiency of the process. Our problem is the long time needed to handle the process and the limited power of the bankruptcy administrators. We will push for (an) improvement of the legislation. What I consider (to be) the most important thing is that we have started the process. Because of the time limit, I will finish with this.

Mr. Noriyuki Yonemura: Thank you very much, Mr. Mladek. Unfortunately, the gentleman from Ukraine has gone, so that we'll hear the gentleman from Moldavia.

Mr. Iurii Pinzaru: My name is Iurii Pinzaru from the Republic of Moldavia. Thank you for inviting me here and (a) big thank you to the organisers for making this possible. This is a great opportunity to learn about the experience of our European neighbours, which not long ago had the same starting point as we have. We can see how some strong policies can be applied. I understand that the partners from Central Europe can argue with me, that they have a lot of problems dealing with the difficulties of their policies, but I wish we had their problems. Let me mention just one fact about (the) Moldavian economy. Today our GDP is 30 % of the GDP in 1990. So, in the last ten years, our GDP has decreased three times. Even if we suppose that it will grow by 10 % or 15 % per year, we can count how many years we (will) need. But, unfortunately, there are no signs of growth yet. We had only one year – 1997 – in which we had 1.5 % growth, but it is in the framework of (a) statistical error. It depends on the way you count.

The major problem in our country is, from my point of view, the lack of political stability and (the) misunderstanding about the ways we have to apply, the way we have to follow. Today, I will bypass the economic situation just to point out the political situation. Today, we have presidential elections in Moldavia. The president might be elected by the parliament, but no party in the Parliament has a clear majority, so I suppose the president won't be elected today. And, actually, this is an example of the political struggles in the country. On July 5th the parliament, in this fighting game, changed the constitution, so that now the president is elected by the parliament and not by direct voting. Of course political instability is a bad precondition for any economic activity of foreign investors. The legislation in Moldavia, as compared to that of all Central European countries, seems to be pretty attractive, but the problem is the enforcement. Even in (view of) the current situation, of (an) increasing political struggle, we manage to attract not a big amount but some significant investors: France Telecom came to Moldavia. However, massive attraction of foreign investment is still impossible. The major problem the government is facing is actually putting into the right path the reforms that have been delayed for many years. Of course, during this session I heard the criticism of international organisations of their actions in European and other countries. I agree with the criticism of, let's say, the World Bank, but, at the same time, from my point of view, the problems of Moldavia are not only due to following the guidance of IMF and the World Bank, but also due to the non-application of all the advice, or due to it being applied in a mild way, or let's say not in the right way but in a corrupt way. And, of course, the problem is to carry out policies that are transparent and based on competitive principles, attracting any actor or any investor. So, today, privatisation in Moldavia is in a much better situation, because the government now understands what we have to do.

It was interesting for me to hear about the Czech experience, because Moldavia kept to the Czech experience and applied the voucher privatisation at the beginning. It was a total failure with a good idea. So we actually destroyed a lot of competitive enterprises at that time, enterprises that could have been effective. The special investment funds that were managing these enterprises did not have enough rights and they were totally limited in (terms of) reinvestment, in formulating policy itself. And what were they doing? They were just destroying and stealing in order to, let's say, pursue their interests. This was the only way for them to survive. Today, privatisation - of course it is on commercial base - is going much better. Land privatisation was a big problem for five or six years, with delays in the reform. For an agricultural country, the land problem is one of the key issues. Now we are going pretty well with the assistance of the United States, privatising the land and giving titles to the landowners. This year, 2,000, we are expecting slight growth. The strong drought in the summer, the recent strong winds, and then the freezing temperatures that came (and) destroyed a lot of yards, telegraphs, and electricity posts, and so on. So, we suppose that a lot of resources will be lost, because of the calamities we suffered last year. But even in the situation of political instability, the economic policy, after so many attempts in different directions, is becoming a little bit more clear. It is good that the international organisations, IMF and (the) World Bank first of all, understand what they should do on a local level, though they act globally. So once again, thank you for making it possible for me to be here. For sure, the experiences I gained here will be useful for my future career.

Mr. Noriyuki Yonemura: Thank you very much. Now, finally, on behalf of the organisers, I would like to ask the organisers for a comment.

Mr. Tsuneaki Sato : Perhaps, most of you must be rather tired after two days of discussions. Let me first of all express my gratitude that Hungary joined this meeting and expressed very constructive views. Also, I would like to appreciate the fact that many speakers made excellent presentations. The first point that I would like to stress is that the conference turned out to be a great success. I would say, the conference was much more fruitful than I personally expected. All of you created very frank discussions. Besides, many of you got to know each other and perhaps you created good friendships and I greatly appreciate this.

The second point that I want to stress is that perhaps corporate governance to stimulate the dynamism of private companies is a key factor for maintaining the market economy. The Central and Eastern European Countries are now in the process of transition and the government should play some role, but basically the dynamism of private companies should be the key factor for achieving economic growth. So, for that purpose, clear and transparent rules should be established, skills of corporate management should be improved, human resources should be cultivated, favourable investment climate should be implemented, and foreign investment and foreign technology should be adequately introduced. Besides that, smart government and (the) discipline of government bureaucrats are also needed. Many of the Central and Eastern European countries have made efforts to shift their economic systems towards market economy. In this process, some governments made mistakes. They also met some political difficulties and failed to communicate with the public. After the trial-and-error period, Central and Eastern European countries are going the right way to tackle market economy free trade and (the) trend of globalisation. It is still important, for this shift towards market economy, (that) the government has an important role in order to warrant macroeconomic management, provide the market framework, stimulate small- and medium-size enterprises, push R&D activities. Perhaps the role of the government, even in a market economy, should have a broad range. In that sense, I think that smart government is greatly needed, and, at the same (time), the discipline of the bureaucrats should also be stimulated.

The fourth point that I want to make is that a dialogue of this kind is quite useful. As we discussed today and yesterday, the speed of the reforms varies from country to country. Success stories and failure stories were told. So, (the) exchange of information would be essential for designing future strategies. Moreover, the coordination between international institutions is rather necessary to provide effective cooperation. That's why these kinds of dialogues are quite important.

The fifth point I want to stress is that Central and Eastern European countries have (a) great potential of growth. I think these countries have (a) strong will to meet the challenges of the market economy and democracy. Besides, the human resources are highly developed and that's why I think that Central and Eastern European countries now have (a) great growth potential. A lot of foreign investments are now coming to those countries.

The final point that I want to make is that the mutual understanding between the Central and Eastern European countries and Japan now seems to be strengthened. Just ten years ago, the Japanese government was not so strong in extending assistance to those countries, but it gradually recognized the importance of supporting the market economies in those countries. Japanese private companies are now coming to increase investments in those areas. For example, with regard to greenfield investments, Japan takes third position, following by Germany and the United States. Some participants from Japan talked about their investing experience in those countries and I am very pleased that the initial recognition of the necessity to enlarge the dialogue has been gaining ground in Central and Eastern European countries and Japan.

Finally, I think it is quite significant to publish the results of this discussion if you have no objections. This is the first trial, but if we consider it significant and useful, we should continue this kind of dialogue. Finally, I would like to extend my great appreciation to the co-sponsors – (the) Vienna Institute for International Economic Studies, Bank Austria, JICA, and the JETRO. I personally would like to thank the staff of these co-sponsoring companies who made the arrangements for this conference. Without these arrangements and (their) help, we could not have achieved these fruitful results. Thank you very much.

Mr. Jan Mládek: Mr. Havlik, please.

Mr. Peter Havlik: Thank you, Mr. Chairman. Ladies and Gentlemen, first of all, I would like to thank our Japanese guests, JICA, JETRO, who have selected (the) Vienna Institute for International Economic Studies as a partner in organising this conference. We are very happy about that and I think it was a very successful meeting. I will not talk long. Almost everything that I wanted to say has been already said. I think that perhaps one of the two major aspects that should be stressed (is that) this meeting brought together people from academic business and government experts. I think that the exchange of views regarding the experience of different Central and Eastern European countries was quite useful. Less advanced transition countries can learn from the experience and especially from the mistakes of the more advanced countries, and also from (the) Western and Japanese experience.

We know by now that a standard market economy does not exist. There will probably be different kinds of market economies in the transition countries, just like there are different market economies in the developed countries. Unfortunately, Ms. Ishii from EBRD has left. I wanted to ask her what would be her liberalisation institution building graph if she made it for OECD countries, considering the development over the last twenty years. That would be quite (an) interesting comparison. Taking this into account, I noticed with great pleasure that Mr. Pondarev from Moldavia is aware that Western advice should be used in a selective way. I think that everybody should think twice (before deciding) what kind of advice is appropriate. We have seen at this conference that there are many controversial views on issues such as FDI, speed, and modes of privatisation, government role, and so on.

Last but not least, what has also been mentioned by several speakers, is that (the) necessity of coordination among the assistants to transition countries is very urgent. I think that now we face a danger of confusion on the Balkans again. There are many different assistants, advisors, NGOs, so-called experts, not only in Bosnia but all over the region. This does encourage development. Thank you very much for your attention. I (wish) you a pleasant stay for the rest of your trip to Austria.

Mr. Jan Mládek: Allow me to have a couple of minutes before making announcement of the secretary of **Mata**. There are two points that were not covered by the speakers. I feel that we probably need a more future-oriented approach, a visional approach, and, fortunately, it is closely related to the role of the government. The second point is benchmarking. Almost all of your figures are from Central European countries. We probably need benchmarking in developed countries and Asian countries. For example, Taiwan is a good example of industrial success. So we need to expand the range of objects of benchmarking. These are the two points that I wanted to make.

With regard to the objectives of our conference, if possible, we would like to continue holding this kind of conferences. There is going to be a discussion among the organisers (on) how to continue holding this kind of conference. I welcome your views to keep the momentum through JICA, or WIW, or myself, so please send me your ideas. Mr. Sato told you that we are going to publish the speakers' papers. Probably, we will discuss with the organisers who shall be responsible for the following papers. Anyway, we will contact you again to confirm your papers, probably by the end of this month. So, please, review your papers.

Now, finally, the professor from Bosnia and Herzegovina has prepared (a) 20-page paper. The paper is available. Please take it before leaving. Now we have prepared a small cocktail in the next room. So if you have time, please join us. Thank you very much.

