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WORLD INSTITUTE FOR DEVELOPMENT ECONOMICS RESEARCH  
PROJECT ON THE TRANSFORMATION OF CENTRALLY PLANNED ECONOMIES  
REPORT ON ACTIVITIES, FIRST HALF OF 1992

I. Introduction

The two-year WIDER project, "The Transformation of Centrally Planned Economies: The Lessons for Developing Countries," led by Professor Jeffrey D. Sachs of Harvard University, has now been completed.<sup>1</sup> In accordance with the Agreement between FINNIDA and WIDER, the project team is submitting this report, which includes a progress report and financial statement for the six month period, January to June.

More specifically, the report includes the following five parts:

1. A progress report describing the activities undertaken by the team during the period January 1 - June 30, 1992.
2. An itemized description of research outputs over the entire project period.
3. A listing of papers completed during the six month reporting period.
4. A listing of the actual work of the team, which can be compared with the tentative work plans submitted at the beginning of the period.
5. A financial statement according to budget categories for the first half of 1992.

A final report and financial statement will be submitted by the end of October 1992 in accordance with the Agreement.

The following progress report begins with a general description of the project, its members, and the progress made during the reporting period. This is followed by a more detailed summary by country, of the research that the project team has

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<sup>1</sup> The sole activity remaining to be completed is a conference on the lessons of the project for developing countries to be held in Helsinki in September.

undertaken during the period. The next section describes how the lessons for developing countries have been derived and transmitted. This is followed by a review of the interactions between the project team and members of the Finnish academic community. Finally, the report explains the calculation of the various budget items in the attached financial statement.

## II. Overview and Overall Progress

During the current reporting period, the core project team consisted of three senior members (Professor Jeffrey Sachs, Dr. David Lipton, and Professor Andrei Shleifer), and four junior members. The three senior members were based in the United States, from where they have made numerous trips to Eastern Europe and Russia. Among the junior members, Dr. Ardo Hansson continued to be based in Helsinki, Dr. Alain de Crombrughe and Mr. Joakim Stymne were based in Warsaw, and Mr. John Anderson was based in Moscow.

With the addition of Professor Andrei Shleifer last December, the team was able to strengthen its focus on Russia and the CIS states, and intensify its research into structural adjustment issues. Dr. Shleifer, a professor at Harvard University, is a leading expert in the fields of corporate finance and corporate governance. During the last seven months, Dr. Shleifer has studied issues related to privatization in the context of the Russian economic reform program. He has worked intensively with the Russian State Committee on Privatization, serving as an economic advisor to Deputy Prime Minister Chubais. In this capacity, he has played a central role in the formulation of the Russian privatization program enacted into law by the Russian Parliament in June. This work has led to several research papers on this subject (described below).

As has been described in earlier reports, the first two six-month periods under the program were spent exploring the most fruitful country settings, policy issues, and research themes, and the third six-month period was spent consolidating research activities. The most recent six-month period, the reporting period, has been devoted to two principle activities: (i.) a number of papers have been prepared on the basis of the foundation of work achieved by the team; and (ii.) a new initiative has begun in studying the economic transformation of Russia and the other independent states of the former Soviet Union.

The team's efforts in Russia have taken on a special importance, as Professor Sachs, Dr. Lipton, and Dr. Shleifer have been named formally as foreign economic advisors to the Russian Government by Prime Minister Yegor Gaidar. These appointments are strong testimony to the experience, learning, and accomplishments of the project team in Poland and elsewhere during the early part of this project and to the support for this work from WIDER and

FINNIDA. The work now underway in Russia builds importantly on the experience and learning achieved by the project team in the earlier stages of the project, and the team's contribution in Russia would have been impossible without this foundation.

To strengthen their policy advisory role and their research activities, the project members have linked their activities with those of other foreign economic advisors to the Russian Government. An economic advisory group for Russia has been formed headed by Professor Sachs and Professor Anders Aslund of the Stockholm Institute for East European Studies. In this way, the project team can coordinate its policy analysis and research activities with Professor Aslund and others involved in the Russian reforms.

Before proceeding to the body of the report, the project team would like to list changes in project activities and in project emphasis, to respond to a request from FINNIDA. First, the team expanded its work in Russia substantially. This change coincided with the launching of an economic transformation program by the Government of Russia. Second, the team has begun to study economic reform in Estonia and Ukraine, although the team's involvement is less there than in the case of Russia. Third, the team's involvement in Poland, Slovenia, and Mongolia have been scaled back considerably. Team members have been preparing research papers on the basis of completed work in these countries, but ongoing research efforts in each country have been on a small scale (and team members have not travelled to Slovenia or Mongolia during the period).

#### A. Macroeconomic stabilization

The project team has shifted its focus in the area of macroeconomic stabilization to the case of Russia and the newly independent states. The team maintained an active presence in Poland, and produced papers on issues related to the continuing stabilization problems of Poland. But, the main focus of the project team has been Russia, with an emphasis on macroeconomic stabilization issues and the prospects for privatization. In addition, Dr. Hansson has devoted a major part of his research to the issues of monetary reform and stabilization in the Baltic States, and Estonia in particular.

In terms of outputs, the team produced papers and speeches on the continuing Polish stabilization and the problems and prospects for stabilization in Russia. The work on Russian stabilization has centered on the following two aspects of stabilization: first, determining the what institutional reforms of the monetary system (within Russia and throughout the ruble area) are required to make the ruble a well-functioning money and to make stabilization possible; and, second, determining the role to be played by foreign finance in Russia's stabilization efforts.

## B. Structural adjustment

Another very important focus for the team continues to be the area of structural adjustment. The work of the team has centered on three related subthemes.

### 1. The liberalization of international trade

One important part of the economic transformation process is the liberalization of external trade. Trade liberalization offers a greater degree of economic integration with the rest of the world, and allows competitive forces from the outside to discipline domestic monopolies.

During the reporting period, two junior team members have directed their research efforts in this area. Dr. Boone, a former junior team member now working in Russia and retaining an affiliation with our team, has prepared a study on Russian balance of payments prospects and Mr. Anderson has prepared a study on the liberalization of Russia's external trade system.

### 2. Privatization of state-owned enterprises

As in previous periods, the team has devoted considerable time and resources to the study of privatization. The continuing emphasis on privatization reflects the fact that, of all elements of the transformation in Eastern Europe, this has proven to be among the most difficult. Yet privatization is of central importance as regards both the stabilization and structural adjustment objectives of countries engaged in economic transformation. The team has studied privatization efforts to date in Eastern Europe and has attempted to draw lessons from these experiences for other countries.

Professor Sachs, Dr. Lipton, and Professor Shleifer have worked with Deputy Prime Minister Chubais and the staff of the Russian State Committee on Privatization. One part of this work was to bring to Russia some of the lessons of the team's research efforts in Poland and elsewhere. Another part of the effort was to assist the Russian authorities prepare their own mass privatization program. In mid-June, the Russian Parliament approved mass privatization legislation proposed by the State Committee.

### 3. C.I.S. interstate economic relations

One of the more difficult areas of economic reform for Russia and the independent states concerns interstate economic relations. The issues involved include trade, payments, and monetary and credit policy coordination. What is required are a set of reforms aimed at the introduction of workable, cooperative arrangements that will facilitate real trade and financial flows. The project team has studied these issues, and has produced research papers on

the management of the ruble area and the creation of appropriate interstate monetary institutions and practices.

### C. External debt

As has been the case throughout the project, the Sachs team continues to research the issue of external debt burden reduction. This has involved looking at the role that debt relief plays in the process of economic stabilization and the restoration of viable balance of payments positions.

While earlier team efforts centered on the successful Polish debt reduction arrangements, during the past six months the team has studied the debt problem of Russia and the other independent states. These states need temporary debt relief through rescheduling (not debt forgiveness), but the case is complicated by the question of the allocation of the debts of the former Soviet Union among the various states, the issue of joint and several liability of all states, and the divergent pace of reform and capacity to pay of the various states.

## III. Research Activities and Themes of the Core Group

### A. Topics of investigation by country

#### 1. Poland

The team has continued its research efforts in Poland, although the nature of its involvement has changed somewhat. With the change of Government in January 1992, the Polish authorities entered into a period in which economic reform was slowed as a consequence of political disputes. In this context, the Sachs team focussed more on the completion of ongoing research efforts, more so than the initiation of new research projects. The senior and junior team members have been engaged in the following research activities during the reporting period.

a. The team continues to follow and analyze the overall course of the reform process. This process has involved continuing contacts with Polish policymakers and academics. One of the several written outputs soon to be completed is a draft of a WIDER book on the Polish economic transformation by Professor Sachs and Dr. Lipton. This volume brings together the authors' findings and recommendations regarding the many aspects of the transformation that they have studied.

b. Dr. Lipton and Dr. de Crombrugghe have recently completed a paper analyzing the evolution of the Polish budget and relating these developments to the economic transformation process. The research involved an extensive study of Polish budgetary practices

and developments over the pre- and post-transformation period. The paper explores the process of budget reform during the transformation, and stresses the implications of Poland's experiences for other countries undergoing the transformation.

c. Mr. Stymne has undertaken a two-part study of Polish enterprise profitability. First, he studied the evolution of wages and prices in Poland during the transformation process. His analysis, described in a note entitled "Wages in the Polish Economy," demonstrates the impact of wage and price developments on enterprise profitability, the budget, and other key macroeconomic variables. Second, he analyzed detailed enterprise performance data, to identify elements responsible for developments in profitability and production, and is preparing a paper entitled "The Polish Profit Squeeze" based on this analysis.

d. Mr. Andrew Berg, a former junior team member, has continued his research on the logistics of privatization (begun under the project). He bases his research on the experiences of Poland. He has recently completed a paper on this subject.

e. Mr. Bozidar Djelic, a summer intern in the summer of 1991 and subsequently an advisor in the Polish Ministry of Privatization, has prepared a paper on the development of capital markets in Poland.

## 2. Russia

When Yegor Gaidar was named Deputy Prime Minister of Russia and placed in charge of economic reform, the work of the Sachs team in Russia intensified. As mentioned in the last six-month report, several of the Russian members of the team's Soviet stabilization study group entered into government as members of the Gaidar economic team. As formal foreign economic advisors to the Gaidar team, Professor Sachs, Dr. Lipton, and Dr. Shleifer have played an important role in conducting policy analysis and offering policy advice to the Government. The team has been involved in policy analysis and research in the following areas:

a. macroeconomic stabilization -- the team has worked closely with the Gaidar team offering advice on the design and implementation of stabilization policies.

b. reform of the monetary system -- the team has analyzed the functioning of the banking system and the ruble payments mechanisms, and Professor Sachs and Dr. Lipton have prepared a paper offering analysis and suggestions for the reform of the monetary system

c. trade liberalization -- the team has worked with authorities of the Ministry of Foreign Economic Relations, and Mr. Anderson has prepared a paper on the external trade system

d. exchange rate system liberalization (and the creation of convertibility) -- the team has analyzed the many issues surrounding the liberalization of the exchange rate system and the establishment of currency convertibility

e. external debt management -- the team has presented its analysis of Russia's debt situation and offered its views of the lessons from Poland and Eastern Europe

f. privatization -- the team has had an extensive interaction with the State Committee on Privatization and has helped in the design of the mass privatization program legislation recently enacted by Parliament. Dr. Shleifer has written several papers on the subject of privatization in Russia. One paper outlines the basic issues and describes the early steps toward privatization. Another paper describes the design of a voucher program for the distribution of privatization shares to the population.

g. industrial policy -- the team has offered an analysis of the appropriate design and finance of industrial policy

h. social policy -- the team has offered the authorities an analysis of certain economic aspects of social policy

i. foreign financial assistance -- the team has helped the authorities analyze their foreign financing needs and to prepare their requests for assistance

j. relations with the international financial institutions -- the team has helped the authorities prepare for negotiations with international financial institutions

### 3. The Baltic States

Professor Sachs and Dr. Hansson have both been involved in the economic transformation now underway in Estonia. In March, Professor Sachs and Dr. Hansson visited Estonia together and helped the Government and Central Bank design its new currency and monetary system. They developed a proposal for a currency board approach to the introduction and management of the new currency, the kroon. Their proposal treated important technical considerations needed to ensure the proper functioning of such a system. The Estonian Government and Central Bank successfully introduced the kroon in March.

More generally, Dr. Hansson has intensified his research efforts in the Baltic States, particularly in Estonia. He was formally appointed by the Prime Minister of Estonia as an economic advisor to the Government early in 1992. This appointment was in recognition of his knowledge and expertise, and the experiences studying the transformation of centrally planned economies acquired

as a member of the Sachs team.

During the reporting period, Dr. Hansson travelled regularly from Helsinki to Talinn. In these visits, his work with the Estonian authorities focussed on the following areas:

- a. the preparation for the introduction of the Estonian kroon, which occurred in June
- b. the macroeconomic stabilization of the Estonian economy
- c. preparations for Estonian membership in the IMF, and the initiation of negotiations with the IMF regarding western financial support for Estonia
- d. the analysis of reforms needed to improve Estonian trade and payments with the newly independent states of the former Soviet Union

Dr. Hansson has also lectured widely in Finland, elsewhere in Scandinavia, Estonia, and elsewhere in the Baltic States. His lectures have been aimed at disseminating the lessons and experiences of countries engaged in economic transformation.

#### IV. Consultants and summer interns

The team engaged a number of consultants in the period, to assist in the difficult task of analyzing the monetary, financial, and structural problems of the Russian economy. These consulting projects were very successful and have provided important technical assistance for the Russian authorities early in their crisis.

Professor Stanley Fischer, Professor of Economics at the Massachusetts Institute of Technology and former chief economist of the World Bank, travelled to Moscow in May to analyze the monetary and banking system in Russia. In addition, Professor Charles Wyplosz, Professor of Economics at INSEAD in France and an expert on monetary economics, travelled to Moscow to work on the same set of topics. Their visits came at a time when the problem of interenterprise arrears was crippling Russia's industrial and banking system. A key focus of their work was to analyze the interenterprise arrears problem, evaluate the various plans being developed to cope with the problem (by the Government, the Parliament, and the Central Bank), and develop alternative approaches to the problem. This work led to a proposal, prepared by Professor Fischer, Professor Sachs, and Dr. Lipton, for an interenterprise clearinghouse and other procedures for overcoming the financial crisis. A version of this proposal has since been adopted by the Government of Russia. In addition, Professor Fischer conducted a general review of the need for and prospects for financial sector reform.



Dr. Peter Boone, formerly a junior member of the project team, returned to Moscow early in 1992 as a consultant. His project was to conduct an analysis of Russia's balance of payments crisis, prepare a 1992 balance of payments projection, and assist the Russian authorities in their preparation of a request for international financial assistance. His January balance of payments projection showed a \$24 billion financing gap, identifying the amount of funds eventually committed by the Group of Seven. He has written a paper entitled "Russia's Balance of Payments Prospects" summarizing the results of his work. In March, Dr. Boone joined a team sponsored by the Ford Foundation and will build upon his consulting work over the coming year.

Jonathan Hay, a Harvard Law student and Rhodes Scholar, travelled to Moscow to conduct a study of the prospects for mass privatization in Russia. He quickly became a trusted advisor to Deputy Prime Minister Anatoly Chubais, and has provided important economic, legal, and logistical analysis to the staff of the State Committee on Privatization. In March, Mr. Hay also joined the team sponsored by the Ford Foundation and will continue his work in Russia over the coming year.

The project team engaged Barry Hager, a US national, as a consultant during the project period. Mr. Hager conducted a study on several aspects of the finance of economic transformation in Russia and the other CIS states. The study focused, in particular, on developing methods for the utilization of credits and credit guarantees from western official export credit agencies as a form of finance for the restructuring and transformation of Russian industry. The special case considered was the U.S. Export-Import Bank. Mr. Hager's study also reviewed the prospects for western finance from other sources and the modalities for designing western financial assistance.

Mr. Boris Pleskovic, former chief economic and political advisor to the Prime Minister of Slovenia, travelled with Professor Sachs to Estonia in March. Mr. Pleskovic project was to analyze the prospects for the introduction of a new currency and the establishment of a currency board at the Central Bank. He was uniquely qualified to carry out this task, because he supervised the policy planning for the introduction of Slovenia's new currency in October 1991.

Two consultants engaged by the team in 1991 have completed research papers emanating from their consultancy activities. Dr. Wing Woo of the University of California-Davis and Dr. Terry Sicular of the University of Maryland travelled to China in 1991 and conducted a study of the forms of ownership in Chinese enterprises, and the implications for the efficiency and productivity of the Chinese economy. Their research was conducted in conjunction with scholars from the Institute of Economics of the Chinese Academy of Sciences. Dr. Woo and Gang Fan, a colleague

from the Institute of Economics, have written a paper entitled, "Decentralized Socialism and Macroeconomic Stability: Lessons from China." Dr. Sicular has written a paper entitled, "Plan, Market, and Inflation: Potential Problems with China's Two-track System."

Because the project expires on June 30, 1992, there will be no summer intern program this year. Nonetheless, the project team has engaged Ms. Kivisto, a Finnish scholar, to spend the summer conducting a research project on the subject of privatization in Russia. WIDER and FINNIDA have approved this special summer intern assignment (which technically falls outside of the project period).

## V. Lessons for Developing Countries

The team members have continued to study and transmit the lessons of their research both to developing countries and throughout the industrial world. A conference has been scheduled for early September at WIDER in Helsinki to discuss the lessons of the project in greater detail with policymakers and academics from developing countries and with members of the Finnish academic community.

The channels through which research findings have been transmitted include the following:

1. Several team members have delivered lectures and speeches that disseminated the lessons of the project, aimed in part or entirely at developing countries.
  - a. Professor Sachs delivered a speech entitled "Privatization in Russia: Lessons from Eastern Europe," before the American Economic Association in January.
  - b. Professor Sachs delivered a speech entitled "Economic Transformation in Poland," at the Smithsonian Institution in January.
  - c. Dr. Lipton spoke on the transformation of centrally planned economies at the Development Studies Program in Washington, a training program for USAID staff, who will soon take up positions throughout the developing world.
  - d. Professor Sachs, Dr. Lipton, and Dr. Shleifer presented papers at a conference on economic reform in Eastern Europe, sponsored by the National Bureau of Economic Research. This conference was attended by academics from the United States, Europe, and developing countries.
2. Several papers emerging from the project have been widely disseminated throughout the developing world. The most recent paper by Professor Sachs and Dr. Lipton on the monetary problems of

the ruble area is of particular relevance to the newly independent developing countries of Central Asia. This paper, presented at a conference on economic reform in Russia sponsored by the Stockholm Institute on East European Economics, has been widely circulated in the CIS and in western countries.

3. Professor Sachs has written numerous articles for the media and has made numerous television appearances to describe the ideas emerging from the research project.

#### VI. Participation of Finnish Researchers

The project team has continued its efforts to involve the Finnish academic community in the work of the project. This has included a Finnish summer intern, an extensive series of lectures on the findings of the project team, and a conference (planned for September) to which the academic community is invited.

For the summer of 1992, the team has engaged Ms. Elisa Kivisto from the University of Joensuu to conduct a research project at WIDER. She will prepare a survey of economic reforms in Russia, also focussing on the recent developments in privatization.

Dr. Hansson has helped to disseminate the research findings of the team through formal and informal lectures and seminars throughout Finland. He presented a five-hour lecture series at Helsinki University on the economic structure and transformation of the Baltic States, that was attended by senior Finnish officials, professors, researchers, and students. He described the project and presented his research findings in seminars at the Turku School of Business Administration and the university of Joensuu. He held informal discussions with the staff of ETLA, and advised numerous graduate students undertaking research projects on related themes.

The project team has planned a conference on the lessons for developing countries from the transformation of centrally planned economies. Policymakers from developing countries are being invited to discuss the project findings, and to discuss the applicability of the research to the problems of developing countries. In addition, members of the Finnish academic community are being invited to participate in the conference. The conference will be held in Helsinki on September 2nd and 3rd.

#### VII. Budget Execution

The financial statement is presented here according to budget categories, as agreed upon with FINNIDA and WIDER. Budget expenditures are reported for the period January to June 1992. The expenditure report is tentative, and closing expenditures for the project will be reported as soon as they are finalized. As agreed with WIDER, all project activities completed on June 30, 1992.

Closing expenditures include several components. First, the project team has accounts payable for the period ending June 30, 1992 (which are mainly monthly bills that always are received with some delay). Second, there are expenses related to the conference to be held in Helsinki on September 2nd and 3rd. While WIDER will cover all costs in Helsinki, the project team will incur travel costs for team members for travel to and from Helsinki. And, third, there is the cost of the program audit that is required by FINNIDA and will soon be conducted. All of these closing costs will be itemized and reported to WIDER in advance of the submission of the final report and audit.

In the attached budget table, we have included expenditure information for the period January to June 1992. The table reports the tentative actual expenditures for the period. The table indicates the carry over balance from the beginning of 1992, the new receipts from WIDER, and the tentative closing balance at the end of June 1992.

The total budget for the team, excluding expenditures to be made directly by WIDER (for the September conference in Helsinki and overhead), for the period January to June 1992 was \$577,900. The tentative actual expenditures by the team amounted to \$532,687. The reason for the shortfall in expenditures is primarily lower salary payments to team members and consultants than was envisaged in the budget.

Salary expenditures are estimated at \$341,769, including salaries for team members and administration, consultants, and the Finnish summer intern. Total expenditures for consultants totalled \$19,780. Of the six consultants, three worked pro bono (Professor Fischer, Professor Wyplosz, and Mr. Pleskovic) and the consulting expenses included only airfare and local accommodations. Thus, the consultant expenditures were much less than had been budgeted.

Travel expenditures were \$113,298 for team members and consultants. This amount was somewhat higher than the budgeted amount. The reason for the excess was the unexpected heavy team involvement in the Russian economic reform program that began January 1, 1992.

Non-travel expenditures were \$77,620. Again, the heavy involvement of the team in Russia led to some spending in excess of budget allowances. Telephone expenses, for example, were higher than the budgeted amount, primarily because of the substantially higher price for telephone communications to Moscow than in Eastern Europe. Expenditures on supplies and services were also somewhat above the budgeted amount. On the other hand, the team reduced its rental space in the Washington office and cut its rental payments significantly.

Total disbursements from WIDER to the project team were

\$644,257 during the period. With the negative carryover balance of \$11,435 as of January 1, 1992, the total funds available to the team were \$632,822. After expenditures of \$532,687, the remaining balance of funds is \$100,135. Closing expenditures will be reported to WIDER as soon as final information is available.

Actual Travel for the First Half of 1992

Jeffrey D. Sachs

Cities	Dates	Work Program
1. New Orleans	Early Jan	Delivered speech on privatization in Eastern Europe at annual meeting of the American Economic Association.
2a. Moscow	Early Jan	Discussions with authorities on stabilization in Russia.
b. Warsaw		Discussions with authorities on the 1992 economic reform program.
3. Washington	Late Jan	Delivered speech on the economic transformation of Poland at the Smithsonian.
4a. Davos	Late Jan/	Attended annual meeting of the World Economic Forum.
b. Moscow	Early Feb	Discussions with authorities on economic reform and foreign financing.
c. Helsinki		Visited FINNIDA.
d. Warsaw		Attended Batory Foundation meeting on economic and political reform in Poland.
5. New York	Mid Feb	Delivered speech on the West's role in the transformation of Russia at the Council on Foreign Relations. Delivered speech at the New School on lessons from economic reform in Eastern Europe.
6. Ixtapa	Mid Feb	Delivered keynote address at annual CEO's Roundtable sponsored by Business International and The Economist on "The Free Market Revolution: The Coming Shape of the World Economy"
7. Boston	Late Feb	Presented paper on monetary reform in Slovenia at an NBER conference.
8. Washington	Late Feb	Attended World Bank symposium on Western assistance for the economic transformation of the CIS states.
9. Washington	Early March	Attended IMF Negotiations with the Russian authorities.
10. Washington	Early March	Attended IMF Negotiations with the Russian authorities.

11a. Bonn	Mid March	Discussions with German authorities on Western support for the Russian economic transformation.
b. Paris		Discussions with French authorities on Western support for the Russian economic transformation.
c. Moscow		
12. Washington	Mid March	Spoke on WorldNet on the economic future of the former Soviet Union.
13. Washington	Late March	Delivered talk for White House Fellows on "Views concerning the relationship Eastern Europe shares with the U.S."
14. Washington	Early April	Testified at two congressional hearings on Western support for the Russian economic transformation. Discussions with Russian Ambassador Lukin.
15. Paris	Early April	Discussions with French authorities on Western support for the Russian economic transformation.
b. Tallinn		Discussions with Estonian authorities on the introduction of a new currency.
c. Moscow		Discussions with authorities on privatization and stabilization.
16. Washington	Mid April	Delivered Pew Fellows lecture at Georgetown on "Property Rights and Privatization in the transformation process".
17. Moscow	Late April	Discussions with authorities on monetary stabilization.
18. Moscow	Early May	Discussions with authorities on monetary stabilization.
19. Moscow	Mid May	Discussions with authorities on monetary stabilization.
20. Antwerp	Late May	Delivered talks on "The transition from communist to market economy: which way to choose?" and "An evaluation of the economic reforms in Poland"
21. Moscow	Early June	Hosted conference for Russian and Japanese government officials and academics on the Japanese perspective on the Russian economic transformation.

22. Stockholm

Mid June

Presented paper on making the ruble a  
workable currency at the Stockholm  
Institute for East European Studies  
Conference



David A. Lipton

Cities	Dates	Work Program
1a. Moscow	Mid Jan	Discussions with authorities on stabilization.
b. Warsaw		Discussions with authorities on the 1992 economic reform program.
2. Warsaw	Early Feb	Discussions with authorities on the 1992 economic reform program.
4. Moscow	Mid Feb	Discussions with authorities on stabilization and Western foreign assistance.
5. Boston	Late Feb	Presented paper on "The Government Budget and the Economic Transformation of Poland" at an NBER conference.
6. Moscow	Early April	Discussions with authorities on stabilization and Western financial assistance.
7. Moscow	Late April	Discussions with authorities on stabilization and Western financial assistance.
8. Moscow	Mid May	Discussions with authorities on stabilization and Western financial assistance.
9. Washington	Mid May	Delivered speech comparing the economic transformation process in Poland and Russia at the Smithsonian.
10. Moscow	Late June	Discussions with authorities on stabilization and Western financial assistance.

**Andrei Shleifer**

1. Moscow	Early Jan	Met with the State Commission on Privatization to discuss privatization in Russia.
2. Moscow	Mid Feb	Met with the State Commission on Privatization to discuss privatization in Russia.
3. Cambridge	Late Feb	Attended NBER Conference.
4. Moscow	Mid March	Met with the State Commission on Privatization to discuss privatization in Russia.
5. Washington	Late March	Delivered seminar on privatization, for the Center for Financial Strategy and the World Bank.
6. Stah	Early April	Delivered a paper, "Corruption" for NBER Conference on Economic Growth.
7. Washington	Mid April	National Security Foundation Economic Advisory Panel.
8. Moscow	Late April	Met with the State Commission on Privatization to discuss privatization in Russia.
9. Vancouver	Mid May	Participated in meeting of CIAR Economic Growth and Policy Program.
10. New York	Late May	Participated in a Russell Sage Foundation seminar on privatization.
11. Moscow	Early June	Met with the State Commission on Privatization to discuss privatization in Russia.
12. Stockholm	Mid June	Delivered paper, "The Voucher Program for Russia" at the Institute of Soviet and East European Economics conference.
13. Paris	Late June	Participated in discussion on "The role of foreigners in the running of the intermediaries and access to foreign financial markets" at the Versailles Workshop on Voucher Privatization.

Junior team travel

John Anderson

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|--------------|----------|---|
| 1. Moscow    | Mid Feb  | Begin residence and work in Moscow  |
| 2. Stockholm | Mid June | Delivered paper on liberalization of foreign trade in Russia at the Stockholm Institute for East European Studies Conference. |

Peter Boone

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|--------------|-----------|--|
| 1. Moscow    | Early Jan | Begin residence and work in Moscow   |
| 2. Stockholm | Mid June  | Delivered paper on balance of payments prospects in Russia at the Stockholm Institute for East European Studies Conference |

Jeffrey D. Sachs and Associates Inc.

Project Name: Transformation of Centrally Planned Economies:  
The Lessons for Developing Countries

STATEMENT OF INCOME AND EXPENDITURE FOR THE PERIOD JANUARY 1 -  
JUNE 30 1992 (UNITED STATES DOLLARS)

TOTAL INCOME	\$632,822.00
Balance brought forward	(\$11,435.00)
First WIDER disbursement	\$98,188.00
Second WIDER disbursement	\$249,985.00
Third WIDER disbursement	\$296,084.00

EXPENDITURES

SALARIES AND FEES	\$341,768.66
CORE GROUP	\$291,215.96 ✓
SENIOR STAFF	\$202,250.00
Jeffrey Sachs 6 months @ \$13,375 per mo	\$80,250.00 ✓
David Lipton 6 months @ \$12,000 per mo	\$72,000.00 ✓
Andrei Shleiffer 6 months @ \$8,333 per mo	\$50,000.00 ✓
JUNIOR STAFF	\$88,965.96
Ardo Hansson 6 months @ \$5136. per mo	\$30,816.00 ✓
A. deCrombrugghe 5 months @ \$4000. per mo	\$20,000.00 ✓
Joakim Stymne 6 months @ \$3666.66 per mo	\$21,999.96 ✓
John Anderson 5 1/2 months @ 2900. per mo	\$16,150.00 ✓
CONSULTANTS	\$19,779.94 ✓
TAX CONSULTANT	\$0.00
SUMMER INTERN	\$5,160.00
ADMINISTRATIVE STAFF	\$25,612.76
Project Admin 6 months @ \$2120. per mo	\$12,720.00 ✓
Secretary 6 months @ \$2090. per month	\$12,892.76 ✓

TRAVEL COSTS	\$113,298.22
Senior Team	\$96,888.89
Junior Team	\$6,519.95
Consultants	\$10,162.10
 NON-TRAVEL EXPENSES	 \$77,620.15 -
Telephone, telefax, postage	\$46,285.89
Supplies and Services	\$23,236.20
Services	\$18,016.74
Supplies	\$3,815.90
Computer supplies	\$1,403.56
Equipment rental	\$4,331.69
Office rental, Washington D.C.	\$3,466.37
Office rental, Warsaw	\$300.00
 TOTAL EXPENDITURES	 \$532,687.03
 BALANCE OUTSTANDING	 \$100,134.97

Certified correct

Signature: ..... *[Signature]* .....  
Name: ..... *David Lipton* .....  
Date: ..... *July 29, 1992* .....

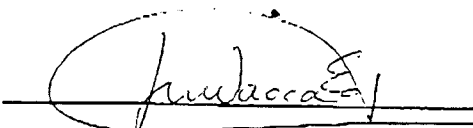
for and on behalf of  
Jeffrey D. Sachs and Associates, Inc.

**SUMMARY OF RECEIPTS AND EXPENDITURES AGAINST  
SOCIALIST ECONOMIES PROJECT FUND AS AT 30 JUNE 1992**

	<u>Receipts - FIM</u>	<u>Expenditures - FIM</u>
Received from FINNIDA	2,782,800.00	
	912,516.00	
	790,803.00	
	<u>2,695,560.30</u>	
Sub-total	7,181,679.30	
Spent: J. Sachs & Associates fees:		
W91/07		2,455,200.22
W91/013		923,865.00
W91/014		579,313.70
W92/02		<u>2,413,762.87</u>
		6,372,141.79
Meetings:		
8-9 March 1991		136,501.20
30-31 May 1991		<u>119,706.25</u>
		256,207.45
Other Expenses:		
Bank charges		<u>1,672.50</u>
		1,672.50
Total Expenditures		6,630,021.74
Bank balance as at 30 June 1992		551,657.56
TOTAL	7,181,679.30	7,181,679.30

CERTIFIED CORRECT:

Signature



Name:

Jose M. Vacca

Title:

Finance & Administrative Officer, a.i.

for and on behalf of

World Institute for Development Economics Research

EXPENDITURE AGAINST SOCIALIST ECONOMIES PROJECT FUND  
ACCOUNT AS AT 30 June 1992

cmh:windows/programm/sach6-92

		CHARGED TO A/C CODE			
		BANK			US\$
		FIM	FIM	Rate	Equivalent
RV402961	FINNIDA contribution 4/3/91	2,782,800.00			773,000.00
RV 403030	FINNIDA contribution 14/10/91	912,516.00			223,000.00
RV 403049	FINNIDA contribution 27/11/91	790,803.00			182,003.00
RV415309	FINNIDA contribution 20/1/92	2,695,560.30			649,532.60
Total Receipts		7,181,679.30			
<u>Expenditures as at 30 June 1992</u>					
WID/SE/3/1	J. Sachs & Assoc fee W91/07	1,217,408.50	1,114,410.00	3.63	307,000.00
JV-3/1	Daily Subsistence for meeting 8-9/3/91		60,570.00	3.63	16,685.95
WID/SE/3/2	Daily Subsistence for meeting 8-9/3/91	60,570.00			
WID/SE/3/3	Lunch for meeting 8-9/3/91	3,289.50	3,289.50	3.63	906.20
JV-3/7	Air tickets - meeting 8-9/3/91		35,581.04	3.63	9,801.94
JV-SE-3/1	Bank charges March	222.50	222.50	3.63	61.30
WID/SE/4/1	Train ticket - meeting 8-9/3/91	705.00	705.00	4.00	176.25
WID/SE/4/2	Air ticket - meeting 8-9/3/91	1,228.56	1,246.00	4.00	311.50
WID/SE/4/3	Air tickets - meeting 8-9/3/91	3,551.00	3,517.20	4.00	879.30
WID/SE/4/4	Air tickets - meeting 8-9/3/91	5,777.27	5,707.60	4.00	1,426.90
JV-SE/4/2	Bank charges April	172.50	172.50	4.00	43.13
WID/SE/5/1	Air tickets - meeting 8-9/3/91	21,048.04	20,292.60	4.00	5,073.15
WID/SE/5/2	J. Sachs & Assoc. fee W91/07	1,237,791.72	1,231,940.00	4.00	307,985.00
WID/SE/5/3	Air tickets - meeting 8-9/3/91	39,560.63			
JV-5/3	Insurance - meeting 8-9/3/91		771.20	4.00	192.80
WID/SE/5/4	Insurance - meeting 8-9/3/91	771.20			
WID/SE/5/5	Subsistence for meeting 30-31/5/91	66,296.00			
WID/SE/5/6	S. Glaziev travel claim 30-31/5/91	2,223.48	2,223.48	4.00	555.87
WID/SE/5/7	L. Valdman travel claim 30-31/5/91	2,223.48	2,223.48	4.00	555.87
JV-SE/5/1	Bank charges May	160.00	160.00	4.00	40.00
RV402983	Redeposit of unused subsistence	(15,410.00)			
JV-SE/6/1	Subsistence actually paid 30-31 May 1991		50,886.00	4.00	12,721.50
WID/SE/6/1	Lunch for meeting 30-31 May 1991	4,130.00	4,130.00	4.00	1,032.50
WID/SE/6/2	M. Mejstrik travel expenses	1,046.82	983.16	4.00	245.79
WID/6/48	Cancellation of Mejstrik	(1,046.82)	(983.16)	4.00	(245.79)
WID/SE/6/3	Beverages for meeting 30-31 May 1991	816.00	816.00	4.00	204.00
WID/SE/6/4	Air tickets - meeting 30-31 May 1991	32,214.00	32,214.00	4.00	8,053.50
JV-SE/6/2	Bank charges - June	57.50	57.50	4.00	14.38
JV-SE/7/2	Bank charges - July	70.00	70.00	4.26	16.43
WID/SE/7/1	Reception for meeting 30-31 May 1991	4,270.00	4,270.00	4.26	1,002.35
WID/SE/7/2	Air ticket - Zuravskaja 30-31 May 1991	3,800.00	3,800.00	4.26	892.02
WID/SE/7/3	Beverages for meeting 30-31 May	468.00	468.00	4.26	109.86
WID/SE/7/4	Air ticket - Wisniewski 30.31 May 91	3,755.00	3,755.00	4.26	881.46
WID/SE/7/5	Air ticket Bogachev	3,225.03	3,190.86	4.26	749.03
JV-7/5	Cancellation Bogachev	(3,285.03)	(3,285.03)	4.26	(763.11)
WID/SE/8/1	Air ticket: Varga 30-31/5/91	6,403.87	6,403.87	4.20	1,524.73
WID/SE/8/2	Air ticket: Callund 30-31/5/91	4,396.64	4,396.64	4.20	1,046.82
WID/SE/8/3	Air ticket: Wisniewski 30-31/5/91	1,270.22	1,206.45	4.20	287.25
WID/SE/8/4	Air ticket: Berg 30-31/5/91	177.99	1,213.80	4.20	289.00
JV-SE/8/2	Bank charges August	290.00	290.00	4.20	69.05
JV-9/6	Insurance: Meeting 30-31 May 91		773.61	4.28	180.75
JV-SE/9/12	Correction of bank charges	(60.00)	(60.00)	4.26	(14.08)

JV-10/5	Insurance: A. Hansson		549.61	4.10	134.05
WID/SE/10/2	Payment to clear insurances & Berg	2,310.57			
WID/SE/10/1	J. Sachs & Assoc. fee W91/013	826,000.00	820,000.00	4.10	200,000.00
JV-SE/10/2	Bank charges: October	200.00	200.00	4.10	48.78
RV403037	Cancellation C. Varga air ticket	(6,217.49)	(6,217.49)	4.10	(1,516.46)
RV403047	Refund air ticket Kagalovsky	(280.00)	(280.00)	4.10	(68.29)
WID/SE/11/1	C. Varga air ticket 30-31/5/91	6,621.90	6,251.39	4.10	1,524.73
JV-SE/11/1	Bank charges November	60.00	60.00	4.10	14.63
WID/SE/12/1	J. Sachs & Assoc. fee W91/013	97,865.00	98,900.00	4.30	23,000.00
WID/SE/12/2	J. Sachs & Assoc fee W91/014	170,200.00	172,000.00	4.30	40,000.00
JV-SE/12/2	Bank charges December	120.00	120.00	4.30	27.91
WID/SE/1/1	J. Sachs & Assoc. fee W91/014	409,113.70	407,542.45	4.15	98,203.00
WID/SE/1/2	K. Kagalovsky air ticket (part) 30-31/5/91	296.59	290.50	4.15	70.00
JV-SE/1/1	Bank charges January	120.00	120.00	4.15	28.91
WID/SE/2/1	J. Sachs & Assoc. fee W92/02	1,071,250.00	1,087,500.00	4.35	250,000.00
JV-SE/2/2	Bank charges February	60.00	60.00	4.35	13.79
WID/SE/4/1	J. Sachs & Assoc. fee W92/02	1,342,512.87	1,335,406.49	4.51	296,099.00
JV-SE/4/2	Bank charges April	200.00	200.00	4.51	44.35

Amount charged to Account code

6,520,331.75 1,587,617.00

Loss/Gain on Exchange

106,120.67 29,275.71

Loss/Gain on Exchange not recorded

3,569.32 \*

Total Expenditures

6,630,021.74 6,630,021.74 1,616,892.71

Bank balance as at 30 June 1992

551,657.56

Outstanding Obligations as at 30 June 1992

FIM Equivalent

(At current rate of exchange \$1 = FIM 4.50)

Air tickets - meeting 8-9 March 1991

16,222.50 3,605.00

Total Obligations

16,222.50 3,605.00

Balance as at 30 June 1992

535,435.06

\* Loss/Gain on Exchange in Finnish Markka arising from US Dollar charges paid from the Imprest Account, which were reimbursed in later months at different exchange rates.

3,626.72 Air tickets March meeting (JV-3/7, WID/SE/5/3, RV402987)

(32.53) Insurance May meeting. (JV-9/6, WID/SE/10/2)

(24.87) A. Berg hotel bill. (WID/6/50, WID/SE/8/4, WID/SE/10/2)

3,569.32



EXPENDITURE AGAINST SOCIALIST ECONOMIES PROJECT FUND  
ACCOUNT AS AT 30 June 1992 BY BUDGET CATEGORY

cmh.windows/programm/sum6-92

		PAYMENTS FROM BANK FIM	CHARGED TO A/C CODE		
			FIM	Rate	US\$ Equivalent
<b>RECEIPTS</b>					
RV402961	FINNIDA contribution 4/3/91	2,782,800.00			773,000.00
RV 403030	FINNIDA contribution 14/10/91	912,516.00			223,000.00
RV 403049	FINNIDA contribution 27/11/91	790,803.00			182,003.00
RV415309	FINNIDA contribution 20/1/92	2,695,560.30			649,532.60
		7,181,679.30			
<b>Expenditures as at 30 June 1992</b>					
<b>FEE PAYMENTS</b>					
WID/SE/3/1	J. Sachs & Assoc fee W91/07	1,217,408.50	1,114,410.00	3.63	307,000.00
WID/SE/5/2	J. Sachs & Assoc. fee W91/07	1,237,791.72	1,231,940.00	4.00	307,985.00
WID/SE/10/1	J. Sachs & Assoc. fee W91/013	826,000.00	820,000.00	4.10	200,000.00
WID/SE/12/1	J. Sachs & Assoc. fee W91/013	97,865.00	98,900.00	4.30	23,000.00
WID/SE/12/2	J. Sachs & Assoc fee W91/014	170,200.00	172,000.00	4.30	40,000.00
WID/SE/1/1	J. Sachs & Assoc. fee W91/014	409,113.70	407,542.45	4.15	98,203.00
WID/SE/2/1	J. Sachs & Assoc. fee W92/02	1,071,250.00	1,087,500.00	4.35	250,000.00
WID/SE/4/1	J. Sachs & Assoc. fee W92/02	1,342,512.87	1,335,406.49	4.51	296,099.00
		6,372,141.79	6,267,698.94		1,522,287.00
<b>MEETING 8-9 MARCH 1991</b>					
JV-3/1	Daily Subsistence for meeting 8-9/3/91		60,570.00	3.63	16,685.95
WID/SE/3/2	Daily Subsistence for meeting 8-9/3/91	60,570.00			
WID/SE/3/3	Lunch for meeting 8-9/3/91	3,289.50	3,289.50	3.63	906.20
JV-3/7	Air tickets - meeting 8-9/3/91		35,581.04	3.63	9,801.94
WID/SE/4/1	Train ticket - meeting 8-9/3/91	705.00	705.00	4.00	176.25
WID/SE/4/2	Air ticket - meeting 8-9/3/91	1,228.56	1,246.00	4.00	311.50
WID/SE/4/3	Air tickets - meeting 8-9/3/91	3,551.00	3,517.20	4.00	879.30
WID/SE/4/4	Air tickets - meeting 8-9/3/91	5,777.27	5,707.60	4.00	1,426.90
WID/SE/5/1	Air tickets - meeting 8-9/3/91	21,048.04	20,292.60	4.00	5,073.15
WID/SE/5/3	Air tickets - meeting 8-9/3/91	39,560.63			
JV-5/3	Insurance - meeting 8-9/3/91		771.20	4.00	192.80
WID/SE/5/4	Insurance - meeting 8-9/3/91	771.20			
		136,501.20	131,680.14		35,453.99
<b>MEETING 30-31 MAY 1991</b>					
WID/SE/5/5	Subsistence for meeting 30-31/5/91	66,296.00			
WID/SE/5/6	S. Glaziev travel claim 30-31/5/91	2,223.48	2,223.48	4.00	555.87
WID/SE/5/7	L. Valdman travel claim 30-31/5/91	2,223.48	2,223.48	4.00	555.87
RV402983	Redeposit of unused subsistence	(15,410.00)			
JV-SE/6/1	Subsistence actually paid 30-31 May 1991		50,886.00	4.00	12,721.50
WID/SE/6/1	Lunch for meeting 30-31 May 1991	4,130.00	4,130.00	4.00	1,032.50
WID/SE/6/2	M. Mejsrik travel expenses	1,046.82	983.16	4.00	245.79
WID/6/48	Cancellation of Mejsrik	(1,046.82)	(983.16)	4.00	(245.79)
WID/SE/6/3	Beverages for meeting 30-31 May 1991	816.00	816.00	4.00	204.00
WID/SE/6/4	Air tickets - meeting 30-31 May 1991	32,214.00	32,214.00	4.00	8,053.50
WID/SE/7/1	Reception for meeting 30-31 May 1991	4,270.00	4,270.00	4.26	1,002.35

WID/SE/7/2	Air ticket - Zuravskaja 30-31 May 1991	3,800.00	3,800.00	4.26	892.02
WID/SE/7/3	Beverages for meeting 30-31 May	468.00	468.00	4.26	109.86
WID/SE/7/4	Air ticket - Wisniewski 30-31 May 91	3,755.00	3,755.00	4.26	881.46
WID/SE/7/5	Air ticket Bogachev	3,225.03	3,190.86	4.26	749.03
JV-7/5	Cancellation Bogachev	(3,285.03)	(3,285.03)	4.26	(763.11)
WID/SE/8/1	Air ticket: Varga 30-31/5/91	6,403.87	6,403.87	4.20	1,524.73
WID/SE/8/2	Air ticket: Callund 30-31/5/91	4,396.64	4,396.64	4.20	1,046.82
WID/SE/8/3	Air ticket: Wisniewski 30-31/5/91	1,270.22	1,206.45	4.20	287.25
WID/SE/8/4	Air ticket: Berg 30-31/5/91	177.99	1,213.80	4.20	289.00
JV-9/6	Insurance: Meeting 30-31 May 91		773.61	4.28	180.75
WID/SE/10/2	Payment to clear insurances & Berg	2,310.57			
RV403037	Cancellation C. Varga air ticket	(6,217.49)	(6,217.49)	4.10	(1,516.46)
RV403047	Refund air ticket Kagalovsky	(280.00)	(280.00)	4.10	(68.29)
WID/SE/11/1	C. Varga air ticket 30-31/5/91	6,621.90	6,251.39	4.10	1,524.73
WID/SE/1/2	K. Kagalovsky air ticket (part) 30-31/5/91	296.59	290.50	4.15	70.00
		119,706.25	118,730.56		29,333.38

#### BANK CHARGES

JV-SE-3/1	Bank charges March	222.50	222.50	3.63	61.30
JV-SE/4/2	Bank charges April	172.50	172.50	4.00	43.13
JV-SE/5/1	Bank charges May	160.00	160.00	4.00	40.00
JV-SE/6/2	Bank charges - June	57.50	57.50	4.00	14.38
JV-SE/7/2	Bank charges - July	70.00	70.00	4.26	16.43
JV-SE/8/2	Bank charges August	290.00	290.00	4.20	69.05
JV-SE/9/12	Correction of bank charges	(60.00)	(60.00)	4.26	(14.08)
JV-SE/10/2	Bank charges: October	200.00	200.00	4.10	48.78
JV-SE/11/1	Bank charges November	60.00	60.00	4.10	14.63
JV-SE/12/2	Bank charges December	120.00	120.00	4.30	27.91
JV-SE/1/1	Bank charges January	120.00	120.00	4.15	28.91
JV-SE/2/2	Bank charges February	60.00	60.00	4.35	13.79
JV-SE/4/2	Bank charges April	200.00	200.00	4.51	44.35
		1,672.50	1,672.50		408.58

#### OTHER EXPENSES

JV-10/5	Insurance: A. Hansson		549.61	4.10	134.05
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Amount charged to Account code	6,520,331.75	3,175,099.95
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Loss/Gain on Exchange	212,241.34	58,551.42
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Loss/Gain on Exchange not recorded	3,569.32	
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Total Expenditures	6,630,021.74	6,736,142.41	3,233,651.37
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Bank balance as at 30 June 1992	551,657.56	
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Jeffrey D. Sachs and Associates, Inc.

555 13th St. Room 1237E, Washington D. C. 20004  
Telephone 202-637-8267 Telefax 202-637-8525

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September 28, 1992

Lal Jayawardena  
Director  
WIDER  
Helsinki  
Finland

Dear Lal,

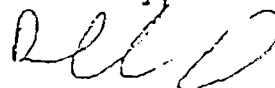
Since our conversation the other day, we have continued to arrange for an audit for our WIDER project. After investigating the matter with several accounting and auditing firms, we have found a firm that comes well recommended and is able to conduct the audit for the amount budgeted in our project.

The firm, McQuade and Capron, specializes in auditing small non-profit companies, public interest firms, and companies that receive funds from official sources (i.e. USAID etc.). Their specification of the job was essentially the same as what your financial officer, Mr. Vacca, communicated to me would be required. Finally, they are able to complete the audit in the allowable time frame and their charge will be \$3,500, slightly less than the \$4,000 budgeted for this expenditure.

I plan to go ahead with the audit on this basis, in order to complete it on time, unless I hear otherwise from you.

Thank you.

Sincerely,



David Lipton