

ICPS newsletter

EBRD cherishes hopes for development of market institutions

The fall of the Berlin Wall in November 1989 was a time of hope for the citizens of Eastern Europe. It was also a time of euphoria and triumphalism, leading some to believe that the process of building market-oriented economies, and democratic societies could be simple and short. But ten years of experience has demonstrated that the transition is complex and long, and that the upheavals and stresses can be harsh. A presentation of the Transition Report 1999, that was published by the European Bank for Reconstruction and Development on the tenth anniversary of the fall of the Berlin Wall, was held at ICPS on February 15. Mr. Julian Exeter, senior economist at EBRD, described the economic situation in transition countries, and discussed the constraints that have held back progress and the forces that move transition forward

Over the past decade, two broad patterns in transition have emerged.

In the more advanced countries, rapid liberalisation and sustained macroeconomic stabilisation have laid the basis for gradual institutional change. These changes have been driven by demand from enterprises and voters and have been shaped by the process of European integration.

In less-advanced countries, progress in liberalisation and privatisation has been slow and uneven, and stabilisation has been jeopardised by the persistence of soft budget constraints. The business environment for new enterprises also remains deeply flawed.

There is a large differences between the CIS states and Central Europe and Baltic countries in key aspects of reforms, quality of the investment environment, and macroeconomic performance. These differences can be attributed in part to differing initial conditions across the countries, but policy choices have also had a significant impact.

Differences in the starting points for transition continue to have a lasting effect on reforms and performance. The costs of introducing reforms typically increases in line with the extent of macroeconomic and structural imbalances inherited from central planning, and with the distance from

dynamic markets from which to learn and adapt and with which to trade. Despite inherited difficulties, the Baltic states and several other CIS countries have made progress and have resisted pressures to backtrack.

Regarding the development of institutions which support markets and private

Next Week

Forecast of Ukraine's Economic Development. An ICPS seminar titled "Forecast of Ukraine's Economic Development in 2000-2001" will be held on March 1.

ICPS economists will present the results of the tenth Quarterly Predictions survey.

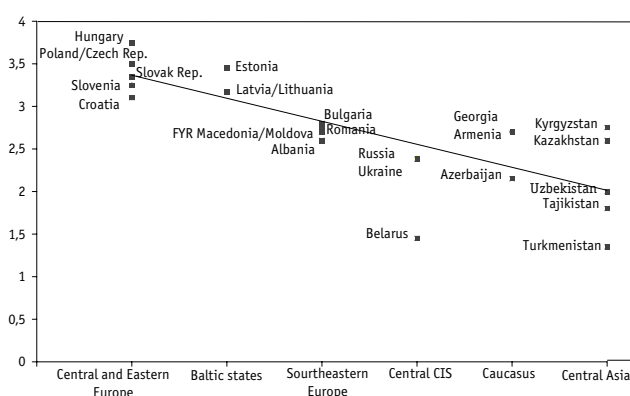
Topics to be presented:

- using macroeconomic forecasts for business and investment planning;
- assumptions and risks concerning the outlook;
- Ukraine's economic development in 1999 and forecast for economic activity in 2000-2001.

Executives and analysts from private companies, as well as commercial and economic attaches from foreign embassies in Ukraine, are invited to participate in the seminar.

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(Olexiy Blinov, Larisa Romanenko).

Regional patterns of reform success



Source: EBRD.

enterprises, the *Transition Report* has emphasised that countries which have achieved sustained progress in liberalisation, macroeconomic stabilisation, privatisation, and openness to foreign trade and investment have also advanced steadily in the development of market institutions. However, the process of institutional change is shaped by many other factors, including legal traditions and foreign assistance. The differences in progress in institutional reform across the transition economies are likely to increase.

Institutional change is inherently slow, and an imbalance has inevitably arisen between the creation of markets and the establishment of appropriate supporting institutions. However, evidence from transition economies reveals that these institutions do develop in response to

market-based demands. The policy challenge lies in shaping this demand by allowing competitive markets to operate. This requires a fair operating environment for new private-sector companies, and effective strategies for restructuring large industrial enterprises. Where soft budget constraints will be allowed to persist, new enterprises are discouraged and there will be a detrimental effect on the demand for institutions and good economic governments.

While demand for institutions may arise from the creation of markets, the supply of institutions depends on the capacity of the state and its responsiveness to its citizens. Transforming the state requires more than its withdrawal from directing economic activity, however. It is also crucial that the state is supportive of markets and private enterprises. Proving

a sound investment climate for entrepreneurship not only yield important benefits from improved economic performance, it will also help to strengthen one of the constituencies for further reforms. New private firms demand equal access to public services, and they create the jobs that will help to alleviate the social costs of further structural change. The ongoing process of international integration can also help guide the development of domestic institutions. This integration occurs many forms, including openness to trade and foreign direct investment and accession to the EU, and can strengthen the demands of local business for market-supporting institutions.

The hope for the second decade of transition is that this voice for marketing-supporting institutions will become stronger. ■

Ternopil implements People's Voice project

A meeting of the Advisory Committee of ICPS's People's Voice project was held on February 15. The goal of this project is to render assistance to cities of Ukraine in improving the quality of government services delivered to the public and businesses, and enhancing the integrity of this process. The Western Ukrainian city of Ternopil is one of several cities, where government bodies, non-government organisations, businesses, and mass media have expressed a strong interest in the project and a wish to take active part in its implementation.

Mr. Viktor Mashevsky, deputy mayor of Ternopil, informed meeting participants about the preliminary results of the People's Voice project in Ternopil

The first step in the People's Voice project in Ternopil was a survey of citizens, businesses, and civil servants on the quality of government services, and the transparency and integrity of activities of civil servants (see **ICPS newsletter** #24 dated June 5, 1999, and #39 dated October 25, 1999). The survey results forced Ternopil's city administration to apply new approaches to public service delivering.

As a part of the project, a conference on "Improving Government Services to the People" was held in Ternopil last June. As the conference result, an Action Plan aimed at improving government service quality was worked out and publicly adopted.

On November 22, 1999, the mayor of Ternopil signed a decree "On creating a working group for implementing the People's Voice project and the Integrity program". According to this decree, five working groups were organised for the following activities: "Administrative Policy", "Economic Development", "Housing and Utilities", "Social Development", and "Urban Planning, Transport, and Communications". All groups drafted action plans aimed at improving the quality of public services.

By February 1, 2000, deputy mayors signed action plans designed by three of the working groups aimed at the improving quality of public services. Proposed activities are divided into two

types—"short-term results" and "strategic changes". This delimitation was caused by a need to urgently show results, including in administrative measures.

At the end of last year and the beginning of the current year, several open public discussions on 1999 budget execution and developing a draft of the 2000 city budget were held. Local authorities, jointly with non-government organisations, scholars, and businessmen, discussed the principles of drafting the 2000 city budget, demand for ensuring budget transparency, ways of resolving relationship problems with higher level budgets, and the issue of legislative support of the budget process.

A Canadian expert at budget analysis, David Amborski, started his work in Ternopil at the invitation of the city mayor. Mr. Amborski will make recommendations on how to increase the effectiveness of the city budget. He will also develop a methodology of holding open budget discussions on drafting the 2001 city budget. ■

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