No.4 / July 2003

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**IIIS Discussion Paper No. 04**

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# The International Community and the CIS-7*

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## Abstract

*The international community has sought to assist the development efforts of the CIS-7 countries since the collapse of the Soviet Union in the early 1990s. The international financial institutions have played a leading role in these efforts. Despite considerable engagement with the governments of these countries, overall progress has been disappointing. In this paper, we review the contribution of the international community to the transition challenge facing the CIS-7 countries and assess whether a change in strategy is warranted.*

Keywords: CIS7, international financial institutions, policy reform, external debt

*Prepared for the IMF-World Bank-EBRD-ADB conference on the CIS-7, Lucerne, January 20-22 2003. Colin Andrews and Charles Larkin have provided helpful research assistance. I thank David Robinson at the IMF for his assistance in sourcing materials and arranging interviews and those staff members that shared their views with me. I am also grateful to Holger Wolf and the other participants in the pre-conference workshop in Washington on October 17 2002. This work is supported by the IIIS.

## 1. Introduction

Without doubt, the collapse of the communist bloc and the dissolution of the Soviet Union during 1989-1991 represented the largest regime change experienced in the world since the 1940s. In terms of economic policy, the countries that emerged from the ruins of the Soviet Bloc faced major challenges in terms of re-moulding institutions and markets to deliver growth and prosperity for their citizens. The scale of the adjustment problem was most acute for the countries in the Former Soviet Union. These countries had economic structures that were directed towards fulfilling specialized roles within the Soviet central planning system: for this group, the challenge of building self-functioning market-based economies was especially severe.

From the beginning, the international community recognized that assistance should be made available to assist the transition process in Central and Eastern Europe and the newly independent states of the Former Soviet Union. Regarding the latter group, the Economic Declaration of the July 1992 G-7 Munich Summit promised[1]

*"We offer the new States our help for their self help."*

This position recognized that the primary responsibility for development resided with the countries of the Former Soviet Union but that their efforts should be supported and facilitated by international aid. The G-7 Munich declaration went on to state

*"We welcome the membership of the new States in the international financial institutions. This will allow them to work out economic reform programmes in collaboration with these institutions and on this basis to make use of their substantial financial resources. Disbursement of these funds should be linked to progress in implementing reforms."*

The international community thereby charged the international financial institutions with a central role in assisting the development efforts of these countries. In tandem

[1] The text is available at the G-7 website maintained by the University of Toronto: http://www.g7.utoronto.ca.

with their new responsibilities in the other transition countries in Central and Eastern Europe, this represented a major new challenge for the multilateral organizations. This statement also explicitly highlighted the importance of conditioning financial support on the success of the authorities in these countries in restructuring their economies: it was envisaged that aid would be allocated in a discriminating fashion and the withdrawal of support was threatened for non-performers. The text also indicates the desirability of a partnership model by which these countries would actively contribute to the design of the reform programmes that would be approved by the international financial institutions.

Our goal in this paper is to examine the contribution of the international community to the development efforts in the CIS-7 countries.[2] This group is defined by low income levels that reflect very sharp output reductions after the collapse of the Soviet Union: these countries are now the target of renewed international development efforts, with the launch of the CIS-7 Initiative in 2002 (see The World Bank et al. 2002). In line with their predominant role as the main conduits for international assistance to these countries, the primary focus is on the role played by the international financial institutions that have been active in these countries (the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and the Asian Development Bank). However, we will also address the other mechanisms by which the international community influences the development of these countries.

The structure of the rest of the paper is as follows. In section 2, we briefly review the debate about appropriate strategy for transition countries. Some basic facts about the CIS-7 countries are presented and discussed in section 3. Section 4 describes and analyses the involvement of the international financial institutions in the CIS-7 economies. We turn in section 5 to discussion of recent initiatives to reform the international financial institutions before addressing their future role in the CIS-7 countries in section 6. Finally, some concluding remarks are offered in section 7.

[2] The CIS-7 countries are Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. These are all members of the Commonwealth of Independent States (CIS).

## 2. The Transition Debate

From the beginning, there was little disagreement among analysts that the ultimate goal was to establish market-based systems in the transition countries. Moreover, it was also widely accepted that macroeconomic stabilization was a required component of any reform strategy.

Beyond those core elements, there has been considerable debate about the relative merits of 'big bang' versus 'gradualist' approaches to reform. Adherents to the former approach took the view that it was best to move rapidly in establishing a market-based system, liberalizing prices and trade as quickly as possible and moving enterprises out of state hands through small- and large-scale privatization programs. At a political economy level, it was argued that a rapid transition would prevent the emergence of blocking coalitions of anti-reformist groups that gained from the status quo or feared change.

Proponents of 'gradualism' rather argued that it inevitably takes time to establish the institutions required to ensure markets operate efficiently and avoid excessive social disruption. Indeed, there is no unique set of institutions that is required to have a successful market economy. In this regard, to name just three policy areas, the industrial countries vary quite significantly in terms of legal codes, welfare programs and financial systems.

Moreover, gradualists claim that popular support for reform could actually be enhanced by a partial, gradualist approach: for instance, a targeted initial reform may assuage fears and in itself create new interest groups that will support and lobby for further stages of reform.[3] Against this view, Fischer (2002) points out that it assumes that a degree of political stability and a capacity to forecast the impact of specific reforms that was absent in many transition countries, most particularly in the CIS. With respect to building institutional capacity, even 'big-bang' adherents recognized the importance of devoting resources to establishing appropriate legal codes, regulatory and tax systems.

[3] See Roland (2002) for a presentation of the gradualist viewpoint.

At an intermediate level, it seems sensible to hold the position that the appropriate speed and nature of reform will differ across countries depending on their initial conditions and specific economic structures. For instance, Sachs (1995) argued that a 'big bang' approach was desirable for countries in Eastern Europe and the Former Soviet Union that were highly urbanized, with extensive social welfare systems and large state-owned industrial sectors which needed rapid dismantling. In contrast, countries that began reform as agriculturally-orientated rural economies with limited social welfare systems (such as China in 1978) could perhaps afford to take a more gradualist approach.[4]

Mukand and Rodrik (2002) highlight the international and locational aspects to determining the nature of reform efforts in different countries. In their framework, appropriate institutions vary across countries and must be discovered through policy experimentation. A country that is a close neighbour to a 'leader' has the option to imitate its institutions and, being fundamentally similar, this is likely to be a successful strategy. At the other extreme, a remote country may not enjoy the demonstration effect provided by a neighboring leader but may achieve success through unfettered experimentation. Since remote countries experiment in order to identify appropriate institutional structures, it also follows that there is likely to be a high variance in outcomes among this group.

The worst off are the intermediate countries: these may be tempted to imitate a leader that is 'not too far away' but this may be a flawed strategy, since their structural differences are such that attempts at institutional transplantation may fail. An additional prediction of this theory is that corruption is an increasing function of remoteness: governments in countries that are closer towards 'leaders' are more constrained in their actions.

These authors conduct an empirical test using the growth and reform experiences of the post-socialist countries. They find a U-shaped relation between growth and

[4] Even reform of agriculture was easier in China than in the Former Soviet Union, due to the peasant nature of farming in the former as compared to the collectivized farm system established under Soviet rule.

distance from the European Union, which is the natural 'leader' for these countries. The fastest-growing transition countries have been those closest to the European Union but the more remote countries (the Kyrgyz Republic, Kazakhstan, Uzbekistan) have done better than intermediate cases such as Russia, the Ukraine, Moldova, Azerbaijan and Georgia. Although intriguing, the Mukand-Rodrik hypothesis only 'explains' the dire performance of a remote country such as Tajikistan by attributing it to institutional experimentation that ex-post proved to be a failure. Moreover, it is plausible that Russia rather than the European Union is the natural anchor for these countries: the instability of the Russian reform process during the 1990s failed to provide much by way of positive example for the CIS-7 countries.

In terms of application to the CIS-7 countries, there are conflicting elements in this debate. At one level, very rapid reform may have been especially difficult for these countries in view of the scale of the development challenges they faced and the absence of a natural policy anchor, such as the prospect of eventual European Union membership provided for the Central and Eastern European transition countries. In related fashion, the initial conditions and political structures of these countries presented the international financial institutions with a different set of challenges to the more advanced and Western-orientated transition countries. At another level, the debate on the sequencing of reforms is quite relevant for these countries: for instance, price liberalization has been considerably easier than tackling more deep-seated institutional deficiencies.

With respect to the political economy of transition, following Aslund et al (2002), a slow pace of stabilization and reform has risked leaving some of these countries in an 'under-reform trap' by allowing the formation and consolidation of anti-reform lobbies and political groups. In addition, it is unclear the extent to which the formation of dynamically-sustainable pro-reform coalitions can be easily predicted in societies with complex ethnic and political structures: designing an 'optimal' gradualist transition strategy for such a country would have been extremely forbidding.

## 3. The CIS-7: Basic Features

Table 1 displays some basic characteristics of the CIS-7 countries.[5] Even by 2001, these remain low-income countries, with Tajikstan among the poorest spots on earth. With the exception of the larger Uzbekistan, these are small (but not tiny) countries in terms of population. Infant mortality rates are poor and life expectancy is well below developed-nation levels. These countries are geographically remote (especially the Central Asian republics) and trading costs are high, with the landlocked countries worst off.[6] Almost all of these countries have been, or continue to be, engaged in serious internal or external conflicts since gaining formal independence.[7]

Compared to the countries in Central and Eastern Europe that had at least some historical experience with a market-based economic system and that operated as quasi-autonomous economies vis-à-vis the Soviet Union, the CIS-7 countries had all been members of the Soviet Union. As such, these countries had been heavily integrated into the centrally-planned Soviet economy, with highly-skewed patterns of specialization and little domestic competence in managing independent economies. I addition, these countries were relatively agricultural compared to the more advanced transition countries.[8]

The output growth and inflation rates for these countries over the 1991-2001 period are shown in Tables 2 and 3.[9] These tables show a pattern of severely negative growth and extremely rapid inflation during the first half of the 1990s but significant stabilization was achieved subsequently, with generally decent output growth in the 1996-2001 period and much lower inflation rates.[10] In some cases, good recent growth

[5] The table shows PPP-adjusted output per capita: the values in current dollars are much lower.
[6] There is an active debate on the importance of geographical factors for economic performance. See Gallup et al (1999).
[7] See Collier (1999) on the severe economic disruption generated by civil wars.
[8] Even by 2001, agriculture still accounted for between 20 percent (Tajkistan) to 40 percent (Armenia) of value-added (source: CIA World Factbook).
[9] With respect to monetary evolution, all of these countries were members of the ruble zone until 1993. See Odling-Smee and Pastor (2001) and Pomfret (2001) on the ruble zone episode and the role of IMF advice on currency arrangements during this period. The inflation rates in Tajikstan and Uzbekistan remain quite high at 38.6 percent and 27.2 percent respectively in 2001 but even these rates are nowhere near the levels experienced in the early and middle 1990s.
[10] To some extent, the data probably exaggerate the scale of the initial output declines, due to well-known measurement problems. Despite being a slow reformer, Uzbekistan experienced a

performance has been aided by natural resource windfalls (oil in Azerbaijan; gold in the Kyrgyz Republic).

The initial phase involved shows a much deeper and more prolonged initial output decline and delayed stabilization as compared to most of the transition economies in Central and Eastern Europe. In this regard, an obvious question to ask is whether the CIS-7 countries were slower reformers than other transition economies. To address this question, Table 4 reports the results for pooled regressions of the form

$$REFORM_{ijt} = \alpha_j + \beta * CIS7_i + \varepsilon_{ijt} \quad (1)$$

where the dependent variable is one of the reform indices reported by the EBRD in its *Annual Transition Report* and $CIS7_i$ is a 0-1 dummy variable that takes the value 1 for CIS-7 countries and 0 for the other transition countries. (The data period is 1991-1999).[11] With the exception of the price liberalization index, the CIS7 dummy variable is significantly negative in all cases, confirming that these countries as a group have lagged behind the reform efforts in other transition countries.[12]

Table 5 repeats the exercise for 1999, the last year in our dataset. At least for some categories, there is evidence of catch-up: the CIS7 dummy variable is no longer significant for trade liberalization, large-scale privatization and the legal reform indicators. However, significant differences in the level of reform between the CIS-7 countries and others in the transition group remain for the other categories.

The CIS-7 countries were especially slow to reform in the initial 1991-1994 period. In most cases, economic development and reform took second place to the struggle between rival blocs for political supremacy, spilling over into civil war in Tajikistan, a

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comparatively mild initial contraction and grew well thereafter. Zettelmeyer (1999) studies this case: according to his findings, its comparatively good growth performance can be attributed to (i) a small inherited industrial sector; (ii) cotton production; and (iii) self-sufficiency in energy.

[11] The values of the EBRD indicators range from 0 to 4, with a higher value indicating a higher level of reform.

[12] The explanatory power of these regressions is typically low. This is not surprising since we know that set of transition countries varies enormously across a range of dimensions. See de Melo et al (2001) and Falcetti et al (2002) for recent analyses of the determinants of reform efforts. Our purpose is merely to document a group difference in average reform efforts.

major insurgency in Georgia, the Transnistria conflict in Moldova, and with Armenia and Azerbaijan in conflict over Nagorno-Karabakh. The comparative weakness of internal political systems in these countries put them at a substantial disadvantage compared to the majority of Central and Eastern European countries. In some cases, officials from the Russian minority within these countries were pushed out for political reasons, with their replacements lacking similar training or experience.

Table 6 reports aggregate aid flows to the CIS-7 countries over 1995-2000. Overall, aid flows have represented a considerable fraction of national incomes. However, there has also been substantial cross-country variation: average aid flows ranged from only 1 percent of GDP for Uzbekistan to 16.9 percent for the Kyrgyz Republic. This variation is not correlated with output per capita (the correlation is an insignificant -0.06) or with the extensiveness of reform (the correlation with a composite of the EBRD indicators is only -0.12).

This brief review suggests that the CIS-7 countries as a group are indeed distinctive in terms of their transition experience. Although significant growth and reform have been achieved since the mid-1990s, these countries did not 'turn the corner' as quickly as, and still largely lag behind, the more advanced transition countries in Central and Eastern Europe. In this context, it is important to address the question of how the international community (and the international financial institutions in particular) have performed in assisting the transition process in these countries and whether alternative strategies to those currently pursued can better tackle the considerable developmental challenges that still face these countries.

## 4. The International Financial Institutions and the CIS-7

As was noted in the introduction, the international community responded to the destruction of the communist bloc by charging the international financial institutions with the task of aiding the transition of the emerging post-communist independent states to 'normal' market economies. Indeed, the EBRD was established in direct response to this challenge, as a complementary agency to the activities of the already-established multilateral institutions.

The CIS-7 countries were quickly admitted to membership of the International Monetary Fund, the World Bank and the EBRD in 1992 following the break-up of the Soviet Union (see Table 7).[13] For those in the region and eligible to join, membership of the Asian Development Bank took longer, with Tajikstan only joining in 1998 and Azerbaijan in 1999.

We can think of the international financial institutions as providing three kinds of assistance: (a) policy advice; (b) technical assistance; and (c) financial support. With regard to the first category and in line with its mandate, the International Monetary Fund has taken the lead in providing advice on macroeconomic stabilization, balance of payments issues and fiscal affairs. However, it also advised in related areas (such as banking stability and banking regulation) and on broader items on the structural reform agenda.

In addition to advice on individual projects and sectoral issues, the World Bank has also been a lead advisor on structural adjustment, public finances and financial sector reform. Policy surveillance and assessments are central to the regular Article IV missions conducted by the International Monetary Fund and the Country Assessment Strategy (CAS) reports prepared by the World Bank, in addition to influencing the conditions attached to the loan and assistance agreements that are negotiated with the individual countries. The policy advice offered by these institutions is now in principle integrated into the Poverty Reduction Strategy Paper (PRSP) process (see Section 5 below).

At one level, there is a broad consensus about the correct ultimate policy targets for these countries. In addition to macroeconomic stability, obvious elements of reform include price and trade liberalization, privatization of small- and large-scale enterprises, the provision of basic infrastructure, the establishment of an investment-friendly business environment, and the implementation of appropriate legal codes and appropriate regulatory structures. Of course, even with a general acceptance of the desirability of all these elements of reform, this still leaves plenty of room for debate

[13] Tajikstan did not join the Washington institutions until 1993.

about appropriate sequencing and the relative priorities among this wish list. There also remains the core issue for the international institutions of the appropriate financing of national development strategies. In addition, the coordination of policy advice to ensure a consistent and streamlined framework presented a considerable management challenge for the multilateral agencies.

However, evaluating the quality of policy advice from the international financial institutions is extremely problematic. Sovereign nations are free to disregard or only loosely implement external policy advice, such that economic outcomes cannot be closely linked to the policy advice given.[14] In addition, country reports by the international institutions do not reveal the full degree of interaction between staff members and the national authorities in policy formation: policy errors may be avoided by private and informal interventions and published documents tend to focus only on a negotiated list of specific policy recommendations rather than on the entire dynamic process of interaction between external advisors and domestic policymakers.

Turning to the policy record of the CIS-7 countries, it seems apparent that the major problem so far has been a failure to sufficiently implement reforms rather than adoption of possibly erroneous policies that were recommended by the external agencies. A more serious concern relates to advice concerning financial policy, in view of the high debt burdens in some of these countries: we turn to this issue below.

At a more challenging level, it could also be argued that the international financial institutions could have done more to understand the political obstacles to rapid reform in the CIS-7 countries and assist in the design of appropriately gradualist strategies that cumulatively build a reform momentum. Aside from the difficulty of correctly selecting such strategies in real time and without the benefit of hindsight, it raises the fundamental issue of the appropriateness of the international financial institutions becoming too involved in domestic political decisions.

In terms of technical assistance, the international financial institutions devoted considerable resources to providing technical advice to the CIS-7 and other transition

[14]Of course, economic performance is also influenced by various shocks that may disrupt the forecasts generated by policy analysts.

countries.[15] This took various formats from short-term training courses to financing long-stay technical experts to advise on the establishment of central banks, budgetary procedures, corporate and bankruptcy law and financial regulation. Table 8 lists the raw number and sectoral distribution of technical assistance missions from the International Monetary Fund to some of the CIS-7 countries in recent years. As befits its expertise, these missions have primarily been to provide technical advice on monetary and exchange affairs and fiscal processes.

The delivery of such technical assistance presented the multilaterals with substantial resource and logistical demands. The success of these programs was inevitably greater in the more straightforward areas (such as the establishment of a functioning central bank) than in achieving rapid progress in improving the quality of governance in 'softer' areas such as establishing a predictable rule of law. It also relied on the domestic governments exploiting the lessons from short-term training modules and efficiently using long-stay resident advisors. To a significant degree, the flow of trained personnel from the public to the private sector (especially in the financial sector area) meant that much technical assistance required periodic repetition, in order to train in new cohorts of policy officials.[16]

Table 9 reports some broad external debt statistics for the CIS-7 countries for the years 1995 and 2000. We take 1995 as a useful initial reference point, since lending to most of the CIS-7 countries was more restricted before 1995 due to political instability and internal military conflicts. Moreover, there was an initial bilateral learning period, as the international financial institutions studied these little-known economies and the governments of these countries gained awareness of the financing options that were available from the multilaterals.[17] The failure to achieve early macroeconomic stabilization also disqualified these countries from significant levels of funding during the initial years following independence.

[15] The European Union through its TACIS program, some UN agencies and bilateral donors have also provided technical assistance in specific policy areas.
[16] However, this cannot really be interpreted as being of zero value in that there is a social benefit to building up the expertise of the private sector in these countries.
[17] In some cases (e.g. Tajikistan in 1993), the World Bank provided grant aid to assist the government in managing and making effective use of external assistance. See also Zecchini (1995).

Since 1995, the CIS-7 countries have generally experienced sharp increases in the ratio of external debt to output and debt growth was most dramatic in the Kyrgyz Republic, Moldova and Tajikistan. The fallout from the ruble devaluation by Russia in 1998 also contributed to the adverse debt dynamics, since many of these countries also responded with large depreciations vis-a-vis the US dollar that had the effect of increasing the real burden of foreign-currency debt liabilities.

Excessive debt levels are now a concern in several of these countries. Georgia and the Kyrgyz Republic have both negotiated Paris Club agreements (in 2001 and 2002 respectively) that has led to some reduction and rescheduling of bilateral debts and others (e.g. Armenia and Moldova) have also renegotiated debts with some individual creditors.[18]

Apart from oil-rich Azerbaijan, debt liabilities are overwhelmingly long-term in maturity. However, as is clear from Table 9, this does not reflect a capacity to issue long-term debt to private investors but rather a heavy reliance on official financing.[19] The large rise in official external debt relative to output during this period does not suggest an unwillingness by the international financial institutions to provide financing for these countries.

Indeed, it may even represent 'overlending' to extent that borrowed funds were inefficiently deployed and the accumulated debt burden is constraining development strategy in some of these countries. In turn, overlending may be the result of excessive optimism on the part of the multilaterals in terms of the anticipated growth performance of these economies or may reflect an inability to deprive badly-behaved governments from obtaining access to official funding. In the latter case, international resources are wasted and debtor moral hazard is encouraged in that a failure to deliver reform need not involve a sustained suspension from borrowing. The international institutions may in the short-term raise the spectre of not agreeing to a new financial program or disbursing certain funds but the pressure to stay 'engaged' in such

[18] See http://www.clubdeparis.org for details. Debt-equity swaps and other conversion arrangements have also been part of these debt renegotiations.
[19] In some countries (Moldova, Tajikistan and Uzbekistan), long-term debt owed to private institutions has noticeably increased.

countries means that it is much more difficult to withdraw from lending for a longer period of time.

Tables 10 and 11 provide details on the financial relations between the CIS-7 and the IMF. Table 10 shows that stand-by arrangements were the initial source of financing for these countries, which were then succeeded by other mechanisms such as the Enhanced Structural Adjustment Facility (ESAF). More recently all but Uzbekistan have entered into Poverty Reduction and Growth Facility (PRGF) arrangements with the Fund.[20] Table 11 shows cumulative disbursements and repayments over 1994-2002, plus details on charges/interest paid. The importance of cumulative IMF financing ranged from just 2 percent of GDP in Uzbekistan to 24.1 percent in Moldova. It is notable that the correlation between DISB/GDP and output per capita is significantly negative at -0.81: the poorer countries receive proportionately more IMF funding.

We turn to World Bank lending to the CIS-7 countries in Tables 12 and 13. Table 12 shows that the cumulative value of World Bank loan commitments has been quite significant in each of the CIS-7 countries. However there is also considerable variation across the countries from a minimum of 15 percent of GDP in Tajikistan to 35 percent in Uzbekistan. This pattern is quite systematic in that the correlation between the commitment share and the level of GDP per capita is 0.82: the higher income countries receive proportionally more World Bank funds. This correlation may reflect a insufficient number of high-quality projects that meet World Bank hurdle criteria in the poorest countries.

The contrast with the financing-income correlation for IMF financing is also quite striking. Table 13 shows the sectoral composition of World Bank lending commitments. Projects are spread over a large number of sectors, with the ‘legal and public administration’ category being the single largest recipient. This seems appropriate, in that the single greatest challenge facing these countries is to improve the quality of governance.

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[20] The PRGF replaced the ESAF in 1999.

We next report EBRD activity in Table 14. The EBRD's investments in the CIS-7 countries have been substantial, totalling almost €2 billion. Although the EBRD in principle takes both equity and debt stakes in targeted enterprises, debt comprises 94 percent of its commitments in these countries and it is 100 percent for many of the individual projects. In line with its mission to act as a strategic partner for private firms and governments, the EBRD share in the value of these projects is 29 percent.

Only a fraction of CIS-7 countries are members of the Asian Development Bank (see Table 7). Table 15 shows ADB lending to these countries.[21] In the aggregate, commitments total 885 million dollars. (In both the Kyrgyz Republic and Tajikistan, the ADB is a more important source of finance than the EBRD.) The focus of ADB lending is largely directed at infrastructural development (energy and roads projects), microfinance initiatives and institution building (financial systems, social services): 65 percent goes to either transport/communications or social infrastructure projects.

The terms of multilateral financing are an important topic for debate. As was discussed in section 2, there have been several prominent calls for a shift towards concessional loan terms and outright grants in financing low-income reformist countries. In this regard, as is shown in Table 16, there is considerable variation among the CIS-7 countries. At one extreme, the poorest country (Tajikstan) enjoys concessional terms on almost all of its multilateral debt. At the other, the multilateral debt of Uzbekistan is almost entirely at non-concessional terms. This mix has also changed over time. For instance, World Bank lending has increasingly taken the form of concessional IDA loans. The PRGF program at the International Monetary Fund has also improved the generosity of the terms of its lending to these countries.

Having described the financial support provided by the international financial institutions to the CIS-7 countries, we turn now to asking some questions about the effectiveness of multilateral lending to this pool of countries. In Table 17, we examine whether an increase in multilateral debt is associated with an increase or decrease in other sources of financing (bilateral debt and private debt). This is an important issue, since it is essential to know the joint behavior of multilateral and other sources of

[21] Azerbaijan has only recently joined the ADB and no loans have as yet been approved at the time of writing.

funds in order to understand the total net impact on the recipient country. We run regressions of the form

$$DEBT_{it}^{X} = \alpha + \beta\, DEBT_{it}^{MLT} + \varepsilon_{it} \qquad (2)$$

where X denotes bilateral or private per-capita debt and MLT denotes multilateral debt. We consider two variants: pooled and fixed-effects specifications. From columns (1) and (2) of Table 17, we observe a positive relation between the levels of multilateral debt and bilateral debt.[22] Regarding private debt, the pooled specification in column (3) does not show a significant relation with multilateral debt but this is overturned in the fixed-effects specification in column (4). It is interesting to note that columns (2) and (4) yield the same point coefficients: the within-country co-movement with respect to multilateral debt is the same for debt from private lenders as debt from bilateral creditors.

The fixed-effects results in Table 17 indicate that a credit multiplier does exist for the CIS-7 countries in the sense that multilateral debt appears to leverage bilateral and private lending. To some extent, this may be the deliberate result of co-financing arrangements (e.g. between the EBRD and some bilateral donors). More generally, it possibly reflects the important role played by multilateral lending in signalling the quality of the investment climate in a given host country: if a country fails to qualify for multilateral financial assistance, it may be viewed as a poor candidate for bilateral or private funding. A more pessimistic interpretion runs along the over-borrowing lines: in political settings in which multiple powerful groups have access to fiscal resources, an increase in official financial assistance may prompt a disproportionate increase in inappropriate expenditures. This is labelled the ‘voracity effect’ by Tornell and Lane (1999): their theoretical model predicts that an increase in aid also generates an increase in other borrowings.

The analysis in Tables 18-20 asks whether debt flows respond to reforms in the CIS-7 countries. The answer to this question may provide some information for the conditionality debate. The standard prescription is that well-behaved reformers should

[22] We do not claim to show that this is a causal relationship but merely that these variables are significantly correlated. A causality test would require much more information than is available.

be rewarded with increased financial support, whereas funding cannot be justified for serial non-reformers.[23] Against this view, if the multilateral institutions play the role for the international community as the 'creditors of last resort,' humanitarian considerations may militate against denying funding to a desperately-poor country, regardless of its reform record. Moreover, it is reasonable to conjecture that, at least in some finely-balanced political equilibria, a persistent lack of financing may diminish the probability of reform by increasing the relative influence of isolationalists versus outwardly-orientated integrationist political blocs.[24] Finally, another relevant consideration is that a country with a good reform record may be able to achieve access to private sources of credit and hence graduate from dependence on official financial flows.

Our regression specification is

$$FLOW_{it}^{X} = \alpha + \beta\, REFORM_{it-1} + \varepsilon_{it} \tag{3}$$

where $FLOW_{it}^{X}$ is the year-t per-capita financial flow from lender class X (multilaterals, bilaterals and private banks) and $REFORM_{it-1}$ is the value of a given reform indicator from year t-1. In order to conserve space, we do not report results for each individual EBRD reform indicator. Rather, we just include the two most important economic reforms (price and trade liberalization) and two composite indicators (SINDEX and MINDEX). SINDEX is just the unweighted average of the EBRD indicators that were earlier reported in Tables 4 and 5.[25] Following Wolf (2002), we also include the geometric average of the variables (MINDEX), in order to allow for possible interactions among the various components of structural reform. The time period is 1996-2000.

The results for the pooled specifications in Table 18 do indeed show a positive cross-country relation between the level of reform and financial flows from the multilateral institutions: those countries that have done more liberalization of prices and trade

[23] Indeed, non-reformers may indirectly benefit from exclusion from funding if it stimulates reform in these countries.
[24] See Eichengreen and Casella (1996).
[25] We omit the legal reform indicators, since these are only available for 1998-1999.

receive more multilateral financial flows.[26] However, with the exception of the price liberalization variable, the fixed-effects specifications show that the within-country relation is actually negative: a country that improves its reform record experiences a decline in multilateral flows. As noted above, interpreting such a negative pattern is difficult. On the one side, it may be consistent with multilaterals failing to reward reform or, conversely, countries avoiding reform by relying on the availability of external financing. On the other side, it may simply signal that reform improves access to private sources of financing.

The evidence on the relation between reform and bilateral financial flows is given in Table 19. In this case, we see no time-series connection between reform and bilateral flows: a country that improves its reform performance does not experience greater bilateral financial inflows. However, at least for the composite indicators SINDEX and MINDEX, the pooled specifications do suggest that, in the cross-section, those countries that are further along the reform path receive more bilateral support.

Finally, we turn to private debt flows in Table 20. The simple pooled specification does not do a very good job in explaining the cross-sectional variation in private debt flows: the results are typically insignificant, with the only exception being a positive relation between trade liberalization and private flows. However, the time-series fixed-effects results are quite striking: if a country improves its reform record, it experiences a growth in private bank financial inflows.[27] In combination with the fixed-effects results for multilateral flows in Table 18, the picture that emerges is that reform tends to alter the composition of the source of financial flows away from multilaterals and towards private flows. Indeed, such a reconfiguration could be a desirable evolution as countries move up the reform ladder. However, to the extent that it does indeed reflect a failure of the multilaterals to sufficiently reward reform, it is potentially a cause for concern. Of course, the results presented here are only

[26] The pooled results also confirm this for the key price liberalization and trade liberalization indices, such that these results hold across countries also. However, the pooled results are not significant for the broader composite indices SINDEX and MINDEX: these variables only are significant along the time series dimension for multilateral flows.

[27] For trade liberalization, SINDEX and MINDEX. The price liberalization indicator is not significant. The lack of explanatory power for price liberalization throughout Tables 17-19 may just reflect that the major phase of price liberalizatiosn was largely completed before our sample period begins.

suggestive: a more comprehensive empirical framework would be required to fully test these hypotheses.

In summary, this section has reviewed some elements of the involvement of the international financial institutions in the post-Soviet experiences of the CIS-7 countries. The institutions have certainly responded to the mandate of the international community to play an active role in the reform efforts of these countries on all fronts (policy advice, technical assistance and financial support). Although errors have undoubtedly occurred --- we will return to the high official debt burdens in some of these countries that are a matter for serious concern --- it would be difficult to claim that the CIS-7 countries would have performed better without the interventions of these agencies. However, the CIS-7 remain under-developed, as do many other low-income countries, and so it is appropriate to ask more from the international financial institutions in terms of finding new ways to promote development and growth.

## 5. A New Role for the International Financial Institutions

The last several years have seen much effort to reform the international financial institutions. Among the major influences on this debate have been the regular reviews by the G-7 countries, especially at the summits at Halifax (1995), Cologne (1999), Okinawa (2000) and Rome (2001). In addition, the US Congress established an International Financial Institution Advisory Commission (the 'Meltzer Commission') that reported in 1999. The institutions themselves have also responded with self-critical reports and the initiation of major changes in their organizational and operational structures.[28]

Although the reform agenda was in part inspired by the large-scale international financial crises that were experienced during the 1990s, there was also considerable dissatisfaction with the performance of the international financial institutions in assisting the development of low-income countries. For instance, the 1998 World

[28] See also Buira (2002) on the evolution of IMF thinking regarding the conditionality debate.

Bank report *Assessing Aid* provided a severe critique of the failure of aid to improve performance in countries that maintained distorted policy regimes, whereas it confirmed that aid did indeed play a useful role in countries with sound management that were firmly on the reform path.

A central principle in this new thinking is that national development strategies are most effective if 'owned' by domestic society. Ownership is established by ensuring the participation of the broad political establishment, the social partners and civil society in the process of designing and evaluating development strategies and targets. The role of the international community in this process to provide external advice and technical support as needed and to ensure the design of financial assistance programs is consistent with the domestic development strategy. Consistency involves both arranging the financing required to make the strategy feasible and setting conditions on aid that reinforce the incentives to fulfil the targets specified in the strategy document.

At one level, this is the very philosophy underlying the Poverty Reduction and Strategy Paper (PRSP) process that has been adopted by the International Monetary Fund and World Bank. In turn, the PRSP feeds into an overall Comprehensive Development Framework (CDF) process that attempts to marshall the advice and assistance coming from the World Bank's Country Assistance Strategy, the International Monetary Fund's Poverty Reduction and Growth Facility and the policy frameworks of the other multilateral development banks and the United Nations.

In this way, it is hoped that the assistance provided by the international community can be better streamlined and coordinated across the various agencies.[29] Moreover, a comprehensive framework may also improve efficiency by facilitating greater specialization by individual institutions. Emphasizing the goal of poverty reduction in low-income countries is also intended to sharpen the focus of the multilateral development banks and the work of the International Monetary Fund in these countries.

[29] See the International Monetary Fund and World Bank (2002) for an analysis of the scope for improved coordination between the two institutions.

Although it is difficult to argue against a holistic approach to understanding the development needs of each country, there is a concern that an excessively broad agenda may lead to mission creep and a loss of focus for individual agencies. In particular, the involvement of the International Monetary Fund in long-term poverty-reduction programs is troubling to some observers, since it represents a departure from its traditional mandate.[30] However, the counter-argument is that overall consistency requires that all institutions be involved in understanding the broad development strategy for each individual country. This is perfectly consistent with the lending and policy surveillance activities of each agency remaining specialized, with the International Monetary Fund largely focusing on advising and monitoring performance in terms of the appropriate macroeconomic policies and the multilateral development banks more involved in the sectoral and institutional elements in achieving progress on reform and structural change.

In terms of development priorities, it is also recognized that the international financial institutions need to support and insist on better governance in borrower countries. In addition to providing financial and technical assistance to improve the quality of public sector management, expenditure programs and legal and regulatory codes and practices, this also involves regular monitoring of the performance of borrower countries in improving governance. By implication, a country that persists with inadequate governance structures and anti-developmental policies may be deemed a poor candidate for continued financial support. Moreover, under such circumstances, financial assistance may do more harm than good if it is allocated to inappropriate projects or disappears through corruption.

Striking the correct balance on this issue poses a major challenge for the international financial institutions. On the one side, the withdrawal of support from a regime that fails to promote development must be seen to be a credible threat: there have to be circumstances under which this option is exercised. Given the poor reform record of the CIS-7 countries and the observed accumulation of high levels of external debt, the existing evidence suggests that this option could perhaps have been exercised at an

[30] Indeed, the Meltzer Commission recommended the abolition of the PRGF program at the International Monetary Fund.

earlier point in some of these countries. Although some factors behind the increase in the debt burden may not have been easy to forecast (e.g. the spillover from the 1998 Russian ruble devaluation and debt default), it is arguable that the multilaterals were too willing to lend to countries that had a small short-term likelihood of engaging in reform. Of course, this kind of lending pattern has also occurred in other developing countries. For instance, Easterly (2001) provides a sharp critique of the lending culture of the World Bank and the poor returns on many of the supported projects.

On the other side, it is quite understandable that the multilaterals may even opt to remain engaged with countries that persistently fail to deliver. As previously noted, there may be a fear that non-engagement will strengthen the political hand of anti-reform political elements. In addition, the leaders of the international financial institutions may feel under pressure from the official policies of their major shareholders to be active in supporting these countries: the political fallout of walking away could be considerable.

There is no easy solution to this problem. However, based on the history of the relations between the multilaterals and the CIS-7 countries, it seems that an essential element of a 'new start' is to establish that a withdrawal of support will indeed occur in the event of an egregious failure to fulfil commitments. In combination with this tough love in response to non-performance, another important element of the new approach is to recognize that more grant aid and a greater degree of concessionality in loan conditions is appropriate for countries that are prepared to reform but are still reliant on official financing. In part, this is a reaction to the adverse development status of many highly-indebted poor countries. More generally, it also reflects the fact that the resources required for rapid development exceed the level that can be comfortably borrowed and that excessive external debt distorts and constrains development strategies.

An element of this initiative is to encourage renewed efforts at debt reduction packages, both vis-à-vis the multilaterals but also with respect to bilateral creditors (e.g. through Paris Club agreements). This in part recognizes that previous financial assistance was perhaps inappropriately designed: a high debt burden reflects bad

decisions by lenders as well as debtors. In addition, it is motivated by the need to enable these countries to undertake a fresh start.

The reforms have also involved a new emphasis on transparency and public access to core economic data. Although not designed with the CIS-7 countries primarily in mind, these countries have also been affected by the drive for greater openness. The websites of each of the international financial institutions provide large amounts of information about the economies and policies of these countries, plus their financial dealings with the multilaterals. Indeed, Armenia, Azerbaijan and the Kyrgyz Republic have already hosted ROSC (Report on the Observation of Standards and Codes) Fiscal Transparency Missions.[31]

At another level, the international financial institutions have developed mechanisms for more accountability in their own activities: for instance, the International Monetary Fund has established an independent Evaluation Office to study its performance in a range of areas and it has invited external reviews of its research and surveillance operations in recent years.

## 6. The Future Role of the International Community in Assisting the CIS-7

It remains fundamentally true that the future development of the CIS-7 countries is primarily the responsibility of the countries themselves. This requires a massive and sustained commitment by the key domestic actors in these countries to formulate and establish the required institutions and deploy the appropriate resources that will permit their countries to pursue sustainable development.

That said, the recent UN-organized Monterrey Financing for Development conference and Johannesburg World Summit on Sustainable Development have reinforced the commitment of the international community to provide multi-faceted assistance in this effort. Building a ‘global partnership for development’ is one of the UN’s Millennium Development Goals: developing countries not expected to go it alone. Indeed, the CIS-7 initiative itself is evidence of a renewed determination by the international

[31] For Armenia, a ROSC is also available with respect to Data Dissemination.

community (and the international financial institutions in particular) to do more to facilitate economic growth and poverty reduction in those countries that have been lagging behind in the development process.

However, it is not the case that the international financial institutions, at least as currently constituted, can deliver all the assistance required by the CIS-7 in their development efforts. At a financial level, the resources controlled by the international financial institutions are limited and deployment is subject to the constitutions and mandates of these organizations. As such, bilateral sources and 'global' funds that aggregate donations from individual donors must be recognized as important potential components of overall financial assistance. In this regard, in view of the competition for funds provided by other low-income countries, a challenge for the CIS-7 countries is to demonstrate to such potential donors that they are indeed worthy recipients of assistance, since each individual donor must weigh the marginal impact of extra aid in alternative destinations.

In the near term, these considerations also carry over into negotiations concerning debt relief and rescheduling from official bilateral donors at the Paris Club. Sachs (2002) argues that the terms of debt relief should be considered on a country-by-country basis, using in-depth analysis of each country's specific profile and prospects. This would represent a major change from current conventions that apply a set of uniform numerical criteria (e.g. with respect to GDP per capita, the debt-export ratio, and the ratio of private to official bilateral debt) in order to determine the scale of relief that is due each candidate country.[32]

Of course, it is also desirable that donor nations also increase the aggregate pool of funds that are potentially transferable to low-income countries such that all countries that meet reform criteria may receive access to sufficient funding. On this front, it is important that the donor countries strive to meet the aid targets set under the Millennium Development Goals. To ameliorate the proliferation problem, increased pooling of funds among donors is also to be encouraged. For the CIS-7 countries,

[32] The most recent Paris Club agreement for a CIS-7 country was for the Kyrgyz Republic in March 2002. It qualified for 'Houston terms' which provides an 'intermediate' level of favourable treatment.

further integration of aid policies by European Union members would be particularly beneficial.

In addition, catalyzing private financial flows is an important goal if sufficient financing is to be provided. Indeed, Buiter and Lankes (2000) argue that the constrained resources of the international financial institutions means that their mandates should be generally re-orientated towards facilitating private flows to low-income countries. In addition to helping governments to create the institutional and infrastructural conditions for market-orientated growth (which is already the goal of the international financial institutions), this also possibly involves them becoming participant investors in collaboration with the private sector through various arrangements.[33] Exploring an enhanced role for public-private partnerships and innovative ways by which the multilaterals can leverage private capital flows has also been supported by the United Nations (2002).

It is also the case that the complexity of the development challenges facing these countries is such that the scope of required policy advice and technical assistance is far broader than can be feasibly be provided by the World Bank and, especially, the International Monetary Fund. Zecchini (1995) concluded his evaluation of the performance of the international financial institutions in the transition countries with

"*… the question remains as to whether other instruments apart from the IFIs have to be mobilized to help some reforming countries catch up in the quest for a liberal and prosperous economy.*"

The required consistency of approach across member countries inevitably constrains the multilateral institutions in their ability to deviate too far from 'normal' terms and conditions in individual countries: the legitimacy and universality of these institutions relies on taking an even-handed approach. The financial structures of the institutions are also such that a higher volume of lending in one zone constrains the capacity to act in other regions that are deserving of assistance. Kapur (2002) also emphasizes that the international financial institutions do not have the competence or the

[33]Zecchini (1995) also highlights the potential of investment partnerships with the private sector.

flexibility to provide assistance on all aspects of the institution-building process that must take place in such countries.

Along these lines, United Nations agencies such as the FAO, WHO, UNICEF and UNECE potentially have much to offer in specific reform areas, as do some non-governmental organizations and European Union programs. One implication is that, even if the two Washington-based institutions do a reasonable job in coordination, the problem of streamlining and managing the supply of policy advice and technical assistance from a broad set of agencies is in itself a considerable challenge. Moreover, for full effectiveness, an awareness of the activities and resource needs of these other agencies must feed back into the operations and lending decisions of the international financial institutions.

Recent efforts to improve the targeting and better coordinate the delivery of technical assistance across the institutions are also to be welcomed. This involves greater specialization in areas of core competence by each institution. Beyond the traditional function of training government officials, an interesting potential development would be to include representatives from civil society as participants (see International Monetary Fund 2002).[34] This would have the effect of broadening the capacity for more effective program design and improving the quality of the PRSP process. Another innovation that may be relevant for the CIS is the recent establishment of two IMF regional technical assistance centers in Africa. A similar regional base may be useful for the CIS, including the spillover benefits from the joint training of officials from neighboring countries.

Beyond the direct aid provided by the international community to the individual CIS-7 countries, their development has other international dimensions. Clearly, it is desirable that the European Union and other industrial countries further liberalize access to imports from these and other developing countries. Promoting cooperation among the CIS countries in reducing trade barriers and, where feasible, the cross-border integration of energy networks are positive-sum endeavours.

[34] An interesting historical parallel is that the Ford Foundation supported in the 1960s the development of a non-governmental policy think tank in Ireland, in order to establish an independent source of expertise on policy analysis.

Regional associations can also provide useful opportunities for information exchange, learning about reform experiments elsewhere and enhancing cooperation on policy initiatives. Moreover, they can establish (formally or informally) feasible performance benchmarks that may stimulate reform efforts. Such 'yardstick' competition also generates peer pressure on laggards to improve performance.[35] Of course, although they do not form a contiguous geographical group, it is to be hoped that participation by these countries in the CIS-7 initiative in itself can provide some of these benefits of membership of an international association. Enhanced international monitoring, cross-member demonstration effects and the potential for information exchange about policy and institutional developments should all have beneficial effects on the quality of governance in these countries.

The prospects for development of the CIS-7 countries would also be greatly enhanced by a more rapid economic recovery in the collective CIS region and Russia in particular. As such, an improved effort by the international community to assist the CIS-7 countries is best conducted in the context of a sustained strategy for the overall CIS.[36] In turn, sustaining and deepening recent reforms in Russia would provide important leadership in demonstrating to the other CIS countries the viability and net gains to embracing a more complete transition strategy.

## 7. Conclusions

Our goal in this paper has been to review and evaluate the performance of the international community and the international financial institutions in assisting the development of the CIS-7 countries, with an eye towards identifying the appropriate strategies for the future.

At least in some dimensions, the CIS-7 countries have made notable progress since the mid-1990s and the international financial institutions have been heavily involved

[35] See also Braga de Macedo (2002) on the potential of regional arrangements in stimulating reform and development efforts.

[36] Of course, the needs of the different member countries vary greatly and the nature of assistance may differ both in terms of intensity and form as between the low-income CIS-7 countries and other countries in the region.

in efforts to encourage reform in these countries. However, the deeper reforms that remain are primarily the responsibility of the domestic authorities: for instance, it would be an infringement of sovereignty for the international financial institutions to insist on particular designs for domestic public institutions and legal codes. If the international community wishes to more directly intervene in these areas, the international financial institutions are not the appropriate agents for such state-building exercises.

In terms of policy advice, the initial focus was on securing macroeconomic stabilization but the major priority has been to advance the reform agenda, especially in redefining the role of government in these countries. The resources committed to technical assistance have been substantial: however, the greatest success has inevitably been in the more technocratic policy areas (such as establishing functioning central banks), with relatively less penetration in the more diffuse areas such as establishing the rule of law and creating an investment-friendly business environment. Related to the conclusion in the previous paragraph, this reflects the limits of the scope of the international financial institutions.

Financial flows from the international financial institutions to the CIS-7 countries have been very significant, as have bilateral flows in some cases. The large rise in official external debt relative to output during this period does not suggest an unwillingness to provide financing for these countries and may even represent 'overlending.' In part, this signals that the institutions should become tougher in assessing whether financial support will be well used in each case. However, it also suggests that greater concessionality is desirable for those countries that demonstrate a commitment to reform and development.

At this stage, many of these recommendations for change have already begun to be reflected in the official policies and practices of the international financial institutions and their major shareholders. In regard to the CIS-7 countries, perhaps the major challenge now is to ensure effective implementation of the new procedures and financial policies. Since all of these countries will likely remain clients of the international financial institutions into the medium-term, this involves a sustained commitment to assist these countries in formulating and appropriate development

strategies. However, it also requires a determination to rigorously discriminate between progressive and anti-reform actions by the policymakers. In this way, by rewarding and encouraging progress in reform, the international community and the international financial institutions will continue to have an essential role in supporting the CIS-7 countries .

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Table 1. The CIS-7 Basic Facts

| | Per Capita GDP | Population | Infant Mortality | Life Expectancy | Landlocked? | Major Conflict? |
|---|---|---|---|---|---|---|
| Armenia | 2807.8 | 3.34 | 41.3 | 66.5 | Yes | Yes |
| Azerbaijan | 3225.6 | 7.77 | 83.1 | 63 | Yes | Yes |
| Georgia | 2839.1 | 4.99 | 52.4 | 64.6 | No | Yes |
| Kyrgyz Republic | 2822.8 | 4.75 | 76.5 | 63.5 | Yes | No |
| Moldova | 2351.5 | 4.43 | 42.7 | 64.6 | Yes | Yes |
| Tajikistan | 1207.2 | 6.58 | 116.1 | 64.2 | Yes | Yes |
| Uzbekistan | 2515.9 | 22.2 | 71.9 | 63.8 | Yes | Yes |

Note: Data from CIA World Factbook and World Bank's World Development Indicators. The economic and social indicators are for 2001. Per capita GDP is in PPP current international dollars; Population is in millions; Infant mortality is mortality rate per 1000 births.

Table 2. Output Growth Rates of CIS-7, 1991-2001

| | ARM. | AZE. | GEO. | KYR. | MOL. | TJK. | UZB. |
|---|---|---|---|---|---|---|---|
| 1991 | -12.4 | -0.7 | -21.1 | -7.8 | -17.5 | -7.1 | -0.5 |
| 1992 | -52.6 | -22.7 | -44.9 | -13.9 | -34.6 | -28.9 | -11.1 |
| 1993 | -14.1 | -23.1 | -29.3 | -15.5 | -1.2 | -11.1 | -2.3 |
| 1994 | 5.4 | -19.7 | -10.4 | -19.8 | -30.9 | -21.4 | -4.2 |
| 1995 | 6.9 | -11.8 | 2.6 | -5.4 | -1.4 | -12.5 | -0.9 |
| 1996 | 5.9 | 1.3 | 10.5 | 7 | -5.9 | -4.4 | 1.6 |
| 1997 | 3.3 | 5.8 | 10.6 | 9.9 | 1.6 | 1.7 | 2.5 |
| 1998 | 7.3 | 10 | 2.9 | 2.1 | -6.5 | 5.3 | 4.3 |
| 1999 | 3.3 | 7.4 | 3 | 3.7 | -3.4 | 3.7 | 4.3 |
| 2000 | 6 | 11.1 | 1.9 | 5.4 | 2.1 | 8.3 | 3.8 |
| 2001 | 9.6 | 9 | 4.5 | 5.3 | 6.1 | 10.2 | 4.5 |

Note: Source is IMF's World Economic Outlook database.

Table 3. Inflation Rates of CIS-7, 1991-2001

| | ARM. | AZE. | GEO. | KYR. | MOL. | TJK. | UZB. |
|---|---|---|---|---|---|---|---|
| 1991 | 100.3 | 105.6 | 78.5 | 85 | 162 | 111.6 | 109.7 |
| 1992 | 824.5 | 912.6 | 887.4 | 853.8 | 1276 | 1156.7 | 645.2 |
| 1993 | 3731.8 | 1129.7 | 3125.4 | 772.4 | 788.5 | 2194.9 | 534.2 |
| 1994 | 5273.4 | 1664 | 15606.5 | 190.1 | 329.6 | 350.4 | 1568.3 |
| 1995 | 176.7 | 411.8 | 162.7 | 43.5 | 30.2 | 610 | 304.6 |
| 1996 | 18.7 | 19.8 | 39.3 | 32 | 23.5 | 418.2 | 54 |
| 1997 | 14 | 3.7 | 7 | 23.5 | 11.8 | 88 | 70.9 |
| 1998 | 8.7 | -0.8 | 3.6 | 10.5 | 7.7 | 43.2 | 29 |
| 1999 | 0.7 | -8.5 | 19.1 | 35.9 | 39.3 | 27.5 | 29.1 |
| 2000 | -0.8 | 1.8 | 4 | 18.7 | 31.3 | 32.9 | 25 |
| 2001 | 3.2 | 1.5 | 4.7 | 7 | 9.8 | 38.6 | 27.2 |

Note: Source is IMF's World Economic Outlook database.

Table 4. The CIS-7 and Reform: 1991-1999 Panel Estimation

| | CIS-7 | adj R2 | N | Period |
|---|---|---|---|---|
| Price Liberalization | -0.16<br>(1.62) | 0.01 | 225 | 1991-1999 |
| Trade Liberalization | -0.86<br>(4.91)*** | 0.09 | 225 | 1991-1999 |
| Small-scale Privatization | -0.69<br>(4.42)*** | 0.07 | 225 | 1991-1999 |
| Large-scale Privatization | -0.35<br>(2.59)** | 0.02 | 225 | 1991-1999 |
| Enterprise Reform | -0.51<br>(6.05)*** | 0.1 | 225 | 1991-1999 |
| Competition Policy | -0.49<br>(3.32)*** | 0.02 | 225 | 1991-1999 |
| Infrastructure Reform | -0.56<br>(3.3)*** | 0.12 | 50 | 1998-1999 |
| Banking Sector Reform | -0.61<br>(6.15)*** | 0.11 | 222 | 1991-1999 |
| Reform of Non-Banking Sector | -0.57<br>(7.1)*** | 0.14 | 220 | 1991-1999 |
| Legal Extensiveness | -0.3<br>(1.68)* | 0.02 | 70 | 1998-1999 |
| Legal Effectiveness | -0.65<br>(3.68)*** | 0.11 | 70 | 1998-1999 |

Note: Reform indicators taken from EBRD's Annual Transition Reports. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

Table 5. The CIS-7 and Reform: 1999 Cross-Section

| | | CIS-7 | adj R2 | N | Period |
|---|---|---|---|---|---|
| (1) | Price Liberalization | -0.05<br>(.29) | -0.04 | 25 | 1999 |
| (2) | Trade Liberalization | -0.29<br>(.6) | -0.03 | 25 | 1999 |
| (3) | Small-scale Privatization | -0.4<br>(1.72)* | 0.03 | 25 | 1999 |
| (4) | Large-scale Privatization | -0.21<br>(.74) | -0.03 | 25 | 1999 |
| (5) | Enterprise Reform | -0.46<br>(2.98)*** | 0.11 | 25 | 1999 |
| (6) | Competition Policy | -0.45<br>(2.29)** | 0.09 | 25 | 1999 |
| (7) | Infrastructure Reform | -0.55<br>(2.1)** | 0.08 | 25 | 1999 |
| (8) | Banking Sector Reform | -0.66<br>(2.47)*** | 0.1 | 25 | 1999 |
| (9) | Reform of Non-Banking Sector | -0.64<br>(2.75)*** | 0.16 | 25 | 1999 |
| (10) | Legal Extensiveness | -0.36<br>(1.16) | 0.01 | 25 | 1999 |
| (11) | Legal Effectiveness | -0.53<br>(1.54) | 0.06 | 25 | 1999 |

Note: Reform indicators taken from EBRD's Annual Transition Reports. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

Table 6. Total Aid Flows to the CIS-7 (As a Percentage of Gross National Income)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | AVG |
|---|---|---|---|---|---|---|---|
| Armenia | 7.6 | 18.3 | 10.1 | 7.5 | 11.3 | 11.2 | 11.0 |
| Azerbaijan | 4.9 | 3.1 | 4.7 | 2.3 | 3.7 | 2.8 | 3.6 |
| Georgia | 11.5 | 10.3 | 6.5 | 4.6 | 8.4 | 5.6 | 7.8 |
| Kyrgyz Rep. | 19.5 | 12.9 | 14.1 | 14.4 | 24.1 | 16.7 | 16.9 |
| Moldova | 2.2 | 2.1 | 3.3 | 2.3 | 8.9 | 9.0 | 4.6 |
| Tajikistan | 2.9 | 10.4 | 9.6 | 8.4 | 11.9 | 15.2 | 9.8 |
| Uzbekistan | 0.8 | 0.6 | 1.0 | 1.1 | 0.9 | 1.4 | 1.0 |

Notes: Source is World Bank's *World Development Indicators* Online Database.

Table 7. Year of Membership of the International Financial Institutions

| ***Country*** | ***IMF*** | ***WB*** | ***EBRD*** | ***ADB*** |
|---|---|---|---|---|
| Armenia | 1992 | 1992 | 1992 | .. |
| Azerbaijan | 1992 | 1992 | 1992 | 1999 |
| Georgia | 1992 | 1992 | 1992 | .. |
| Kyrgyzstan | 1992 | 1992 | 1992 | 1994 |
| Moldova | 1992 | 1992 | 1992 | .. |
| Tajikistan | 1993 | 1993 | 1992 | 1998 |
| Uzbekistan | 1992 | 1992 | 1992 | 1995 |

Note: Taken from www.imf.org; www.worldbank.org; www.ebrd.org; www.adb.org.

Table 8. IMF Technical Assistance: Selected Countries

| | ARM | KYR | TJK |
|---|---|---|---|
| Fiscal Affairs Division | 3 | 7 | 14 |
| Monetary and Exchange Rate Affairs | 9 | 12 | 15 |
| Statistics | 4 | 9 | 11 |
| Legal | | | 1 |
| Treasury | | | 1 |
| Annual Average | 4 | 5.6 | 4.2 |
| Period | 1998-2001 | 1996-2001 | 1992-2001 |

Note: Sources are IMF Country Reports.

Table 9. External Debt Statistics, 1995 and 2000

| | Debt/GNI | | LT/Total | | MLT | | BILAT | | BANK | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2000 | 1995 | 2000 | 1995 | 2000 | 1995 | 2000 | 1995 | 2000 |
| ARM | 13 | 46 | 80 | 76 | 70 | 72 | 30 | 26 | 0 | 3 |
| AZE | 11 | 24 | 64 | 58 | 48 | 46 | 52 | 26 | 0 | 27 |
| GEO | 68 | 54 | 84 | 80 | 24 | 37 | 67 | 60 | 10 | 3 |
| KYR | 19 | 150 | 78 | 83 | 39 | 48 | 61 | 31 | 0 | 21 |
| MOL | 23 | 91 | 66 | 85 | 47 | 39 | 47 | 12 | 6 | 49 |
| TJK | 28 | 125 | 93 | 85 | 0 | 17 | 88 | 14 | 12 | 42 |
| UZB | | | 79 | 91 | 17 | 12 | 55 | 40 | 28 | 49 |

Note: Data are from World Bank's Global Development Finance Online Database. Debt/GNI is the ratio of total external debt to gross national income. LT/Total is ratio of long-term to total external debt. MLT, BILAT and BANK refer to the shares of long-term debt that are owed to the multilateral institutions, bilateral donors and private lenders respectively.

Table 10. History of Lending Arrangements with IMF: Recent Activity

| | Facility | Arranged | Expired or Cancelled | Agreed | Drawn | Outstanding |
|---|---|---|---|---|---|---|
| **ARM** | PRGF2 | 23/05/2001 | 22/05/2004 | 91.07 | 13.2 | 13.2 |
| **ARM** | PRGF2 | 14/02/1996 | 20/12/1999 | 99.78 | 99.78 | 99.78 |
| **ARM** | PRGF | 14/02/1996 | 20/12/1999 | 44.54 | 44.54 | 37.86 |
| **ARM** | SBA | 28/06/1995 | 14/02/1996 | 57.91 | 17.82 | 0 |
| | | | ***Total*** | ***293.29*** | ***175.34*** | ***150.84*** |
| **AZE** | PRGF2 | 06/07/2001 | 05/07/2004 | 106.18 | 21.25 | 21.25 |
| **AZE** | PRGF2 | 20/12/1996 | 19/03/2000 | 96.5 | 81.06 | 81.06 |
| **AZE** | PRGF | 20/12/1996 | 19/03/2000 | 27.03 | 27.03 | 24.33 |
| **AZE** | EA | 20/12/1996 | 19/03/2000 | 77.21 | 70.27 | 65.44 |
| **AZE** | SBA | 17/11/1995 | 16/11/1996 | 77.21 | 77.21 | 0 |
| | | | ***Total*** | ***384.13*** | ***276.81*** | ***192.08*** |
| **GEO** | PRGF2 | 12/01/2001 | 11/01/2004 | 142.54 | 65.33 | 65.33 |
| **GEO** | ESAF | 28/02/1996 | 13/08/1999 | 117.2 | 117.2 | 117.2 |
| **GEO** | ESAF | 28/02/1996 | 13/08/1999 | 109.87 | 109.87 | 98.89 |
| **GEO** | SBA | 28/06/1995 | 28/02/1996 | 95.22 | 29.3 | 0 |
| | | | ***Total*** | ***464.83*** | ***321.7*** | ***281.41*** |
| **KYR** | PRGF2 | 06/12/2001 | 05/12/2004 | 96.87 | 30.94 | 30.94 |
| **KYR** | PRGF2 | 26/06/1998 | 25/07/2001 | 96.85 | 58.98 | 58.98 |
| **KYR** | ESAF | 20/07/1994 | 31/03/1998 | 21.28 | 21.28 | 21.28 |
| **KYR** | ESAF | 20/07/1994 | 31/03/1998 | 95.06 | 95.06 | 72.81 |
| **KYR** | SBA | 12/05/1993 | 11/04/1994 | 35.75 | 15.32 | 0 |
| | | | ***Total*** | ***345.81*** | ***221.58*** | ***184.01*** |
| **MOL** | PRGF2 | 21/12/2000 | 20/12/2003 | 146.34 | 36.58 | 36.58 |
| **MOL** | EA | 20/05/1996 | 19/05/2000 | 178.17 | 115.48 | 103.52 |
| **MOL** | SBA | 22/03/1995 | 21/03/1996 | 77.21 | 42.76 | 0 |
| **MOL** | SBA | 17/12/1993 | 16/03/1995 | 68.3 | 68.3 | 0 |
| | | | ***Total*** | ***470.02*** | ***263.13*** | ***140.11*** |
| **TJK** | PRGF2 | 24/06/1998 | 24/12/2001 | 132.38 | 103.31 | 94.96 |
| **TJK** | SBA | 08/05/1996 | 07/12/1996 | 19.8 | 19.8 | 0 |
| | | | ***Total*** | ***152.17*** | ***123.11*** | ***94.96*** |
| **UZB** | SBA | 18/12/1995 | 17/03/1997 | 164.58 | 86.38 | 0 |

Note: Data sourced from IMF website. Millions of US dollars. PRGF2 is Poverty Reduction and Growth Facility Trust Fund; ESAF is Enhanced Structural Adjustment Facility; SBA is Stand-By Arrangement; EA is Extended Arrangements.

Table 11. IMF Transactions with CIS-7: 1994-2002

| | | ARM | AZE | GEO | KYR | MOL | TJK | UZB |
|---|---|---|---|---|---|---|---|---|
| GRA | DISBURSE | 62.4 | 299.0 | 102.5 | 57.9 | 319.9 | 39.6 | 218.0 |
| | REPAY | 158.9 | 135.9 | 68.9 | 49.0 | 201.5 | 33.4 | 152.2 |
| | FEE | 16.4 | 60.3 | 27.0 | 17.5 | 68.8 | 7.2 | 53.8 |
| PRGF | DISBURSE | 157.5 | 129.3 | 292.4 | 206.3 | 36.6 | 103.3 | 0.0 |
| | REPAY | 8.9 | 2.7 | 11.0 | 25.6 | 0.0 | 8.4 | 0.0 |
| | FEE | 3.3 | 2.5 | 5.5 | 4.4 | 0.2 | 1.5 | 0.0 |
| TOTAL | DISBURSE | 219.9 | 428.3 | 395.0 | 264.1 | 356.4 | 142.9 | 218.0 |
| | REPAY | 50.9 | 138.7 | 80.0 | 74.6 | 201.5 | 41.8 | 152.2 |
| | FEE | 19.7 | 62.9 | 32.5 | 21.9 | 69.0 | 8.7 | 53.8 |
| | DISB/GDP | .11 | .08 | .13 | .17 | .24 | .14 | .02 |

Note: Data sourced from IMF website. GRA is the general resource account; PRGF is the Poverty Reduction and Growth Facility. DISBURSE are disbursements; REPAY repayments; and FEE refers to charges and interest payments. Cumulative flows. Millions of US dollars. DISB/GDP is cumulative disbursements as a ratio to GDP in 2001 in current US dollars

Table 12. World Bank Lending to CIS-7: Cumulative to end-2001

| | ARM | AZE | GEO | KYR | MOL | TJK | UZB |
|---|---|---|---|---|---|---|---|
| Commitments | 696 | 531 | 651 | N/A | 505 | 302 | 539 |
| Disbursements | 513 | 301 | 460 | 449 | 351 | 189 | 251 |
| COMM/GDP | 0.35 | 0.26 | 0.32 | N/A | 0.25 | 0.15 | 0.27 |
| DISB/GDP | 0.25 | 0.15 | 0.23 | 0.29 | 0.17 | 0.09 | 0.12 |

Note: Data sourced from World Bank. Millions of US Dollars. COMM/GDP and DISB/GDP are ratios of cumulative commitments and disbursements to 2001 GDP in current US dollars.

Table 13. Sectoral Composition of World Bank Lending

| | LAW | IND | AG | EM | TRAN | FIN | WSF | HSS | ED | IC |
|---|---|---|---|---|---|---|---|---|---|---|
| ARM | 0.22 | 0.20 | 0.14 | 0.12 | 0.09 | 0.08 | 0.06 | 0.05 | 0.04 | 0.01 |
| AZE | 0.20 | 0.11 | 0.12 | 0.14 | 0.07 | 0.15 | 0.14 | 0.05 | 0.01 | 0.00 |
| GEO | 0.26 | 0.20 | 0.04 | 0.19 | 0.09 | 0.06 | 0.03 | 0.10 | 0.03 | 0.00 |
| KYR | | | | | | | | | | |
| MOL | 0.27 | 0.25 | 0.14 | 0.06 | 0.01 | 0.17 | 0.01 | 0.04 | 0.05 | 0.01 |
| TJK | 0.24 | 0.17 | 0.13 | 0.04 | 0.03 | 0.17 | 0.07 | 0.12 | 0.02 | 0.02 |
| UZB | 0.12 | 0.33 | 0.10 | 0.00 | 0.05 | 0.08 | 0.26 | 0.06 | 0.00 | 0.00 |
| SUM | 0.22 | 0.21 | 0.11 | 0.10 | 0.06 | 0.11 | 0.09 | 0.07 | 0.03 | 0.00 |

Note: Data sourced from World Bank website. Shares in total cumulative commitments. LAW is the ‘law and public administration’ category; IND ‘Industry & Trade’; AG ‘Agriculture’; EM ‘Energy & Mining’; TRAN ‘Transport’; FIN ‘Finance’; WSF ‘Water, Sanitation, Flood Protection’; HSS ‘Healthcare & Social Services’; ED ‘Education’; and IC ‘Information & Communication’.

Table 14. EBRD Activity: Cumulative Investments to end-2001

| | Total EBRD | EBRD Debt | EBRD Equity | Total Project |
|---|---|---|---|---|
| ARM | 140.4 | 115.6 | 24.8 | 222.2 |
| AZE | 393.1 | 378.2 | 14.9 | 2984.6 |
| GEO | 249.1 | 234.8 | 14.2 | 939.9 |
| KYR | 189.9 | 175.1 | 14.8 | 771.8 |
| MOL | 210.7 | 191.3 | 19.5 | 364 |
| TJK | 37.7 | 34.1 | 3.6 | 64.4 |
| UZB | 689.6 | 657.3 | 32.3 | 1353.6 |
| TOTAL | 1910.5 | 1786.4 | 124.1 | 6700.5 |

Note: Data sourced from EBRD website. Millions of euro. Total Project is estimated value of projects part-financed by EBRD.

Table 15. Asian Development Bank Loan: Cumulative Lending to 2002

| | KYR | TJK | UZB | AVG | SUM |
|---|---|---|---|---|---|
| Total | 293 | 126 | 466 | 295 | 885 |
| Shares: | | | | | |
| Agriculture/Nat.Resources | 0.12 | 0.10 | 0.08 | 0.10 | 0.09 |
| Transport/Communications | 0.32 | 0.31 | 0.26 | 0.30 | 0.29 |
| Social Infrastructure | 0.21 | 0.16 | 0.52 | 0.29 | 0.36 |
| Finance | 0.24 | 0.00 | 0.15 | 0.13 | 0.16 |
| Multi-Sectoral | 0.05 | 0.36 | 0.00 | 0.14 | 0.07 |
| Other | 0.05 | 0.08 | 0.00 | 0.04 | 0.03 |

Note: Data sourced from ADB website. Millions of US dollars. AVG is the unweighted average across the countries; SUM is the total lending to the three countries. Shares are the proportions allocated to the individual sectors.

Table 16. Importance of Concessional Flows from the IFIs

| | IMF | World Bank | RDB |
|---|---|---|---|
| Armenia | 79% | 98% | 0% |
| Azerbaijan | 0% | 100% | 0% |
| Georgia | 78% | 100% | 0% |
| Kyrgyz. Rep. | 0% | 100% | 78% |
| Moldova | 7% | 34% | 0% |
| Tajikistan | 77% | 100% | 100% |
| Uzbekistan | 0% | 0% | 1% |

Note: Ratio of concessional to total cumulative net financial flows over 1994-2000. Data are from the World Bank’s World Development Indicators Online Database.

Table 17. Is there a Credit Multiplier to Multilateral Lending?

| | | Multilateral | Adj R2 | NOBS |
|---|---|---|---|---|
| Bilateral | (1) | 0.16<br>(3.71)*** | 0.06 | 41 |
| | (2) | 0.21<br>(9.44)*** | 0.97 | 41 |
| Bank | (3) | 0.02<br>(0.34) | -0.02 | 42 |
| | (4) | 0.21<br>(3.23)*** | 0.33 | 42 |

Notes: Debt data taken from joint BIS-IMF-OECD-World Bank external debt database. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

Table 18. Do Debt Flows Reward Reform? Multilateral Flows

| | | Multilateral | Adj R2 | NOBS | FE? |
|---|---|---|---|---|---|
| Price Liberalization | (1) | 16.31<br>(5.41)*** | 0.08 | 35 | No |
| | (2) | 1.5<br>(1.36) | 0.47 | 35 | Yes |
| Trade Liberalization | (3) | 3.44<br>(1.99)** | 0.05 | 35 | No |
| | (4) | -9.35<br>(3.74)*** | 0.63 | 35 | Yes |
| SINDEX | (5) | 3.41<br>(.78) | -0.03 | 35 | No |
| | (6) | -21.3<br>(3.27)*** | 0.59 | 35 | Yes |
| MINDEX | (7) | 0.97<br>(.21) | -0.02 | 35 | No |
| | (8) | -21.1<br>(2.95)*** | 0.6 | 35 | Yes |

Note: Debt data taken from joint BIS-IMF-OECD-World Bank external debt database. Reform indicators taken from EBRD. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

Table 19. Do Debt Flows Reward Reform? Bilateral Flows

| | | Bilateral | Adj R2 | NOBS | FE? |
|---|---|---|---|---|---|
| Price Liberalization | (1) | -1.03<br>(1.4) | 0.08 | 33 | No |
| | (2) | -1.12<br>(1.57) | 0.47 | 33 | Yes |
| Trade Liberalization | (3) | 0.37<br>(.51) | 0.05 | 33 | No |
| | (4) | 0.17<br>(.25) | 0.63 | 33 | Yes |
| SINDEX | (5) | 2.68<br>(1.8)** | 0.08 | 33 | No |
| | (6) | 0.43<br>(.25) | 0.35 | 33 | Yes |
| MINDEX | (7) | 2.74<br>(1.75)* | 0.09 | 33 | No |
| | (8) | 0.35<br>(.19) | 0.35 | 33 | Yes |

Note: Debt data taken from joint BIS-IMF-OECD-World Bank external debt database. Reform indicators taken from EBRD. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

Table 20. Do Debt Flows Reward Reform? Bank Flows

| | | Bank | Adj R2 | NOBS | FE? |
|---|---|---|---|---|---|
| Price Liberalization | (1) | 0.73<br>(.08) | -0.03 | 35 | No |
| | (2) | -7.6<br>(1.0) | 0.51 | 35 | Yes |
| Trade Liberalization | (3) | 6.11<br>(2.14)** | 0.08 | 35 | No |
| | (4) | 10.95<br>(2.23)*** | 0.59 | 35 | Yes |
| SINDEX | (5) | 8.72<br>(1.48) | 0.01 | 35 | No |
| | (6) | 23.95<br>(2.1)** | 0.57 | 35 | Yes |
| MINDEX | (7) | 5.34<br>(1.03) | -0.02 | 35 | No |
| | (8) | 24.43<br>(2.18)** | 0.57 | 35 | Yes |

Note: Debt data taken from joint BIS-IMF-OECD-World Bank external debt database. Reform indicators taken from EBRD. t-statistics in paretheses. ***, **, * denote significance at the 1, 5 and 10 percent levels respectively.

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