

# **Post-communist country assistance programs: some approaches to evaluation of factors affecting their efficiency<sup>1</sup>**

by

Vladimir Mau

rector of Russian Presidential Academy of National Economy and Public Administration  
Moscow, Russia

Konstantin Yanovskiy

Head of Institutional Development Department  
Gaidar Institute for Economic Policy

Moscow, Russia

*The last decade's Reforms in post-communist countries demonstrated, the aid proved to be most efficient in the countries where due to a timely schedule and consistency in reform implementation, governments can easily do without it. In case of Russia both the reformists and officials of international financial institutions have failed to race through the "window of opportunity", while their vision of its necessary and sufficient qualities were likely to be inaccurate*

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## ***1.Introduction***

Efficiency of the assistance provided for half a century was different, however, it does not allow to draw unambiguous conclusions. At this point, the complexity is determined by vagueness of both the efficiency criterion and a time interval from the perspective of which estimates should be made. For example, a program that seems inefficient in two years after its launch may become a complete success in five years afterwards: the stabilization policy pursued by Argentina in the early '90s was first viewed as one the most successful programs of that kind and at the same time as an unquestionable success of the international financial institutions (IFI). However, the reforms then turned into an intense economic, social and political crisis emerging hand by hand with a deep disappointment and sharp criticism on the part of the global economic and political community. As concerns Russia, the country has experienced the world financial community's up-and-down attitude: a mixture of enthusiasm and skepticism of the early '90s was replaced by the boom on the debt market between 1996-97, an intense crisis in the late '90s and a fast recovery of the interest in the country and uprise of its rating after 2000. Naturally, estimates and self-estimates of efficiency of programs implemented over the decade of reform were changing accordingly.

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The breakdown of provision of assistance into stages appears fairly instrumental for the purpose of identification of the efficiency criterion and its estimation with respect to different programs. As far as post-colonial and post-communist nations are concerned, the prospects for emergence of modern market democracy institutions appear absolutely different, as well as the problem of poverty and fighting it in equatorial Africa can be hardly compared with that in the post-Soviet zone. Adequacy of the task set to the level of development of a specific country should form the basis of an assistance policy and pre-set a criterion of estimating efficiency of the policy.

There also is another aspect of the problem - that is, the presence of various kinds (or forms) of assistance, including:

- financial aid (both preferential credits and grants and writing off debts);
- humanitarian aid (primarily food supplies);
- technical assistance (expert recommendations on implementation of necessary institutional and structural transformations).

Considering the multifaceted nature of the problem, we should fairly clearly define the tasks of the present paper. The paper deals with financial and technical assistance provided to the post-communist countries over the first decade after the collapse of the old regime. So, we leave aside both the problem of provision of assistance to other countries and various kinds of humanitarian aid<sup>2</sup>. The paper attempts to highlight key approaches to measuring efficiency of assistance provided currently existing in economic literature and in practice and then to verify suggested hypotheses by means of quantitative analysis on the basis of information available.

## ***2. Debates on problems of efficiency of assistance and post-communist transformations.***

### **2.1. Two approaches.**

The half-century experience of provision of assistance adjusted to the experience of the post-communist transformation allows to single out several approaches to estimation of the role and efficacy of assistance some countries provide to other ones. One can discuss three approaches to the analysis of the problem: conceptual (economic and political or economic and philosophical), practical (based on specific country models and examples), and technical (evaluation of specific assistance programs made by international institutions themselves or by their auditors)<sup>3</sup>.

The theoretical analysis framework naturally implies two opposite approaches: on the one hand, there is the statement of the necessity of provision of assistance to underdeveloped countries, while there are counter-arguments about its inefficiency in principle.

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<sup>2</sup> The issues related to efficacy of humanitarian aid clearly are beyond the framework of the present paper, however they worth a special evaluation. Russia's experience testifies to the fact that in the most cases this kind of assistance is both inefficient and even harmful for a nation-recipient of it. "Humanitarian aid is never justified", - A. Aslund points out. More specifically, "...the agricultural "aid" went into the pockets of the old agricultural establishment, but it was added to the state debt» (Aslund A. Building Capitalism. Cambridge: Cambridge University Press, 2002. P. 423; see also: Aslund A. How Russia Became a Market Economy. Washington, D.C.: Brookings Institution, 1995).

<sup>3</sup> As far as the post-communist Russia is concerned, we should note such most recent documents as a report the evaluation team of the World Bank developed in the frame of Country Evaluation Strategy Project and the one presented by the United States General Accounting Office entitled "International Efforts to Aid Russia's Transition Have Had Mixed Results" (Washington DC: GAO, 2000). The latter contains brief history of international efforts to help reforms in post-communist Russia.

The former stand was developed in the '50s, and it reflected realities facing nations liberating themselves from the colonial dependence and was based upon the well-known "vicious circle of poverty" concept. This theory was advocated by such prominent experts as P. Samuelson, G. Myrdal and A. Baran<sup>4</sup>. P. Samuelson provided a classical formula: backward nations "... cannot get their heads above water because their production is so low that they can spare nothing for capital formation by which the standard of living could be raised"<sup>5</sup>. These authors advocate the need of allocation of considerable financial resources for investment to encourage economic growth. We should not forget that it was the "dizzy-with-success" era driven by success stories, such as Marshall Plan and various "economic miracles"(taking place both in West Germany and elsewhere). That environment helped shape the concept of a miraculous role played by foreign aid, while references to the role of the West German human capital and institutions as an alternative explanation of the successes of the '50s emerged somewhat later.

It was P. Bauer who became one of the first and most consistent critics of an aid provided in the form of "cheap money"<sup>6</sup>. He noted that "... Economic achievements depend primarily on people's abilities and attitudes and also on their social and political institutions. Differences in these determinants or factors largely explain differences in levels of economic achievements and rates of material progress"<sup>7</sup>. And at any rate, "...external subsidies are neither necessary nor sufficient for economic advance"<sup>8</sup>.

## 2.2.Foreign Assistance inefficiency sources

One can refer to some of arguments list in favor of the assumption of inefficiency of allocating assistance in the form of various financial benefits and privileges, as follows:

First it leads to emergence of an "exclusive circle" of discouragement: having an access to subsidies ("cheap money") the government of a country-recipient does not pay a proper attention to fostering internal long-term growth factors – that is, the respective political and economic institutions. On the one hand, they prove to be less important from the perspective of the government's short-term interests<sup>9</sup>. On the other hand, the government involved in the process of begging for an international assistance often finds itself incapable to tackle long-term growth problems. As a result, their aid-seeking behavior turns into some kind of rent-seeking one with similar negative effects: in other words, while the scale of assistance is growing, the state of affairs in a country can even deteriorate.

Secondly, the "cheap money" creates too serious temptations to government officials, thus de-facto giving a rise of corruption. It is yet more dangerous, because, as a rule, such an assistance is provided to underdeveloped countries, with a low level of development of democratic institutions and their non-transparency for the general public's control.

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<sup>4</sup> Myrdal G. An International Economy: Problems and Prospects. New York: Harper, 1956. P. 201; Baran P.A. The Political Economy of Growth. New York: Monthly Review Press, 1957. P. 261.

<sup>5</sup> Samuelson P.A. Economics: An Introductory Analysis. 2d ed. New York: McGraw-Hill, 1951. P. 49.

<sup>6</sup> Bauer P.T. Dissent on Development. Revised ed. Cambridge, Mass.: Harvard University Press, 1976; Bauer P.T. Reality and Rhetoric: Studies in the Economics of Development. Cambridge, Mass.: Harvard University Press, 1984; Bauer P. Western Subsidies and Eastern Reform // Dorn J.A., Hanke S.H., Walters A.W. (eds.). The Revolution in Development Economics. Washington, D.C.: CATO Institute, 1998.

<sup>7</sup> Bauer P.T. Dissent on Development.

<sup>8</sup> Bauer P. Western Subsidies... P. 242.

<sup>9</sup> The analogous situation also emerges in the countries experiencing an long period of high inflation: their governments become accustomed to completing a state budget through inflationary revenues and discontinue to pay a proper attention to a tax system that undergoes a gradual degradation. Gaidar Ye. "Children's diseases of post-socialism. On the nature of the budget crisis of the financial stabilization stage"// Voprosy Ekonomiki. 1997.#4

Third, capital inflow contributes to the rise in real rates of the national currency, thus mitigating competitiveness rates of the national economy. This is what makes it different from investments in the production area, as they are directly related to the rise in productivity<sup>10</sup>.

Fourth, while extending the aid, donors do not pay a proper attention to the country-recipient and its institutions' level of maturity in terms of absorbing and an adequate use of it. This is what W. Easterley stressed in his formula «people respond to incentives»<sup>11</sup>.

Fifth, there exists a separate problem of behavioral logic of donor institutions entrusted to solve the problem of assistance, primarily the IMF and the World Bank. While being huge bureaucratic structures, they also have their own interests in development and evaluation of their operational efficiency that sometimes are far from matching real interests of both donors and recipients of funds. This also have a distorting impact on the decision-making process with respect to disbursement of financial aid and the efficiency of allocation of the respective resources<sup>12</sup>.

So, the general conclusion is that an efficient assistance is possible only if both sides have certain incentives to launch the process of its provision, i.e. both donors and recipients are in need of correct incentives.

In the '90s, these arguments were tested by experiences in the area of provision of financial and technical assistance to a number of countries including post-communist ones. Antagonists in their views, such experts as J. Sachs (1994), J. Stiglitz (1999), W. Easterley (2001) published papers basing on study cases and came to very discouraging conclusions. At this point, it is W. Easterley's paper that should be recognized as a key one: the paper deals with the record of theory and practices of the World Bank country assistance projects throughout the history of the Bank. The author shows that over past decades the Bank experts periodically invented new panaceas – universal remedies to crises and recipes to accelerate growth, and each of them proved its full impotence over time. The basic solution drawn by W. Easterley is close to P. Bauer's thoughts; in addition, to enhance the efficacy of provision of assistance<sup>13</sup>, the former proposes to revise the whole system of functioning of international financial institutions. The need in considering the given country's political and institutional maturity to absorb foreign financial assistance was also recognized in the Bank's official documents. In one of the World Bank reports, there was a venomous remark about the assumption underpinning recommendations of the majority of experts in the technical assistance area: “good advisers and technical experts would formulate good policies, which good governments would then implement for the good of society”<sup>14</sup>.

### **2.3. Assistance in need is assistance indeed**

Some authors criticized assistance programs (primarily those pursued by international financial institutions) for inadequacy of their objectives and fallaciousness of theoretical approaches, ignorance of the fact that with its political and institutional capacity, at the time

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<sup>10</sup> “An inflow of capital raises the real rate of exchange and thereby impairs foreign trade competitiveness. With equity capital this is unusually offset by increased productivity of resources, but that is unlikely with official subsidies” (Bauer P. Western Subsidies... P. 241).

<sup>11</sup> Easterly W. The Elusive Quest for Growth. Cambridge, Mass. and London: The MIT Press, 2001. P. 141.

<sup>12</sup> This is what Ye. Gaidar emphasized while criticizing the leading Western nations for the “deliberately inadequate solution of shifting the burden of responsibility for the organization and coordination of assistance to the post-communist countries to the IMF and other international financial institutions”. Ye. Gaidar's conclusion is unambiguous: “The scale of problems brought to life by the disintegration of a superpower, political in nature, were beyond the competence and scope of the IMF”. Gaidar Ye. The IMF and Russia // American Economic p. 14.

<sup>13</sup> Easterly W. The Elusive Quest for Growth. Interestingly, having criticized with a great deal of cogency five such panaceas, the author puts forward the sixth one whose efficacy raises the same doubts.

<sup>14</sup> World Bank. World Development Report 1997: The State in a Changing World. New York: Oxford University Press for the World Bank, 1997. P. 1.

Russia was not ready to efficiently absorb the funds<sup>15</sup>, and for excessive expectations and overestimation of potential impact of such programs<sup>16</sup>. This authors focused on challenges facing Russia's post-communist development and adequacy of its institutions designed for the use of external assistance to the purposes of its provision. The discussion also involved the question of a timeframe for provision of the aid. J. Sachs and A. Aslund argued that its efficacy was seriously undermined by the donors' inability to concentrate the aid at the very initial stage of reforms by ensuring their maximum support to the reformist government<sup>17</sup>. Finally, M. Dabrowsky stressed the inefficiency of an untimely aid, i.e. the one that arrives both too late and too early<sup>18</sup>.

The logic of pursuing post-communist reforms<sup>19</sup> lead to the conclusion of the appropriateness of concentration of an aid at the initial stage of reforms.

On the one hand it is clear that the readiness to carry out reforms can seriously vary at different stages of their implementation. In other words, one should take into account the existence of "windows of opportunity" as a period, most appropriate for reforms. At the initial stage of reforms – and especially when a reformist (the first post-communist) government is in power - the possibility for a breakthrough and overcoming the causes of a severe crisis can be quite real. In addition, the receptivity towards technical assistance and the existence of the respective institutions form both reform preconditions and outcomes. For example, liberalization and macroeconomic stabilization that show a greater efficacy under market economy institutions (primarily private property) by themselves establish crucial prerequisites for their further development, while in contrast to that, privatization is capable of producing conditions for steadier decisions in the macroeconomic stabilization area.

On the other hand a typical feature of the initial stage of reforms, or more precisely, the moment of price liberalization and opening the markets, is a low real exchange rate of the national currency. Thus, the value of funds provided in hard currency appears very high for a reformist<sup>20</sup> government, and even a small amount of aid may secure desirable social and political results. Such a situation cannot last for long, and the real exchange rate of the national currency begins to rise, which substantially increases the price of reform implementation. For instance, over the first months of Russian reforms 10-15 USD was quite a salary, while in two years later the level of "decent" wages grew 10-fold (here the notion "decent" is far less stricter than "average statistical", however, it reflects the reality in a more adequate way). It should be noted that the most of the hike fell on the first half year after price liberalization, and, accordingly, the significance of foreign aid was falling down rapidly.

We believe the above matches fairly well M. Dabrowsky's thesis about prematurity of the provision of the assistance to Russia in 1993-94. He stresses the need in mobilizing consensus on principles of the reforms then underway as a prerequisite of efficiency of the

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<sup>15</sup> Stiglitz J. Whither Reform? Ten Years of the Transition. In: Pleskovic B. And J.E.Stiglitz (eds.). Annual World Bank Conference on Development Economics 1999. Washington, D.C.: The World Bank, 1999. P. 30-32

<sup>16</sup> GAO. "International Efforts to Aid Russia's Transition Have Had Mixed Results" (Washington DC: GAO, 2000).

<sup>17</sup> Sachs J.D. Russia: IMF gives too little, too late // Financial Times. 1994. March 31.; Sachs J.D. Russia's Struggle with Stabilization: Conceptual issues and Evidence. Washington D.C.: The World Bank, 1994; Aslund A. Lessons of the First Four Years of Systemic Change in Eastern Europe // Journal of Comparative Economics. Vol. 19. 1994. No. 1.

<sup>18</sup> Dabrowski M. Western Aid Conditionality and the Post-Communist Transition. CASE Studies and Analyses 37. Warsaw: CASE, 1995. P.15-17.

<sup>19</sup> "Reforms" – the process of Market Economy, Individual Rights and Civil Society Institution building after anti-totalitarian revolution; "Success" of the Reforms measured in this article indirectly – by GDP growth. Post-revolutionary recession caused necessary restructuring of economy and old firms disadaptation usually appears.

<sup>20</sup> Here – Ye.Gaydar's Government; Generally we used formal parties classification on the "Reformist", "Anti-Reformist", and "Non-communist conformists" – for methodology of the formal classification details see Mau, Yanovskiy et.al. 2001, (Table in Annex to this article).

assistance provided<sup>21</sup>. The notions “too early” and “too late” do not form an absolute opposition as far as a real economic and political life is concerned. The emergence of the consensus may not be viewed as an exogenous factor of reforms invading from elsewhere. By itself, the readiness to pursue intense reforms is dependent on numerous specific factors of the given country’s life at the given moment of time. For example, in early 1992 the readiness of Russia’s society to recognize the need in serious and intense reforms was far greater than in 1993-94, and it would make sense to take that into account while making decisions on provision of financial aid.

### ***3. International aid and the “Window of Opportunity”.***

#### **3.1. Russian case: Young Reformers’ window of opportunity**

The window of opportunity problem does not form a well-studied issue in the modern literature on post-communist transformation – there is just a general polemic between reformists and their critics about significance of this phenomenon and appropriateness of its account while carrying out an economic policy. The term with implicit meaning “period with minimal costs and political risks for economic reforms” couldn’t be generally accepted because lack of the time distance since the post-communist transition started in 1989-1992. “Practicing” reformers, as a rule, view it as a significant exogenous factor and consider it necessary to concentrate maximum efforts to carry out (more precisely, to launch) a maximal set of transformations, as soon as the respective political opportunities for that arise<sup>22</sup>. Their opponents<sup>23</sup> argue that such a policy suffers from inconsistency and it does not always rest upon the electorate’s political will and even undermines the political base of reforms, because most of the population are not ready to consume the reform package as a whole.

The presence of a solid pro-reform majority, indeed, facilitates the procedure of coordination and provision of an aid and, most importantly, sharply reduces the risks of its accusation of being inefficient. Even a brief evaluation of, and cross – country evidence on two groups of post-communist countries (Slovenia, Poland, Hungary, Czech Republic, Estonia on the one hand, and Ukraine, Kazakhstan, Moldova and Romania on the other) allows to draw such a conclusion. This also can be seen while evaluating the efficacy of reformist efforts at the sub-national level: some examples of implementation of the World Bank projects in single Russian regions showed that the best results had been achieved in the regions/municipalities whose authorities had clearly demonstrated their eagerness to implement the respective reform agendas<sup>24</sup> (in such areas as the housing sector, development of the public transportation sector, financial recovery, etc.). The model further considered in the paper will provide certain formal proofs to the thesis.

At the national level, the readiness to accept reforms can be measured through election outcomes, and it manifests itself in the presence or the absence of a pro-reform majority in legislature, as well as in the presence or the absence of a consistently reformist executive branch (or administration). The latter also suggests the electorate’s demand for institutions

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<sup>21</sup> Dabrowski M. Western Aid Conditionality... P. 17.

<sup>22</sup> On windows of opportunity in Russian reforms, see: Zhavoronkov S., Yanovsky K. Politicheskaya ekonomia reformy: mekhanizm prinyatiya resheniy na etapakh revoljutsii i stabilizatsii// Effectivnost’ osuschestvleniya gosudarstvennogo upravleniya v Rossii. M.: Institut prava i publichnoy politiki, 2002. Pp. 124-136 and Zhavoronkov S “Politicheskaya ekonomia finansovogo krizisa 1998”// [http://www.ilpp.ru/projects/govern/zhavoronkov/zhavoron\\_1.html](http://www.ilpp.ru/projects/govern/zhavoronkov/zhavoron_1.html) 2001

<sup>23</sup> See Stiglitz, 1999

<sup>24</sup> Irina Starodubrowskaya, expert who had been monitoring the WB project in Russian regions since 1993 till 2001 pointed out the mayors’ political will to reform municipal economy as key factor for success. See Economy in Transition, pre-print Chapter 23, p. 7 <http://www.iet.ru/personal/starodubrowskaya/glava23.pdf>

that effectively support economic growth. Such a demand can be measured through an electoral support to political parties that undertake the responsibility for implementation of core economic reforms.

However, with all the importance of internal prerequisites for necessary reforms, one should not ignore a principle possibility of external positive influence on their logic and consistency. Foreign aid may become very instrumental for both maintaining reformers' control over the situation and restricting exotic experiments that may be undertaken by victorious anti-reformers that may also need foreign aid (as it was the case in Romania under President I. Iliesku, Moldova – under P. Luchinsky, and partly – under the socialist government in Bulgaria and Mr. Primakov's government in Russia). In some cases financial aid provided for the purpose of implementation of reforms in single, though significant sectors of an economy can also have a substantial impact on the general stabilization (including the social sphere) in a country. This can be proved by reform efforts in the coal-mining sector in Russia, Romania and Poland supported by the World Bank. If the timeframe of such an aid coincides with a window of opportunity, this diminishes the possibility for shutting the window down or at least substantially pushes the pendulum backwards.

So, international aid should not be viewed as an exclusively exogenous factor, as far as economic and political reforms are concerned. The aid, of course, proves to be most efficient, should there be a distinctive demand for reforms on the part of the population and the government of the given country. However, such an aid may prove to be the least significant one (reforms could be accomplished even without it, though at a higher cost). On the contrary, in the situation of an unstable balance, international aid may form a factor that would become significant for maintaining control over the situation and continuing reforms, even inconsistently ones. In this case, the estimation of efficiency and effectiveness of an aid provided proves to be far less evident for the donors and often subject to a sharp criticism. However, this very support to unsteady reformist efforts may contribute to further streamlining and stabilization of the situation in the given country.

It is worthwhile to observe how the window of opportunity in the reformist policies in the post-communist Russia was corresponding to the provision of international aid to the country. The situation can be illustrated graphically (see Fig.1). During the first window of opportunity (1992) and even during the second one (September- December 1993) the aid was still on its way or a minimal one (if one disregards an ambiguous, or, according to A. Aslund (2002), negative impact of the humanitarian aid. There are benchmarks singled out in Fig.1 that allow to estimate the level of domestic support to reformers (as percentage of their electoral support or their rating registered by polls<sup>25</sup>) It is easy to note that the fluctuations in the level of support of reforms did not have an impact on international financial institutions' decisions on providing assistance to Russia<sup>26</sup>. The only exception is so-called “panic funding” of spring 1996, when there were serious concerns about the communist comeback as a result of the presidential elections. IFI indicates in 1997-98 years new window of opportunity in Russia. They were inspired by Nemtsov-Chubais strong governmental tandem and, then by Kirienko Government pro-market orientation. New project were approved, disbursement had been increasing for the period till August 1998 (See Fig.1 and GAO 2000 Report). We

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<sup>25</sup> 1991- voting for Mr. Yeltzin; 1993- the April referendum when the majority voted for the support of the reformist economic policy; 1994- Duma elections (actually held in December 1993) – the sum of votes for democratic parties' (DCR, RMDR, Yabloko) lists; 1995- Duma elections - the sum of votes for party lists of DCR, “Russia, Forward!” and a number of small reformist groups; 1996 – presidential elections (right-wing liberals plus the conditional 10% of OHR); 1997 – Mr. Nemtsov's rating until the last quarter (almost 18%); 1999 – the overall proportion of SPS (Union of Right Forces) and Yabloko.

<sup>26</sup> The data are cited from: General Accounting Office. USA, Nov. 2000 “Foreign Assistance. International Efforts to aid Russia's Transition Have Had Mixed Results”

believe, the mistake was caused by broadly spread underestimation of State's Duma power. Anyway, new peak of disbursement coincided with new fall in the reformers political support.

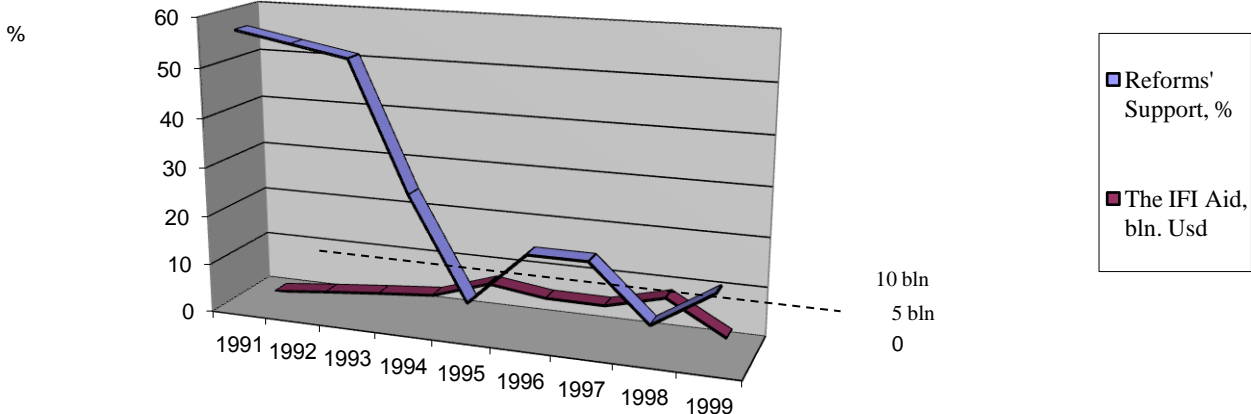


Fig.1. The lack of coordination between political conditions and procedures of allocation of aid and credit disbursement by five institutions.

**3.2. Slovenia and Romania Cases: failure and success**

The same picture one could see not in Russia only. The Figures 2-5 illustrates two more examples: the successful and unsuccessful cases of Coordination International assistance and political opportunity use for the Reforms.

Small post-Yugoslavian Republic of Slovenia started Reforms under more or less pro-reformist Government and with, sometimes actually more pro-reformist opposition<sup>27</sup>.

All IMF loans were disbursed in the Reforms start year – in 1992. Significant part of WB loans was disbursed in the 1993. Pro-reformist coalition power remains stable and significant, relatively “anti-reformist” parties (rather soft and incomparable with Russian communists and, for instance, with Romanian nationalists) remains weak.

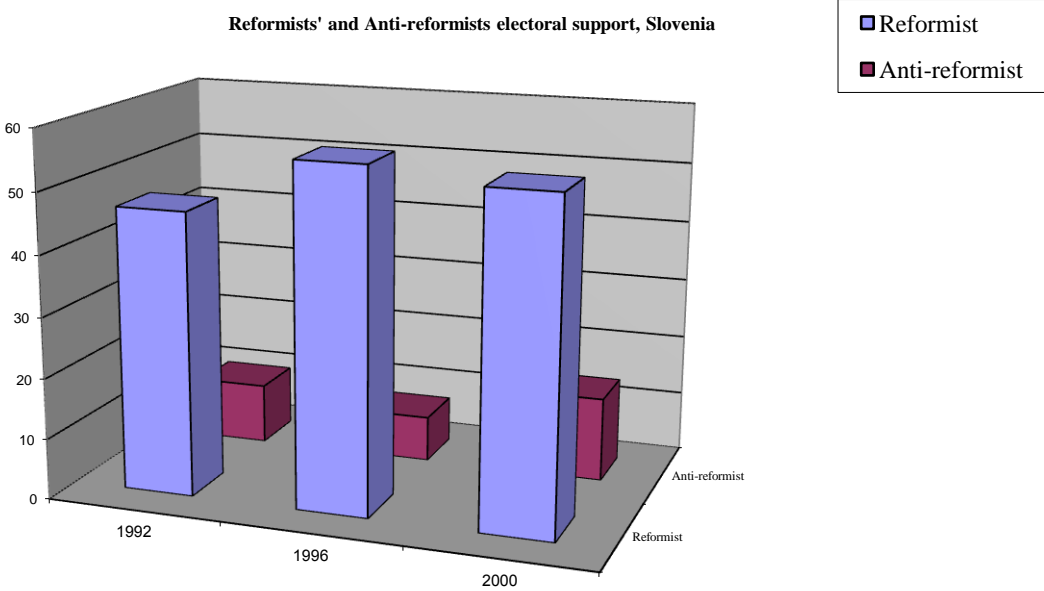


Fig. 2. Political Window of Opportunity for the Reforms in Slovenia (ever opened)

<sup>27</sup> See Mau, Javoronkov, Yanovskiy et al., 2003, Annex 8.



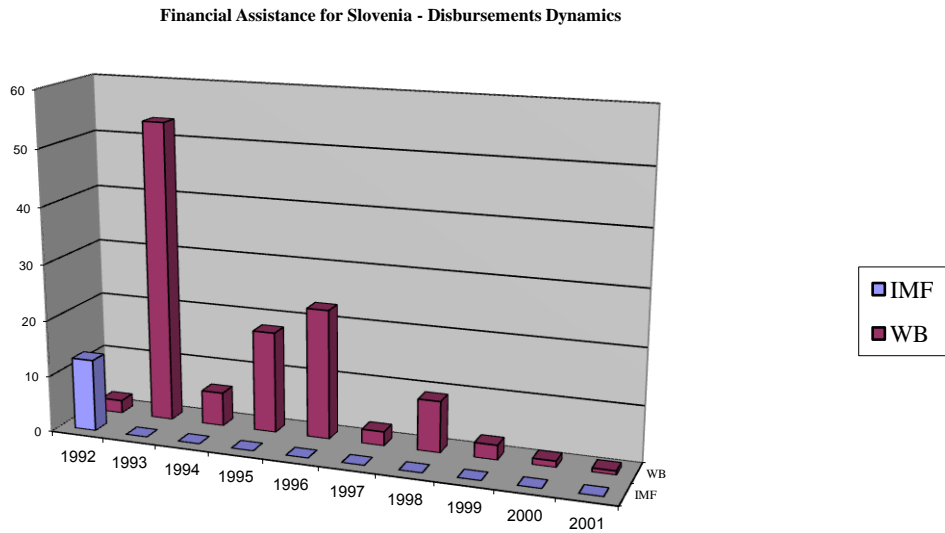


Fig 3. IFI loans for Slovenia dynamics

On the contrary, Reforms in Romania started under socialist Government, not devoted to necessary radical Economic Reforms. At the same time, the “lions’ share” of IFO assistance were disbursed under socialist governments 1990-96 and since 2000. The reformist government enjoyed incomparably smaller financial assistance – see Figures 4 and 5.

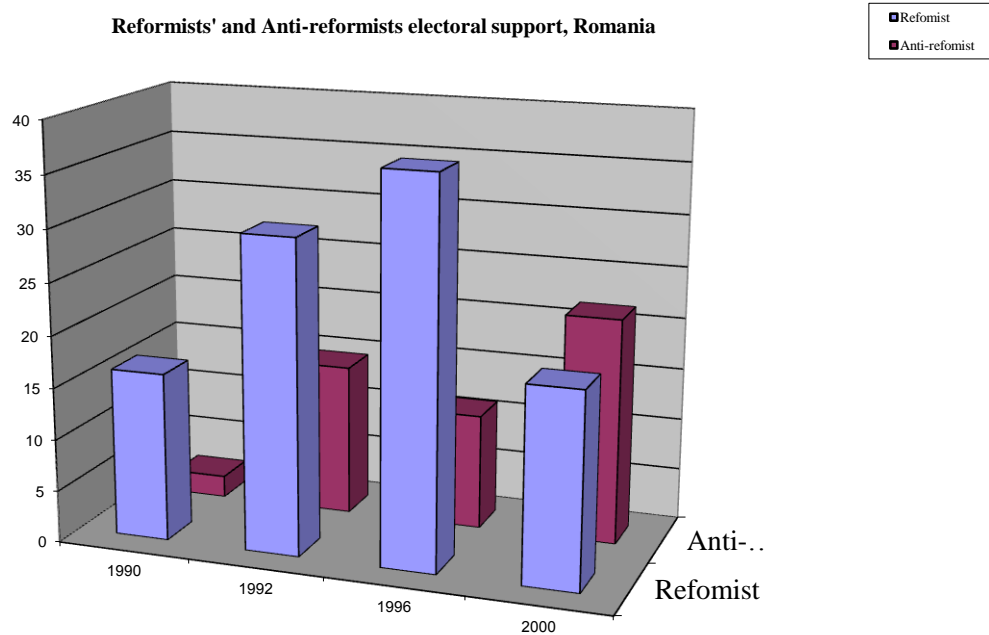


Fig. 4. Political Window of Opportunity for the Reforms in Romania (President E.Constantinescu reformist Gov-t worked 1996-2000)

Financial Assistance for Romania - Disbursement Dynamics

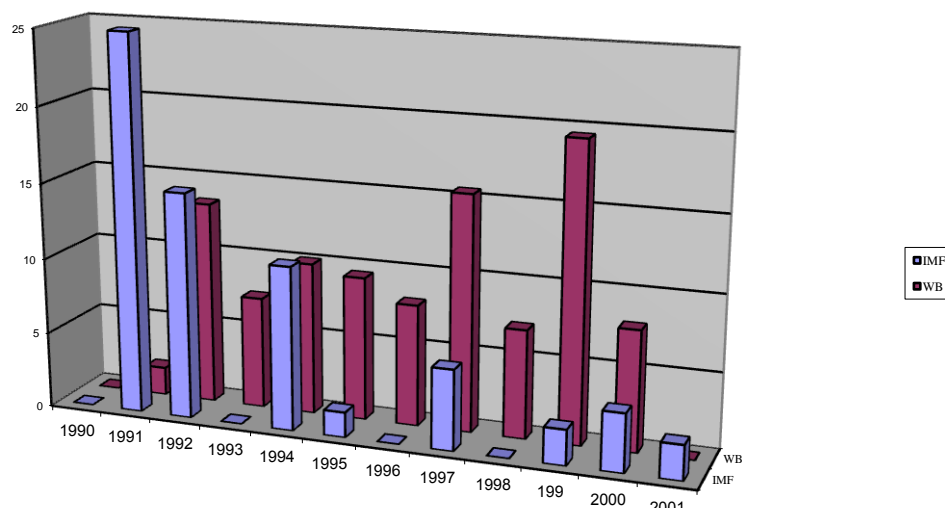


Fig 5. IFI loans for Romania dynamics

The situation looks as IFI ignorance of real window of opportunity in this very country.

#### 4. The model for the assistance programs to transitional economies efficiency evaluation

Let us assume that an actual window of opportunity is formed by a reformist government that in its reform efforts is back-upped by a solid majority in a parliament.

The model suggested below was developed to measure the dependence of GDP dynamics upon such factors as: the existence of a reformist government, the presence of a pro-reform majority in the parliament, and assistance provided by international institutions. In other words, we attempt to evaluate the role of international financial institutions on the one hand, and reformist programs on the other, and how they have been impacting differences in GDP growth rates in the countries with democratic regimes over the first post-communist decade. To test the significance of the time factor, we consider the aid provided over the first, second, and other years of reforms as well as its level of concentration.

The hypothesis tested below is that *the country's (and its authorities') readiness to do without foreign aid is roughly equal to their readiness to accept and use the aid with a maximum efficiency*. The readiness to accept foreign aid is measured by the population's identified demand for reforms, including "the readiness to approve radical economic means"<sup>28</sup>. Significance of political and the associated institutional factors is illustrated using a set of regressions (coefficient testing results see Table 2 in Annex 2).

We assume that the savings norm is not exogenously pre-set actually. It's quite clear, Investors' confidence and risks estimations does affects economic growth. The hypothesis of the dependence of the savings norm on potential investors' estimates of political and legal risks appears quite grounded.

As concerns political risks, we cannot neglect the possibility of a victory at elections of the forces at best oriented towards expansion of redistributinal programs and advocating the state regulation concept, while at worst – dismantling the rule-of-law institutions and market economy itself. So, should there be a formalized classification of political forces by the level

<sup>28</sup> L. Balzerowicz, "Socializm. Kapitalizm. Transformacja" 1999, Moscow, "Nauka", Russian ed. Pp. 167-168

of risks they create (the absence of significant risks; the existence of risks related to redistributive programs and excessive regulation; the risk of introduction of discretionary regulation as a major management instrument), one can operate with electoral statistics as an indicator of risks<sup>29</sup>.

The significance of the risks can be related to such characteristics of aid programs and the nations – its recipients as their experience in dealing with international financial institutions prior to reforms, the size of the aid adjusted to the quantity of the population, etc.

To verify this simplest model, we used set of indicators listed in the Table 1 in Annex 2.

It is the 2001 GDP index relative to the pre-crisis (pre-reform) GDP level that was selected as an explained (dependent) variable. Its value fluctuates from 1.279 (Poland) to 0.365 (Moldova).

So, this analysis involves the following variables, describing the Foreign Financial Assistance activity:

1. General amount of funds disbursed by the IMF and WB. USAID and TACIS programs were not included in the calculations due to unavailability of the data on distribution of the cross-country annual data on allocation of funds.
2. The same data on the first and on the second year after the start of reforms.
3. Concentration of credits (it made sense only with respect to the IMF credits and due to specifics of the World bank programs that excluded the possibility of a “lumpsum” disbursement - in the form of the ratio of the biggest of gross disbursements of IMF over the whole period to the sum of all gross disbursements) and “targeting efficiency” to catch the window of opportunity - terms between the Reforms’ first year and the year of first disbursement and the Assistance share disbursed under the Reformist Government in office.

The model does not comprise Belarus where national official statistical data are significantly<sup>30</sup> (and *a priori*) distorted. So, the 22 countries<sup>31</sup> – observations included in the model<sup>32</sup>.

The statistical analysis results, confirms<sup>33</sup> conclusions about the greatest importance of political factors (see 3-rd, 4-th and rather 6-th dependencies Table 2 of Annex 2), importance of concentration of IMF financing, the minimal gap between the Assistance programs start and the first year of Reforms, Disbursements’ share under the Reformist Government Term of office (see respectively 5-th and 11-th dependencies).

The disbursement concentration and early (in time of the “window of opportunity”, usually opened on the start of the reforms) start of foreign Assistance project could increase the Assistance efficiency. So general sums of IMF and WB disbursement appears insignificant; the disbursement concentration and the sums disbursed on the start of reforms on the contrary – significant for the Reforms general success (see and compare dependencies 7-9 with dependencies 1,2,10).

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<sup>29</sup> The formal way we sorted the parties on the reformist, antireformist, social-democratic & conformist described in detail see in V. Mau, K. Yanovsky, S. Zhavoronkov, D. Cherny (2001)

<sup>30</sup> See for example <http://www.ipm.by/pdf/Yurik-1236.pdf> Institute for Privatization and Management Byelorussia or Independent Media information: <http://www.open.by/1999120720.html> [http://www.belgazeta.by/articl.shtml?num=20020211\\_6&pub=020130322](http://www.belgazeta.by/articl.shtml?num=20020211_6&pub=020130322);

<sup>31</sup> Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Czech Rep., Georgia, Estonia, Hungary, Kazakhstan, Kyrgyz Rep., Latvia, Lithuania, Macedonia, Moldova, Mongolia, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine.

<sup>32</sup> See Annex 1.

<sup>33</sup> It means appropriate regression dependencies appears statistically significant – see Table 2 in Annex 2. All regression but 7, 8 and 9 has T-statistic values more than 2,1.

So, it is the factors related to political readiness of the country – recipient of aid to its efficient consumption that play a key role, but one should not underestimate a certain part played by concentration of donors' efforts. The latter can be significant, particularly thanks to the fact that such a concentration of support to a reformist government increases its chances to win elections and to prolongation of the political support of reform.

## **5. Conclusion.**

The present research allows just very general conclusions on the role played by financial aid. Our analysis is mostly statistical, while to evaluate specific decisions on provision or refusal to provide an aid one needs to consider a great variety of time and country factors. The above does not allow a unambiguous conclusion on whether J. Sachs was right in rebuking IMF of “giving too little, too late”, however, the present paper provides an additional argument in favor of his thesis.

The paper proves a key role played by internal political factors of reform implementation in transitional economies, such as: the existence of the population's demand for reforms, emergence of politically stable reformist governments and a fairly broad consensus with respect to transition towards market economy. Interestingly, the Central and Eastern European countries did not focus on external incentives like foreign financial assistance, for they were keen to be integrated into Europe as soon as possible. Consequently, it was both financial aid and opening of markets (as noted by P. Bauer) that played a substantial role (the latter is also argued by A. Aslund and Warner<sup>34</sup>).

An efficient assistance is possible only if both sides have firm incentives to launch the process of its provision, i.e. both donors and recipients are in need of correct incentives.

The situation in Russia and some other CIS<sup>35</sup> countries appeared more complex: the adherence to market democracy principles was not so evident there, and fluctuations have had a significant impact on the efficiency in pursuance of reforms and use of international aid. Most likely the international financial institutions' assistance has prevented political crises and economic collapses that might have been much more intense than those facing Russia over the past decade and particularly the one prior to the 1996 presidential elections. Unfortunately, both the reformists and officials of international financial institutions have failed to “fit” in the window of opportunity, while their visions of its necessary and sufficient qualities were likely to be inaccurate.

The assistance Programs proved to be most efficient in the countries where due to a timely schedule and consistency in reform implementation, governments can easily do without it.

Probably, only emergency bilateral project provided by the donor-country ambitious leadership and reformist leadership of transitional country could have time to be finished until the opportunity window still open.

Reformist Government and reformist parliament co-existence is necessary condition to indicate the “window of opportunity”.

The key policy advice for the donors - Governments could be presented: try to help quickly, pay in the “window of opportunity”, when pro-reformist coalition strong enough or not pay at all.

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<sup>34</sup> Aslund A. Warner A. “The EU Enlargement: Consequences for the CIS Countries” <http://www.unc.edu/depts/econ/seminars/aslund.pdf>, 2002

<sup>35</sup> Commonwealth of independent states – post-soviet interstate formation.

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<sup>36</sup> «Election outcomes as an indicator of demand for institutions: voting in economies in transition and new democracies over the first post-revolutionary decade»

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<http://www.worldbank.org>;

<http://unstats.un.org/unsd>;

Political reference web-sites:

<http://www.polisci.com/world/nation> ;

<http://www.gksoft.com/govt/en/>;

<http://www.politicalresources.net> ;

International political organizations:

<http://www.worldlib.org/index.shtml> Liberal International (left-wing liberal parties);

<http://www.socialistinternational.org/> Socialist International (socialist and social-democratic parties);

<http://www.idu.org/> International Democratic Union (Conservative parties);

<http://www.epp-ed.org> European Peoples Party (European Christian-Democrats and Conservative Unoin)

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<sup>37</sup> "The Reforms' Political Economy: the decision-making process on the stages of Revolution and Stabilization"

**Annex1. Table of initial variables values**

COUNTRY	10-year Period of Assistance programs	2001 GDP growth to pre-crisis maximum	Reformists' coalition average support on Parliament Elections, %	Social-democratic and conformists' coalitions average support on Parliament Elections, %	Anti-Reformists' coalition average support on Parliament Elections, %	N years between 1-st and 1-st year of reforms	IMF disbursement Concentration	IMF1 (1-st year of Reforms disb-nt)	IMF2 (2-nd year of Reforms disb-nt)	IMF_ Sum (total disbursement)	Reformist Gov-t got Share, %	Wb_Sum (total disbursement)
Albania	1992-2001	1.1486	48	41	0	0	0.16	2.9	3.5	29.71	54.06	111.0
Armenia	1992-2001	0.7441	9.4	55	13.5	2	0.23	0.0	0.0	43.84	81.44	-
Azerbaijan	1992-2001	0.5152	0	75	0	3	0.25	0	0.0	40.06	0.00	29.10
Bulgaria	1990-1999	0.8321	41.00	44.50	0.00	1	0.22	0.0	35.3	195.93	26.94	125.36
Croatia	1992-2001	0.9039	30.00	41.00	0.00	0	0.36	32.0	0.0	48.22	100.00	155.18
Czech Rep.	1990-1999	1.0321	48.10	21.00	17.70	1	0.52	0.0	59.4	158.70	100.00	49.68
Georgia	1992-2001	0.2978	13.60	39.00	5.40	4	0.28	0.0	0.0	38.28	0.00	72.38
Estonia	1992-2001	0.8903	47.40	41.70	0.00	0	0.54	5.5	24.4	44.84	100.00	76.07
Hungary	1990-1999	1.0890	44.00	39.00	4.00	0	0.70	12.6	69.6	99.63	100.00	225.64
Kazakhstan	1992-2001	0.7483	11.00	50.00	18.00	1	0.29	0.0	39.9	34.7	0.00	76.51
Kyrgyz Rep.	1992-2001	0.6986	0.00	43.00	28.00	1	0.22	0.0	9.3	40.09	0.00	86.47
Latvia	1992-2001	0.7482	45.70	23.17	0.00	0	0.48	10.5	21.8	43.92	100.00	111.96
Lithuania	1992-2001	0.7239	30.50	53.60	0.00	0	0.28	4.7	19.1	69.00	16.67	63.60
Macedonia	1992-2001	0.9301	27.60	38.90	9.20	0	0.25	3.8	0.0	49.70	14.98	119.60
Moldova	1992-2001	0.3653	25.70	21.30	34.60	1	0.24	0.0	14.7	60.66	0.00	67.40
Mongolia	1991-2000	0.9715	33.00	54.00	0.00	0	0.24	4.9	1.1	26.46	12.20	-
Poland	1990-1999	1.2786	42.20	39.00	7.50	0	0.52	9.3	6.2	32.04	48.80	74.60
Romania	1990-1999	0.7326	27.70	44.80	9.30	1	0.42	0.0	24.9	59.94	19.10	196.31
Russia	1992-2001	0.6694	11.70	34.30	43.90	0	0.29	4.9	7.4	107.56	43.50	47.20
Slovakia	1990-1999	1.0564	30.00	41.70	12.70	1	0.45	0.0	58.0	165.31	51.59	54.61
Slovenia	1992-2001	1.2369	55.70	16.50	0.00	0	1.00	12.8	0.0	12.80	100.00	141.65
Ukraine	1992-2001	0.4434	19.60	40.00	34.60	2	0.31	0.0	0.0	60.20	31.03	41.00

Sources: International Financial Organizations' web-sites, political web-resources, Mau, Yanovskiy, et.al., 2001- see References above

## Annex 2. Model: Variable list and Regression analysis Results

Table 1

Variables used in the model		
Legends variables	of	Descriptions of variables
<b>Dependent variable</b>		
	<b>GDPcoeff</b>	2001 GDP to pre-crisis GDP <sup>38</sup> level coefficient
<b>Independent variables</b>		
1	<b>ReformVote</b>	Reformist parties electoral support (parliamentary elections), average for the 10 years of Reforms period, %
2	<b>A_RefVote</b>	Anti-reformist coalitions electoral support (parliamentary elections), average for the period , %
3	<b>IMFCONC</b>	The ratio of the biggest of gross disbursements of IMF over the whole period to the sum of all gross disbursements
4	<b>IMF1</b>	Sum of disbursements by the IMF over the first year <sup>39</sup> after the revolution (SDR per capita)
5	<b>IMF2</b>	Sum of disbursements by the IMF over the 2nd year after the revolution (SDR per capita)
6	<b>IMF_Sum</b>	The sum of disbursements by IMF for the 10 year- period (SDR per capita)
7	<b>WB_sum</b>	Sum of disbursements by the World Bank over the first year after the revolution weighted on the population (USD per capita)
8	<b>N_years</b>	Term between the Reforms' first year and the year of first disbursement
9	<b>Ref_GovShare</b>	Sum Disbursed under the Reformist Government Term of office, Share (%)

Table 2.

Regressions, 22 observations				
№	Dependent variable	Independent variables	R <sup>2</sup> (adjusted R-square)	t- statistics
1.	GDPcoeff	0,534* IMFCONC	0,249	2,824
2.	GDPcoeff	0.606*IMFCONC (18 observations <sup>40</sup> )	0.328	3.051
3.	GDPcoeff	0.689*ReformVote	0.448	4.247
4.	GDPcoeff	-0.434A_RefVote	0.148	-2.153
5.	GDPcoeff	0.352*IMFCONC -0.570*Nyears	0.532	2.233 -3.616
6.	GDPcoeff	0.560*Ref_GovShare	0.279	3.022

<sup>38</sup> Crisis – here is post-Revolutionary Recession in post-communist countries.

<sup>39</sup> See 2.3. for the explanation of special importance of the start years of the reform disbursements

<sup>40</sup> Without countries with less tax-payers dependent Governments: Azerbaijan, Kazakhstan, Kyrgyz Republic (violent oppression of legal opposition), Albania (government got the power as a result of violent coup).



№	Dependent variable	Independent variables	R <sup>2</sup> (adjusted R-square)	t- statistics
7.	GDPcoeff	0.348*WB_Sum (18 observations <sup>41</sup> )	0.073	1.576
8.	GDPcoeff	0.084* IMF_Sum	-0.43	0.376
9.	GDPcoeff	0,348*WB_Sum	0,073	1,576
10.	GDPcoeff	0.425*IMF1 + 0.328*IMF2	0.176	2.130 1.645
11.	GDPcoeff	0,560* Ref_GovShare	0,279	3,022

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<sup>41</sup> No data for 4 countries, See Table in Annex 1.