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EVALUATION OF IRIS ADVISORY PROGRAMS

Report By

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Economic and Financial Consultants

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Bureau For Private Enterprise,
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PREFACE

This Report, entitled "Evaluation of IRIS Advisory Programs," was undertaken at the request of the Bureau for Private Enterprise, Office of Small, Micro, and Informal Enterprise (PRE/SMIE) of the Agency for International Development (AID). The assignment called for an assessment of the programs being carried out by the Institutional Reform and the Informal Sector (IRIS) Center at the University of Maryland.

The evaluation was based primarily on a review of documentation, interviews with IRIS staff, and conversations with a small number of IRIS field representatives. A trip was made to Poland where interviews were conducted with IRIS-Poland staff, U.S. Embassy and AID representatives, Polish Government officials, academics, bankers, and other persons active in the private sector.

Garth Trinkl, Economist, joined in the trip to Poland and prepared the initial draft of the evaluation of the field programs. I had responsibility for the Project, and I prepared the final assessment of the IRIS Programs.

Andrew F. Brimmer
President

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SECTION I

INTRODUCTION, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Brimmer & Company was asked by the Agency for International Development (AID) in early 1993 to undertake the mid-term evaluation of the Institutional Reform and the Informal Sector (IRIS) Project. This Project was initiated by AID as a Cooperative Agreement with the University of Maryland on August 30, 1990, for an initial five-year period - subject to mid-term review. The University of Maryland was chosen by AID staff from the Bureau for Private Enterprise and the Office of General Counsel to be the Project's implementing agent following a detailed assessment - based on research and extensive interviews - of sixteen possible implementing agents, which included think tanks and other non-profit organizations, as well as universities.

The AID concluded that the University of Maryland had outstanding academic resources in the fields of development and institutional economics and that these resources could provide the foundation for an innovative Project to improve understanding of the importance of institutional reform in the economic development process and to promote improved laws, organizational structures,

and decision-making processes in the countries of Central and Eastern Europe and the Third World. More recently, the Project's scope of inquiry was expanded to include the countries of the former Soviet Union, and greater emphasis has been placed on democratization issues through the "Democracy Initiative".

IRIS was supported by AID to promote greater research into, and understanding of, the institutional requirements for economic growth, and to enable foreign governments, organizations, and individuals to undertake their own institutional reform programs. The Project was to be unique to the Agency because it was to provide technical assistance, education, and support to foreign governments, organizations, and individuals over a sustained period of time in order to promote the legal, regulatory, and policy reform necessary for the growth of a market economy. The Project was to focus specifically on the relationship of institutional reform to the development process. Because of the limited information on the topic and the enormity of the challenge, the Project's programs were to be experimental in nature.

The Project was designed to attract some of the leading thinkers in economics and other disciplines,

especially law, in order to bring fresh thinking to the area of institutional reform and economic development. The research was to be a mixture of practical and theoretical approaches. In addition, it was hoped that the Project would provide insights into the links between democratic participation and economic performance.

This is the mid-term examination of the Project. It assesses whether it is on the right course and whether it is likely to achieve its goals. It offers suggestions for improved effectiveness and makes a recommendation on whether the Project should be continued after its initial five-year contract. More specifically, the evaluators were asked to examine whether the Project is meeting three main objectives:

> "(1) To promote improved laws, regulations, organizational structures, and decision-making processes in selected countries.
>
> (2) to build an increased international awareness of the role of institutions in economic development.
>
> (3) to expand the knowledge base on the relationship between institutions and economic growth, and to examine new approaches to institutional reform."

To carry out the assessment, the evaluators undertook a comprehensive series of tasks which included:

(1) Reviewing IRIS documentation.

(2) Reviewing the IRIS field programs.

(3) Travelling to Poland to have a more complete understanding of how the field programs function.

(4) Reviewing the methods IRIS uses to obtain Mission Buy-Ins.

(5) Determining whether the structure of the contract is appropriate to the tasks and goals of IRIS.

(6) Reviewing the research component of the project.

(7) Examining the outreach/dissemination efforts of IRIS.

(8) Examining the project approach.

(9) Examining the project management.

(10) Examining the project's future.

This series of tasks has been completed, and Brimmer & Company's major findings, conclusions, and recommendations are summarized below.

Findings, Conclusions, and Recommendations

Brimmer & Company has found the IRIS Center to be highly effective in carrying out a broad-based program of technical assistance, education, and research aimed at promoting both legal and institutional reform in countries of Central and Eastern Europe and the developing world, increasing the international awareness of the role of the rule of law and institutions in economic development, and expanding the endowment of

knowledge relating to institutional economics. Its role in promoting legal reform and privatization has been substantial. The Evaluators have found the Center to be exceptionally well-staffed, and that it has attracted some of the nation's leading scholars to its research program. It has also found the Center to have conducted an effective outreach and dissemination effort.

The major findings, conclusions, and recommendations based on the evaluation of four components (IRIS-Poland, other IRIS field programs, IRIS research, and IRIS program administration) are given separately below. From the assessments undertaken in this assignment, several conclusions and recommendations emerge:

The IRIS Center advisory programs are making strongly positive contributions in those areas in which they have been active. In addition, IRIS Center staff and researchers are already concentrating on the goals which constitute the core of AID's revised strategy. It is the Evaluators' recommendation that AID support for the Center and its work be both continued and extended substantially beyond the two years remaining under the contract.

The IRIS Center has achieved substantial progress to date in Poland, Nepal, Mongolia, and, to a lesser

extent, Chad. New programs are currently underway in India, Madagascar, and Russia. Unfortunately, funding for the India project is meager. It should be increased and extended beyond the two years remaining under the initial contract.

In particular, the IRIS-Poland Project, on which the Evaluators were asked to focus the most attention, has been very successful in promoting improved laws and regulations and in increasing international awareness of the role of institutions in economic development. It has an excellent outreach and dissemination component. Nevertheless, much more work remains to be done in a country struggling to make the transition to a market economy. The IRIS-Poland Program should be expanded over the next 18-24 months and should most definitely be extended for several more years beyond the initial contract. Moreover, its Director should be persuaded to stay on the assignment and to develop and deepen the capacities of the Project staff.

<u>IRIS-Poland</u>

The IRIS-Poland Project agenda has focused on three principal areas:

- Reform of Banking Collateral Law.
- Reform of Intellectual Property Law, especially

as it affects Technology Commercialization.

- Reform of Other Related Legal Arrangements Affecting the Business Arena - including Bankruptcy Law, Commercial Registry, Company Law, and Arbitration Law.

In each of these areas, the Project has been generally successful in convincing Polish Government officials and private sector participants - many of the former coming from a criminal law orientation - that both civil and commercial law is of vital importance to the evolution of a market economy.

In the case of Banking Collateral Law, IRIS-Poland acted to build a broadly-based consensus that reform was urgently needed. While IRIS-Poland did not itself prepare drafts of the proposed law, it encouraged leading Polish lawyers, including professors at the University of Warsaw School of Law, to do so, and it supported their efforts. By mid-July, 1993, several versions had been crafted by different authors. Despite the Polish electoral outcome in the Fall of 1993, the effort to reform collateral law will most likely continue. The effort has been enhanced by the fact that the President of the National Bank of Poland has committed herself to reform of banking and related commercial laws and will remain in office for a fixed term of several more years.

In the case of Intellectual Property Law and Technology Commercialization, the IRIS-Poland Project has been quite successful in its efforts to encourage the adoption of laws to strengthen intellectual property rights. In parallel, it has encouraged the formation of institutions to facilitate the transfer of inventions and other forms of technology from Government and university laboratories to private sector enterprises which can use them to develop industrial products and processes. This program of technology commercialization is highly promising. To date, however, only a few centers have been established, and only a few Polish - foreign matches have been made. However, despite this slow start, the concept and effort behind the program appear appropriate and still greatly needed.

The results of the IRIS-Poland Project in the field of Bankruptcy Law and Practice have been substantial. It organized a series of workshops in which the practical aspects of insolvency law and proceedings were examined in detail, and which attracted the participation of over 200 individuals.

In addition, the IRIS-Poland staff has been a strong advocate of the establishment of a central registry for pledged collateral. It has also backed the concept of a

Polish central commercial registry, which has gained the backing of the Ministry of Justice.

In all of its activities, IRIS-Poland has refrained from thrusting itself onto center stage as legislative drafter or as public counsellor. Instead, it has remained in the background, and it has used its university affiliation as a base from which to give advice and quietly guide the work done by Polish officials and private citizens. There is a very strong continuing need for these activities, and the current Project Director should be encouraged to remain with the Project over the remaining two years of the contract. He should be aided in his effort to develop the program staff. Furthermore, the IRIS-Poland Project clearly should be extended well beyond the remaining few years of the contract.

Other Field Programs:

Mongolia

The prime focus of the IRIS Center activity in Mongolia has been a multi-pronged program aimed at giving key Mongolian policy makers and private sector individuals a thorough grounding in the important principles and ideas of market-based economics and institutions and stimulating practical discussion of them - mainly in workshop settings. These discussions

were followed during the first phase of the Buy-In by technical assistance on implementation of policy reform conducted both in-country and from College Park, Maryland.

An example of this has been the IRIS-Mongolia Competition Law Project, which conducted several workshops and succeeded in producing a workable draft law which was submitted early in 1993 this year to the Prime Minister and several other Ministers. The Center has also conducted a series of workshops which brought Mongolian representatives to College Park, Maryland. More recently, the technical assistance aspect of the project was curtailed at the suggestion of the AID Representative, who wanted the program to focus more on the educational component.

The IRIS Center has had a highly favorable impact on important legal and economic issues related to Mongolia's transition to a market economy. The success of the program appears to be due substantially to the fairly large and high quality staff assigned to the Project under the terms of the Mission Buy-In. An excellent team has been assembled, and its work should be continued for two years and then extended.

On an administrative note, a delay in contracting the extension of the Project has been a source of concern to the Project staff, and it required the placement of an interim Field Director in Mongolia. The IRIS Center staff has prepared excellent documentation regarding the course of the Project which could become a model for legal and economic reform efforts in larger developing countries. Much of the legal and economic research conducted in Mongolia has become part of the IRIS Center Research Program Working Paper Series, and it should be helpful in shaping future AID programs in other countries such as Vietnam, Laos, Cambodia, and the Philippines.

Nepal

The IRIS Center field program in Nepal has been in place during the last two fiscal years and, to date, has shown impressive results. To give two examples, it succeeded in encouraging the substantial shortening of the time it takes to register a new business - a major hurdle in the privatization process. Furthermore, partial deregulation of the airlines was swiftly facilitated under guidance of an IRIS-Nepal outside consultant.

Unlike India, Nepal has a very rudimentary private sector, and it will require substantial technical assistance over a long period. It has received little

International Finance Corporation (IFC) investment, and, therefore, the IRIS Center is filling an important vacuum in encouraging the growth of the private sector. The IRIS-Nepal Project has retained U.S. and other experts who have provided analytical support for the drafting of reports and for the development and implementation of advocacy strategies in many very important areas. These include: business registration, company law, fertilizer and petroleum product price deregulation, airline deregulation, foreign exchange convertibility, off-shore banking analysis, and planning for a stock market.

At the center of the IRIS-Nepal Project is the hiring by the IRIS Center of Mr. Praveen Dixit to be a long-term advisor in Katmandu, Nepal. His availability was made known to the IRIS Center by the U.S. AID Mission in Nepal. He makes himself available for several hours each day as an advisor to ministries of the Nepalese government - primarily on budgetary and regulatory matters. This arrangement has allowed the IRIS Project to have an unusual degree of influence on top Nepalese policy-makers. The fact that the IRIS Center is university-based has apparently successfully blunted the perception of inappropriate foreign government intervention in local affairs. This same advantage is

shared by the IRIS-Poland Project, as was emphasized by the AID Poland Mission.

The role of the long-term advisor received strongly favorable comment from the AID Mission liaison. In addition, IRIS-Nepal's many other studies (including draft laws) were determined to be extremely useful in aiding the liberalization process, given the constraints posed by entrenched bureaucracies, private monopolies, and the uneven pace of liberalization in India. Studies conducted under the Project have become part of the IRIS Center Research Program Working Paper Series. Some of them were reported and discussed at a University of Maryland Symposium on economic reform in South Asia in April 1993. The Project should clearly be continued for two years and then extended.

Chad

Chad has been the primary focus of the IRIS Center's effort to influence the democratic and economic transitions occurring on the Sub-Saharan African continent. Early planning is also underway for a conference on corruption and African economic liberalization tentatively set for late 1994 in N'Djamena, Chad.

Over the last two years, the IRIS Center Director of Field Programs has been heavily involved in promoting legal and economic reform in Chad. The IRIS Center has also retained an experienced group of outside lawyers, economists, and investment bankers for short-term residencies in Chad. They have produced a series of five reports. One of these studies analyzes the scope of Chad's informal sector. This economic segment appears not to have been the subject of direct inquiry under any of the other country projects. The topic would appear to have special importance in most African countries where punitive government policies have forced entrepreneurial energy outside of the formal economy. The other four studies address: the scope of the Chad's formal private sector, a proposed business registration scheme, a study of the financial sector and private sector financing, and the rule of law in governance and business. The resulting reports are highly useful. However, the field effort necessary to link this research to the implementation of policy and institutional reform will require sustained commitment over the next two years and beyond.

The IRIS Center's experience to date in Chad has been satisfactory, though lacking in continuity. This should change with the placement of a long-term advisor

in August of this year. The Evaluators have found long-term advisors to have been important components of the IRIS Poland and Nepal projects.

It is also felt that, in the longer term, the IRIS Center should seek the opportunity to address such problems as the very large informal sector in Kenya, and the democratic and economic transitions in post-communist Ethiopia. There is reported to be an experienced development economist of Ethiopian background on the University of Maryland faculty. In order to accomplish this work, the IRIS Center's activities in Sub-Saharan Africa would need to be extended well beyond the two years remaining in the initial contract. Such an extension would be wise.

Madagascar

The IRIS-Center is currently negotiating with AID-Madagascar over the Scope of Work and terms of a Buy-In agreement which would govern the IRIS Center's role in that large island-nation's transition effort. The Evaluators feel that the success of democratization and economic liberalization governed by the rule of law in Madagascar could have significant spill-over effects on the other very poor nations of southeastern, Sub-Saharan Africa. Thus, Madagascar is a highly appropriate country

on which to focus attention.

The decision by the Mission and the IRIS Center to focus closely on the legal environment for indigenous and foreign business investment in Madagascar was wise. Additional work on the regulation of business, judicial system reform, corruption issues, and macroeconomic stabilization is also envisioned. Initially little attention was paid to the development of the Island's financial and banking system. This was subsequently corrected. The financial and banking system will have a major impact on the ability of the country to attract foreign investment.

The Evaluators feel that the legal environment for investment and banking reform should be the prime focus of the Project's first year. This will require a high level of sustained input in order to be effective. The Project should not be distracted by too many other issues. The effectiveness of the IRIS-Poland project, especially after its first year, was due to the sustained focus on a few issues to the point of near completion. It is recommended that placement of a long-term advisor be strongly considered. The Evaluators have found long-term advisors to have been the most important components of the IRIS Poland and Nepal projects. It is clear that

economic and democratic reform on the Sub-Saharan continent will require IRIS Center input well beyond the two years remaining to the initial contract. The effort is sound and should clearly be extended.

India

The IRIS Center is in the process of implementing a field program in India in an effort to have an impact on the free-market developments that have been occurring in that country over the last two years under President Rao. The core of the IRIS Center field program in India will be a collaborative research program conducted with a small number of Indian research institutes. The IRIS Center was specifically requested by the AID-India Mission to develop and implement such a collaborative research project. This program, conducted through means of a Mission Buy-In, is scheduled to begin in fiscal year 1994.

Five Indian research institutes (all in New Delhi) have been selected to participate in the research program. There are several strong organizations with considerable capacity located in different regions of the country. However, because of a limited budget, they could not be included.

The Project is being directed by Dr. Satu Kähkönen of the IRIS staff. It involves the strong participation of two University of Maryland faculty members - Professors Amand Swamy and Brian Fikkert. It will be important, given the absence of an on-site advisor, that much of the sponsored research be fairly practical, and that it involve financial and banking topics, as well as legal and economic issues. Given recent developments in Central and Eastern Europe, as well as India's tense political and labor situations, education, training, and social security matters (as well as a range of other transnational issues) should be given major attention. The activity will clearly need to be supported beyond the two years remaining in the initial contract.

Western Hemisphere

The IRIS Center field program appears to have had a limited impact on the democratic and economic transformations occurring in major countries of the Western Hemisphere - particularly Mexico, Chile, Argentina, and Brazil. Nor has it had significant effect on the democratic and economic developments in smaller and poorer countries of the region - such as Haiti, Nicaragua, and Bolivia. In the case of the larger countries, the IRIS Center has been behind the curve of

democratization and privatization, while there have been clear military and political constraints in the cases of some of the smaller countries. Some of these constraints appear to be lifting.

The lack of greater IRIS Center impact or presence in this region is somewhat surprising for two reasons: first, the institutional reform movement, initiated in large part by Hernando de Soto and his Institute for Liberty and Democracy in Lima, Peru, is widely reported to have had a major impact on AID development thinking and the genesis of the IRIS Center project in the late 1980s. Second, these nations are of strategic importance not only to U.S. security and humanitarian concerns, but also to the hemispheric, barrier-free trading region that the United States government has envisioned as potentially flowing from the U.S.-Canada and NAFTA economic agreements.

While the fate of Mexico's modernization effort, in the near term, will have the greatest impact on U.S. security, humanitarian, and economic interests, the fate of the stabilization and reform efforts in Central America and the Caribbean - especially Haiti, Cuba, Jamaica, Panama, Nicaragua, Guatemala, and El Salvador - will also have a large impact on taxpayer perceptions of

the efficacy of U.S. foreign assistance.

It is the Evaluators' belief that, given the State Department's and AID's new focus on global issues such as environment, population, health and women's issues, refugee flows, and narcotics trafficking, it would be appropriate for the IRIS Center to redouble its efforts to try to play some role in facilitating the democratic and economic changes occurring in both the Southern Western Hemispheric region, as well as the Central American and Caribbean area.

In the same way that the IRIS Center-Institute for Policy Reform (IPR) 1991 Prague Conference brought together experts to focus on economic, legal, and institutional pathways to reform in Central and Eastern Europe (with the proceedings subsequently being translated into Russian), a similar project, perhaps taking place at the University of Maryland, College Park, could review and refocus the role of institutional and development economics in Latin America and the Caribbean - both in the larger and smaller nations.

Given the general pace of privatization in the larger countries in the region (with Brazil lagging) and recent electoral developments in Eastern and Central Europe, such a conference could focus especially on labor

and social issues, such as unemployment assistance, education, and training, and social security, as well as on the transnational issues of strong interest to AID.

It is also recommended that the IRIS Center consider laying out for AID Washington and the AID Missions in Brazil and Ecuador (and relevant indigenous private groups) the experience to date of the IRIS-Poland Project long-term advisor, who appears to be achieving substantial success in complex issues of business law and technology commercialization reform. Similarly, with a new government taking office in Bolivia promising economic and rural reform in that very poor nation, it might be appropriate to approach the AID Regional Desk and Bolivia Mission in order to convey the experiences and successes of IRIS programs in Mongolia and Nepal. The first involved, in large part, a series of workshops both in the country and at the University of Maryland concerning institutional reform. The second, in part, involved a long-term advisor indigenous to the region available to pursue reform projects with local professionals as well as to counsel government ministries on budget and macroeconomic reform issues.

Research

The IRIS Research Program was reviewed on the basis of a large sampling of publications and workpapers produced by IRIS Staff, Fellows, and Scholars.

The IRIS Research agenda includes a wide range of studies which seek to increase understanding of the processes and problems of economic growth. Particular emphasis is given to the role of institutions in promoting or hampering development.

A large team of first-rate researchers has been attracted to the IRIS Project. Their output has been of a generally high quality. The topics investigated have included the strategic role of institutions in the economic advancement of developing countries; central planning and the transition from socialism to market economies; political institutions and democratic constitutions; land markets; rural institutions; retail trade; financial institutions; fiscal policy; and international trade.

Pioneering research by economists associated with IRIS (especially Mancur Olson) has demonstrated that differential endowments of land and natural resources, labor and skills, capital and technology, and entrepreneurship - taken alone or in combination - did

not explain the sizeable divergences in per capita incomes among nations. Rather, Olson concluded that the structure and performance of domestic institutions (particularly property rights and freedom to contract) have a decisive impact on the degree to which an economy prospers. In a series of studies, Christopher Clague reached similar conclusions.

The IRIS research on the effects of institutions on economic growth is on the frontier of thinking in this area. The importance of the new emphasis on institutions in economic theory was spotlighted by the Royal Swedish Academy of Sciences when it awarded the 1993 Nobel Memorial Prize in Economic Science to two U.S. economic historians (Robert W. Fogel and Douglass C. North). Commenting on Professor North's work, a leading member of the profession said:

> "Economists generally believe that markets, not institutions, are what matters. What [he] pointed to is economic historians' keenest insight, which is that markets are embedded in institutions, and that institutions change slowly over time, and - therefore - that history matters."

In addition, pioneering research by IRIS Researcher Peter Murrell has contributed significantly to the debate over gradualism vs. "shock therapy" in the transition from a centrally planned economy. His work on the incremental nature of change is especially

relevant - given recent Polish electoral developments, as well as the IRIS Center's new undertakings in the countries of the former Soviet Union. Dr. Murrell does not support going slowly on basic reforms such as price liberalization. However, he does believe that change occurs incrementally. Consequently, centralized authorities cannot implement as many changes as they think possible. Vested interests and old behavior patterns operate through complex sets of institutions and relationships. All of these change in small steps.

In conclusion, the IRIS Research Program has been at the forefront of the effort to expand the knowledge base on the relationship between institutions and economic growth. Its output has been broad-based and of generally very high quality as witnessed by increased publication in refereed journals. This high-quality program should be refined over the remaining 18-24 months of the initial contract, and its funding should be extended.

Program Administration

The IRIS Center has attracted a very strong and committed staff and appears to have been adequately managed. However, it is also clear that the IRIS Center operates under a variety of AID administrative requirements which appear to impose severe burdens on the

Center and hamper its ability to carry out its program in the most cost-effective way. Some of these requirements are counter-productive and should be changed.

Commitments by IRIS to the Mission, and to the people on whom IRIS will rely, are hurt as days stretch into weeks without a sense of when work can actually begin. An extreme example is Mongolia. In this case, eleven months elapsed between the Bureau's commitment to a delivery order and completion of communication between the Mission and the Central Office and completion of negotiation for the delivery order. In this instance, the communication difficulties between the Mission and the Contracts Office were a significant problem but - even after those were complete - there was additional delay. The results were a delay in accomplishment of AID's goals and the redundancy and dispersion of the team built for the first phase of this project. This problem warrants further investigation.

Additionally, both the grant and the contract documents run into dozens of pages detailing standard provisions of the Federal Acquisition Regulations which apply to the work. Limitations on rates of pay, requirements on use of U.S flag air carriers and requirements, mandated competitive procurement

procedures, and standards for allowability are all provided for under detailed rules of conduct. Despite this, IRIS must usually obtain separate written advance approval from either, or both of, the Contracts Officer or Program Officer for the following sorts of transactions:

- Any purchase of furniture or equipment costing more than $500.
- Every purchase of automated data processing equipment over $100,000.
- Every international trip.
- Every consultant salary both in the U.S. and abroad.

Thus, IRIS is obliged to comply with general rules and its actions are auditable. Nonetheless, it is also obliged to get additional permission for literally dozens of individual transactions. This imposes paperwork burdens and delay. Again, these administrative burdens are both costly and counter-productive. They ought to be relaxed considerably.

SECTION II

IRIS POLAND PROJECT

The IRIS Center field program in Poland was launched on the basis of the recommendation of a team of IRIS representatives and other AID consultants who travelled to Poland in March, 1991, to determine possible projects which AID could undertake. (That same month, the IRIS Center co-sponsored with the Institute for Policy Reform (IPR) a conference in Prague, Czechoslovakia, entitled "The Transition to a Market Economy - Institutional Aspects." The proceedings later were published under the title Emergence of Market Economies in Eastern Europe.)

This initial team included IRIS's new Director of Field Programs, Mr. Robert Thorpe, an attorney and economist, Mr. Charles Cadwell, the IRIS Center's Director, an IRIS consultant, and three people related to the AID GEMINI Project. They concluded that the IRIS Center should focus on providing technical assistance in the improvement of the legal and economic environment for small- and medium-sized business enterprises (SME's) operating in Poland. Later in 1991, USAID approved funding for two institutional reform programs aimed at helping Poland's SME's: the IRIS-Poland Project and the

Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI).

From the beginning, the IRIS-Poland Project was grounded in the Center's institutional reform philosophy which holds that, without strong legal institutions to protect private property rights, individuals and enterprises have little incentive to invest capital in long-term economic ventures. The Project also believed that it was the growth of new, small companies, rather than the privatization of the large, state-controlled enterprises, which would yield the increase in income, employment, and productivity necessary to drive Poland's economic growth and transformation.

The IRIS Center's interest in Poland derived in part from the then Polish Prime Minister's interest in small business. Among post-communist Central European nations, Poland had the largest share of the total economy under private control (estimated at over 50 per cent by the Summer of 1993 and employing about 60 per cent of the work force). Furthermore, Poland today has the largest share of trade with the West of any post-communist Central and Eastern European or former Soviet Union nation, according to the Organization for Economic Cooperation and Development (OECD). Therefore, it was felt by the AID Mission Director and the IRIS Center that

Poland provided a vanguard experience in AID's effort to promote democracy and free-market economic systems.

From the beginning, the IRIS-Poland Project thought that creating and sustaining a favorable environment for small- and medium-sized businesses required a major improvement in Poland's banking and commercial laws, as well as support to Polish entrepreneurs. The IRIS-Poland Project Director, Mr. Ronald Dwight, based on his substantial experience in American business law and science and technology issues, chose to focus closely on two areas of legal reform: banking collateral law and intellectual property law, especially as it affects technology commercialization. Other interests of the Project Director included bankruptcy law, commercial registry, company law, and arbitration law. In addition, he had IRIS-Poland undertake the sponsorship of two books concerning small- and medium-size business development in Poland: one providing introductory guidelines for starting a business and the other containing case studies of the ineffectiveness of the current collateral law system in Poland. The latter publication was undertaken by the Gdansk Institute for Market Economics, one of Poland's leading economic research organizations.

Brimmer & Company visited Poland for five days in July, 1993, to review the activities of the IRIS-Poland

Project approximately 30 months after the commencement of its activities. The two-person review team met with high-ranking representatives of two Polish Ministries (Justice and Finance), the head of the National Bank of Poland, a representative of the Polish Academy of Sciences, the head of State Committee for Scientific Research, members of the legal profession, representatives of a major business group, administrators and faculty from Jagiellonian University in Krakow, the Vice-Governor of the Krakow region, and private banking sector officers. It also met with the Acting U.S. Ambassador, the Acting Deputy Chief of Mission, and the Acting Mission Economic Advisor; two representatives of USAID/Poland; the regional director for Poland of the World Bank; and the director of the USAID-sponsored GEMINI Project.

The schedule of interviews conducted during the visit to Poland and the subjects discussed are shown in Appendix I, which appears at the end of this Section.

Goals of the IRIS-Poland Project

The ultimate goal of the IRIS-Poland Program is the promotion of small- and medium-size business growth. The primary instrument used in pursuit of this objective is reform of the legal and regulatory environment which shapes the formation and expansion of small- and medium-

size business enterprises. In more general terms, IRIS-Poland's efforts seek to encourage fundamental reforms in the institutional framework which underpins an economy struggling to escape from the constraints of central direction so as to be guided by market forces.

The IRIS-Poland Project is essentially a technical assistance program under which counsel and guidance are provided to both public officials and private sector groups who recognize the need to eliminate the many institutional obstacles which impede the development of small- and medium-size business enterprises. Its principal activities have included:

- Support for drafting of a new banking collateral law.
- Support for the drafting of a series of new laws covering intellectual property - including copyright, patents, and trademark protection.
- Promotion of technology commercialization as a means to foster new enterprises.
- Support for reform of the bankruptcy law. This is of vital importance to small- and medium-size businesses - among which the failure rate is extremely high.
- Support for efforts to enhance and expand a nation-wide commercial registry.
- Provision of assistance for efforts to reform other laws with a direct impact on small- and medium-size businesses - including law of sales, company law, and arbitration law.

While IRIS-Poland's activities have been geared to specific projects, it has also played a broader role which has cut across a number of areas. For example, counsel has been provided concerning private sector banking practices and central bank regulation, as well as specific features of a new banking collateral law. Advice has also been given with respect to means to transport scientific and technical discoveries made in Government and university laboratories to the marketplace.

In all of its activities, IRIS-Poland has refrained from thrusting itself onto center stage as legislative drafter or as public counsellor. Instead, it has remained in the background, giving advice and quietly guiding the work done by Polish officials and private citizens. The location of the IRIS-Poland Project at the University of Warsaw, and its Director's affiliation with the University's faculty, undoubtedly have enhanced its image as an independent organization and increased its access to the highest circles of policymakers. At the same time, the fact that IRIS-Poland is funded by USAID has been a source of strength. That backing helps the organization to project a sense of financial capacity and seriousness of purpose.

Law and Economic Activity in Poland

The IRIS-Poland Project on legal reform is attempting to proceed in an environment in which there is little appreciation of the significance of legal arrangements for business formations and economic expansion in a market economy. During the communist regime, little attention was paid to civil law generally, and there was little need for commercial law in a centrally controlled economy. In contrast, there was strong emphasis on criminal law - which served as a powerful instrument to restrain dissidents and others who may have challenged the system.

The stress on criminal and administrative law meant that most of the best legal talents in Poland sought careers in Government rather than in the private sector. Therefore, when the communist regime collapsed in 1989, Poland had only a small cadre of well-prepared civil law experts, and the latter had very little experience in handling commercial law cases. As a result, Poland has had to sprint to train an adequate supply of commercial law practitioners, while simultaneously attempting to revamp its civil code.

So, it was against the backdrop of this rapidly changing legal context that IRIS was introduced into Poland. Consequently, one of the first tasks IRIS faced

was to convince Government officials and private sector participants with a criminal law orientation that civil law was of vital importance to the evolution of a market economy.

The IRIS-Poland Project agenda has focused on three principal areas:

- Reform of Banking Collateral Law.
- Reform of Intellectual Property Law, especially as it affects Technology Commercialization.
- Reform of Other Related Legal Arrangements Affecting the Business Arena - including Bankruptcy Law, Commercial Registry, Company Law, and Arbitration Law.

Reform of Banking Collateral Law

This project has its roots in the conviction that a limited availability of bank credit is a major obstacle to the formation and expansion of small- and medium-size enterprises in Poland. The shortage of credit, in turn, can be traced in part to the reluctance of banks to accept as collateral any asset other than cash. The bank's reluctance is derived from their bad experience over many years in trying to take possession of assets pledged as security for a loan upon liquidation of the enterprise. The dimensions of this problem were documented in studies for which IRIS-Poland provided partial financing. Independent studies showed a similar pattern. Through contacts with small firms and other

participants in the private sector, IRIS-Poland was able to obtain confirmation of the seriousness of the collateral problem.

Before encouraging steps to prepare drafts of a new collateral law, IRIS-Poland acted to build a broadly-based consensus that reform was urgently needed. Individual meetings were held with policy-makers and opinion leaders in both the Government and private sectors. Among them were the Minister of Finance (MOF), the Minister of Justice (MOJ), the Head of the National Bank of Poland (NBP), members of the Commission for Reform of the Civil Code (CRCC), Professors at the University of Warsaw School of Law, leaders of the Union of Polish Banks (UPB), and members of Entrepreneur Clubs (EC). While this consensus was building, IRIS-Poland sought to persuade key Government Departments to cooperate with the CRCC in preparing a draft collateral law. Simultaneously, in the private sector, an effort was made to get the UPB and EC's to assume the leadership role in generating support for enactment of the law once an acceptable draft was in hand.

The IRIS-Poland initiative was quite effective in pursuit of its early goal. At the time the program was launched, the CRCC had assigned a low priority to collateral law reform. It had anticipated that "five to

eight years" would be required for implementation. Because of IRIS-Poland's efforts, the task was lifted to a much higher place on the CRCC's agenda, and the time table was cut to one-to-two years.

IRIS-Poland did not itself prepare drafts of the proposed law. Instead, it encouraged others to do so, and it supported their efforts. By mid-July, 1993, several versions had been crafted by different authors. The draft currently before the CRCC had been prepared by Dr. Maciej Tomaszewski, Expert Consultant to IRIS-Poland and Legal Advisor to the Warsaw Office of the American law firm Weil, Gotshal & Manges. Apparently, the Tomaszewski draft was closer to the United States model and much less complex than the draft the CRCC has been considering. It seems that the Commission is leaning toward the Tomaszewski draft, and it got an additional nudge in that direction when the National Bank of Poland (NBP) attached to its new banking supervision law a number of collateral law provisions quite similar to those included in the Tomaszewski text.

The strategy that was developed to get the draft collateral law enacted envisioned two alternative routes. The preferred course was via a decree issued by the Council of Ministers. It had been hoped that the Polish Parliament would grant to the Council power to act by

decree in areas which do not impinge on personal rights and liberties. If that happened, the Minister of Justice and the President of the National Bank of Poland would have shepherded it through the Council. The alternative course was via the legislative route through Parliament.

However, when President Lech Walesa dissolved the Polish Parliament in Spring, 1993, and called for new elections, the outlook for enactment of the new collateral law was altered. During the caretaker period, discussion of the draft by the CRCC continued, but all legislative activity was suspended.

The new Parliamentary election was held on September 19, 1993. The Democratic Union, which had formed the previous Government led by Prime Minister Hanna Suchocka, attracted 10.5 per cent of total vote and won 69 parliamentary seats. It placed third behind the Democratic Left Alliance (20.7 per cent and 173 seats) and the Peasant Party (15.3 per cent and 128 seats). Both of the latter parties are composed mainly of former communists, and they banded together to form a new Government. The leader of the Democratic Left Alliance, Aleksander Kwasniewski, indicated at the time that - while his goals were to slow down the pace of economic reform and provide higher level of social benefits - his party would continue Poland's transition

to a market economy. The new Prime Minister of Poland, however, turned out to be Waldemar Pawlak, the head of the Peasant Party. While his positions on reform are less clear, it is believed that they are similar to those of Alexsander Kwasniewski.

Despite the electoral results, the effort to reform the collateral law will most probably continue. This prospect is enhanced by the fact that the President of the National Bank of Poland, Hanna Gronkiewicz-Waltz, remains in office with a fixed term which runs for several more years. She has committed herself to a reform of the banking laws, and she will most likely continue to pursue that goal.

Intellectual Property Law and Technology Commercialization

The IRIS-Poland Project has devoted more than a year of its attention to reform of laws covering intellectual property. In parallel, it has encouraged the formation of institutions to facilitate the transfer of inventions and other forms of technology from Government and university laboratories to private sector enterprises which can use them to develop industrial processes and products. This commercialization of technology was viewed by IRIS-Poland as a means to promote the growth and expansion of small- and medium-size enterprises.

So far, IRIS-Poland has been quite successful in its efforts to encourage the adoption of laws to strengthen intellectual property rights. In contrast, the program on technology commercialization has yielded fewer results.

Soon after it began its operation, IRIS-Poland became convinced that existing laws provided inadequate protection for copyrights, patents, and trademarks. Its initial survey showed that, while some laws had been on the books since the mid-1930's, they were not comprehensive and were rarely enforced. As a result, not only were copyrights, patents, and trademarks frequently infringed, but outright piracy - especially of software - was commonplace.

To help remedy the situation, IRIS-Poland sponsored a legal study of intellectual property that was carried out by specialists at the Institute of Inventiveness and Protection of Intellectual Property of Jagiellonian University in Krakow. The Report was completed in early 1993, and the response to it was quite favorable. In fact, the State Committee for Scientific Research (KBN, whose status is roughly that of a Ministry of Science) was so impressed with the Report that it decided to publish and distribute it - while city AID sponsorship.

By the Spring of 1993, Poland was well along in the enactment of a series of laws to provide better protection for copyrights, patents, and trademarks. However, a number of these bills were left in limbo when the Suchocka-led Government fell and the Parliament was suspended. As of mid-Summer, 1993, it was expected that the newly elected parliament would complete the legislative process. Moreover, a number of Government Ministries and Departments had issued guidelines and regulations to prohibit piracy and other forms of unauthorized exploitation of intellectual property by Government employees. But the biggest problem exists in the private sector. The new laws - and their enforcement - are needed to combat piracy in this arena.

Led by its Director, IRIS-Poland has been a principal force behind technology commercialization over the last year. Very early in its work, it determined that a sizeable body of results of research in Government Ministries and universities lay dormant in laboratories. Moreover, the roughly 50,000 Polish scientists who hold Ph.D's turn out hundreds of potentially productive inventions each year. Yet, very little of this output finds its way into industry. The main reason is the absence of a mechanism to move the inventions from Government and academia to commercial enterprises which

can use them to improve production processes or to turn out marketable goods and services.

To help create such a mechanism, in 1992, IRIS-Poland suggested to the Ministry of Industry and Trade and the State Committee on Scientific Research (KBN) that they adopt a program to broaden understanding of the concept of technology commercialization. The latter, in turn, is dependent on the existence of a firm foundation of protection for intellectual property rights.

The responses from the Ministry and State Committee were both quick and positive. The results were a week-long United States-Poland Technology Commercialization Conference and Workshops held in Warsaw, Krakow, and Gdansk, during the period November 15-21, 1992. As a follow-up to the Conference, IRIS-Poland worked with the Ministry of Industry and Trade to promote the establishment of a small number of technology evaluation centers in major cities. It was anticipated that small- and medium-sized enterprises would register at these centers, and prospective foreign partners could visit them to determine their investment potential. An additional follow-up step was an IRIS-Poland survey of 400 research institutions. Among the findings of this survey was substantial support for written technology commercialization policies.

In summary, IRIS-Poland has been instrumental in promoting a mechanism to facilitate the translation of basic scientific knowledge into technological innovation and then into commercial ventures. However, the process is proving to be quite slow. Only a few centers have been established, and only a very limited number of Polish-foreign matches have been made. Obstacles have arisen on both sides of the equation. On the demand side, Polish consumers have a strong taste and preference for existing products and services which they have not been able to satisfy - mainly because of a still fairly low level of real disposable income. On the supply side, there is still only a relatively small number of strong private firms with the capital and technical capacity to introduce new products or the latest production processes and techniques. How to break this cycle of relative stagnation is a task to which IRIS-Poland is devoting much of its attention.

Bankruptcy Law and Practice

The promotion of reform in the field of bankruptcy law and practice has been a major project for IRIS-Poland. The results of its efforts have been substantial.

An initial IRIS-Poland survey showed that Poland has a fairly comprehensive bankruptcy code - dating from 1934. However, the number of people with experience in

its implementation is limited. As a result, judges, lawyers, and trustees are all handicapped. The situation is aggravated by the sharply climbing number of bankruptcies as SME's expand rapidly - and frequently fail.

Responding to this problem, IRIS-Poland organized a series of meetings in which practical aspects of insolvency law and procedure were examined in detail. On June 18-20, 1993, in collaboration with the Ministry of Justice, the Polish Lawyers Association of Warsaw, the State Foreign Investment Agency, and the European Insolvency Practitioners Association, IRIS-Poland sponsored a Conference on Insolvency Law in Warsaw. More than 120 persons from throughout Poland participated in the Conference on June 18 - including bankers, judges, lawyers, trustees, and scholars. Several foreign experts were also in attendance. A major area of exploration in meetings was the current state of insolvency law and practice in Poland - with special emphasis on fraud, which is involved in many bankruptcies. Practical problems encountered in bankruptcy proceedings - and ways to resolve them - also received consideration at the Conference.

Over the next two days (June 19-20), a group of more than 60 conference participants joined in workshops on

insolvency law and procedure held at the Ministry of Justice's (MOJ) Training Center in Popowo, near Warsaw. The largest component of attendees consisted of judges selected by the MOJ, but there were also representatives of Warsaw law firms and the World Bank. The workshops were guided by insolvency experts from the United Kingdom and the United States, and case studies from American, British, and Polish bankruptcy dockets constituted the bulk of the subject matter examined. The workshops provided the first opportunity on record for the Polish participants (all judges) to meet as a group to discuss ways to reform bankruptcy law and to unify insolvency procedures in Poland. Other conferences and workshops were planned for the Fall of 1993.

Central Collateral and Commercial Registries

Another obstacle to the growth of small- and medium-sized enterprises in Poland is the absence of central registry for collateral interests and commercial registrations. As of mid-1993, there were roughly 49 separate jurisdictions each with its own registry for collateral. As a consequence, a bank may extend a loan to a borrower and accept the pledge of specific property or other collateral as security. However, the bank has no ready way to knowing whether the same collateral has been pledged to another lender in another jurisdiction.

This gap in knowledge opens the door to fraud and other types of malpractice - which is occurring at an increasing rate. The net result is major reluctance on the part of banks to extend credit to SME's.

The IRIS-Poland staff has been a strong advocate of the establishment of a central registry for collateral. It appears to favor a system operated by the National Bank of Poland (NBP) or the Polish Bankers Association, rather than by the Courts - which is preferred by the Ministry of Justice. The present scheme is run by the Courts. The latter are understaffed by officials who are deficient in both expertise and experience. The results are complex and expensive procedures and a massive backlog of unsettled cases. The reforms advocated by IRIS-Poland - if adopted - would go a long way toward resolving these difficulties.

Following the establishment of a central collateral registry, IRIS-Poland believes a central commercial registry should be created in Poland. Today, corporations, state enterprises, commercial firms, foundations, and associations are listed in separate registries. The outcome is considerable confusion, numerous conflicts, long-running disputes - and extensive fraud. For instance, two separate firms can register with the same name in two different Polish counties

(voivoidships). To correct this situation, the Ministry of Justice wants unified legislation, and it also wants the authority to specify the information that would have to be included in each registry. Thus, the MOJ has adopted the position advocated by IRIS-Poland.

Concluding Observations

In summary, IRIS-Poland's primary objective is the expansion of privately-owned small- and medium-scale enterprises. In pursuit of this goal, it has encouraged the adoption of a number of measures to reform the legal and regulatory framework which has had a seriously adverse impact on SME's.

On balance, although the degree of success has varied, IRIS-Poland has been quite successful as a provider of technical assistance:

- It has supplied leadership and support for the drafting of a new banking collateral law. There is a high probability that its preferred version will be adopted.

- The IRIS-Poland project has given support for the drafting of new laws covering intellectual property, including copyright, patents, and trademark protection. Here, also, there is a good chance that its proposals will be enacted.

- The promotion of technology commercialization as a means to foster new, privately-owned enterprises has absorbed a fair amount of IRIS-Poland's efforts. However, the benefits expected from this program are still on the horizon.

- The IRIS-Poland staff has provided significant support for reform of the bankruptcy laws. This is of crucial importance to small- and medium-sized businesses - among which the failure rate is high and rising rapidly.

- Support was also provided by IRIS-Poland to create a nation-wide registry for collateral. Once established, a central registry would enhance the banks' willingness to lend to new small- and medium-scale enterprises in the private sector. A parallel, centrally administered commercial registry would also improve the conditions under which SME's could start up and expand.

So, from a review of program documentation - supplemented by field interviews - the review team was able to conclude that, following some uncertainty of aim during its first year, the IRIS-Poland Project has been highly effective and focused. It has definitely had a favorable impact on the major institutional reforms currently underway in key sectors of Poland's economic life. Many of the highest ranking Polish actors in the reform process are cognizant of IRIS-Poland's activities and respectful of its input and expertise. The draft laws it has encouraged, are widely debated and are expected to be the basis of national legislation.

The AID Mission in Warsaw speaks very highly of the work of the IRIS-Poland Project Director, and notes that he has been additionally helpful in several other areas of interest to the Mission. It had less knowledge of the effectiveness of the other members of the Project staff,

or of input from the University of Maryland - College Park staff. The materials prepared by the IRIS-Poland Project are of very high quality and appear to be very well disseminated both within Poland and throughout the international business and legal community. The Project Director has given speeches to - and met with - literally scores of business groups, especially entrepreneur clubs, throughout Poland. He is highly respected for his good command of the Polish language. He is also very highly regarded by the leaders of the Polish scientific establishment for his efforts - having limited impact to date - to effect technology commercialization and the start-up of high-technology firms and joint-ventures throughout the country.

Thus, IRIS-Poland has played a very strong, positive role in the country's effort to create the legal foundation of a vigorous market economy. Its collaborative relationship with the American Studies Center of Warsaw University - while not legally a part of the latter - has strengthened IRIS-Poland's credibility and enhanced its ability to provide advice and technical assistance to a broad array of leaders of Poland's business, political, academic, and scientific communities. There is a very strong continuing need for exactly this type of service in Poland, and the IRIS-

Poland Project should be extended well beyond the remaining two years of its contract. In addition, the current Project Director should be encouraged to remain with the Program and to continue to develop the Project staff - both in Warsaw and in other cities as well. The younger members of the law, economics, and business faculties in Warsaw, Krakow, and Gdansk (as well as in other large cities) would appear to offer excellent resources for expanding and deepening the Project.

APPENDIX I

SCHEDULE OF INTERVIEWS IN POLAND

JULY 19-22, 1993

Respondent	Subject
Monday, July 19, 1993	
A. United States Embassy	
Mr. Michael Hornblow Acting U.S. Ambassador Mr. Aubrey Hooks Acting DCM Mr. James Wojtasiewicz Acting Economic Counsellor	United States AID and Technical Assistance in Poland. The overall level of U.S. Aid will decline over time. Increased emphasis will be placed on promotion of activity in the private business sector. The technical assistance being provided by the IRIS-Poland Project is providing vital support for that program.
B. U.S.-AID	
Ms. Melanie Chen Program Officer Mrs. Eve Anderson Program Supervisor	United States AID, Small Business Promotion, and IRIS-Poland. The encouragement of small business expansion is a major goal of USAID. The IRIS-Poland Project should be seen as an Advisory and Consulting Service. Work on Collateral Law Reform and Technology Commercial is making a substantial contribution. But the most significant contribution is made through the provision of informal advice to key decision-makers in both the public and private sectors.

C. Ministry of Justice

Hon. Jan Piatkowski Minister of Justice - Attorney General	Collateral and Banking Law Reform. Privatization of Banks. Stated that reform of banking law and other elements in the Civil Code is important. This task does appear to rank high on the Minister's personal agenda. However, most of the Ministry's attention continues to be focused on the Criminal Law and its use to regulate the relations between private bodies (enterprises and persons) and the State.

Tuesday, July 20, 1993

D. Members of the Commission for the Reform of the Civil Code

Prof. Witold Czachorski Prof. Alfred Klein Dr. Tomasz Stawecki	Collateral and Banking Law Reform. The limitations of collateral law and other elements related to commerce represent a specific case of the more general limitations of Poland's Civil Code. Thus, a reform of collateral law must have its roots in a revamped Civil Code. During the period of the Communist Regime, Civil Law had a subordinate status compared with Criminal Law. With the shift from a controlled to a market economy, a wide range of laws must be changed to create an environment in which private business can grow. The work being done under the umbrella of the IRIS-Poland Project is making a major contribution to the needed legal reform. This assistance extends beyond help in preparation of several drafts of the collateral statute to facilitating the adoption process.

Tuesday, July 20-Wednesday, July 21, 1993

E. Banking and Finance

Hon. Hanna Gronkiewicz-Waltz
President
National Bank of Poland

Mr. Stefan Kawalec
Vice Minister of Finance

Mr. Ian M. Hume
Resident Representative
World Bank Field Office-Poland

Bank Supervision, Banking Practices, Collateral and Banking Law Reform. The National Bank of Poland (NBP-Poland's Central Bank) is deeply concerned about the evolving structure of banking. Worry was expressed particularly about the slow pace at which the nine (9) large State-owned commercial banks are being privatized, the multiplication of small, newly chartered private banks with insufficient capital and weak management, the reluctance of the large State-owned banks to lend to emerging private firms - as opposed to continued extension of credit to State-owned enterprises - and large-scale purchases of central government debt. The planned legislation to reform the collateral law, on which IRIS-Poland is working, is sorely needed. It would parallel and reinforce the revised banking law being proposed by the NBP.

The Ministry of Finance, which holds the stock of the State-owned banks, appears to view these institutions more as instrumentalities of a central planned economy - as buyers of Government debt - than as sources of funds to finance the development of private businesses. While the top political leadership (which came into the Ministry during 1989) apparently is committed to fostering an independent banking system as a key part of a market economy, many of the long-serving line officers (who really control policy

implementation) seem to be less dedicated. In fact, they appear to still be hearing echoes of the old central planning regime. Given that orientation, the Ministry of Finance is not in the forefront of the effort to reform the banking and collateral laws. A specific illustration of its posture is provided by its refusal to give up its existing right to enter bankruptcy proceeding at any stage to exert a Government tax claim ahead of all other creditors regardless of the order in which competing obligations arose. The Ministry does not appear to be willing to take overt steps to encourage State-owned banks to expand lending to private businesses.

In contrast, the World Bank Representative in Poland is concentrating on efforts to reform the Polish banking system. He is convinced that the latter is a serious constraint on the expansion of economic activity in Poland. In addition to encouraging banking and collateral law reform, the World Bank is providing funds to recapitalize some of the large banks as they dispose of sizeable blocks of nonperforming assets. In his opinion, the work on collateral law being carried out by IRIS-Poland is of critical importance.

F. **Polish Academy of Sciences**
Prof. Sylwester Porowski
Director
(High Pressure Research Center)

Scientific research and technology commercialization, including potential joint-ventures with U.S. and other Western firms. The Center, one of many such centers in Warsaw is reported to be in the forefront of some areas of solid-state physics (especially as applicable to ceramics). Its well-travelled Director has made

	contact with a few U.S. companies, but these contacts, to date, have led to a very limited program of business collaboration. Discussion of history of Polish science and technology.

Wednesday, July 21, 1993

G. **State Committee for Scientific Research**

Prof. Witold Karczewski Chairman	Scientific research and its translation into technical innovations. The potential for the latter to serve as the foundation for new privately-owned firms to create new products and to revamp production processes.

Thursday, July 22, 1993

H. **Jagiellonian University**, Krakow, Poland

Prof. Krystyna Dyrek Prorector Dr. Elzbieta Wojcieszko Institute for Inventiveness and Protection of Intellectual Property	Discussion of issues arising with respect to University-sponsored scientific research and its availability to the private sector. Discussion of trends regarding protection of copyrights, patents, and trademarks.

I. **Progress and Business Foundation** (Krakow)

Mr. Maciej Zebrowski President of the Board Dr. Jerzy Sekiewicz President Progress and Business Incubator	Technology Commercialization Programs. The role of small-scale enterprises in the expansion of a market economy in Poland.

J. **Bank Przemyslowo-Handlowy** (BPH) (Krakow)

Mr. Piotr S. Juda Member Board of Directors	Bank Lending Practices. The BPH is a large previously State-owned commercial bank which was privatized in mid-July, 1993 - the third institution to follow that course. Headquartered in Krakow, it has an extensive (mainly regional) branch network. Its sources of funds, asset structure, and lending practices illustrate the types of risks and opportunities faced by large Polish banks generally.
Mr. Jerzy Millwe Vice-Voivode of the Krakow Region	Regional and Municipal Finances. Regional and Municipal Finances are under increasing strain in Poland. The number of regional jurisdictions may be reduced from 49 to 15-20. The Central Government is transferring to local governments much of the responsibility for education and health services. However, the flow of revenue to local governments is not keeping pace.

SECTION III

IRIS ADVISORY PROJECTS IN SELECTED COUNTRIES

The IRIS Center has played advisory roles of varying scope in several other countries. These include Mongolia, Nepal, Chad, Madagascar, and India. Minor projects have also been undertaken or discussed in a small number of countries in the Western Hemisphere.

The evaluators reviewed these programs. The assessment was done primarily on the basis of discussions with IRIS Center staff and a review of documentation relating to each project. But, in a few instances, staff members from country field teams who were visiting Washington, D.C. and consultants to the IRIS Center were interviewed as well. In all cases, the impact of the IRIS Center's activities has been substantial, and should be continued for the two years remaining under the terms of the initial contract and behond. Each of the country projects is discussed in the remainder of this Section.

IRIS Mongolia Project

The democratic and economic transition underway in Mongolia has been a major focus of the IRIS Center's research and field programs during the three years the Center has been in existence. The impact has been

substantial and should be continued for the remaining two years of the initial contract and beyond. Success of reform in Mongolia may influence the Central Asian Republics, provinces and autonomous regions in China and Russia, and Vietnam, Laos, Cambodia, and North Korea. Though the country is small, with a 1990 population estimated at only 2.3 million - and thus below the 5.0 million threshold level set forth in AID Administrator Atwood's June, 1993, document concerning "rightsizing" the Agency and its efforts - the Center appears to have had a highly favorable impact on important legal and economic issues in the transition. This appears to be due in large part to the fairly large and high quality staff assigned to the Project under the terms of the Mission Buy-In.

The Project was coordinated during its first two years by Dr. Peter Murrell of the University of Maryland's economics faculty. He was assisted by the IRIS Center's Director, Mr. Charles Cadwell, an attorney, and the Center's Director of Field Programs, Mr. Robert Thorpe, an attorney and economist. Dr. Murrell has done extensive research and writing in the fields of development and institutional economics, and he is one of the nation's leading scholars investigating the stages

involved in the transition from planned economies. The field staffing appears to have been very strong, with the first two years under the direction of Mr. George Korsun, who was replaced in early 1993 by another economist. While the Project has been implemented through a Mission Buy-In, delays in the AID contracting process - lasting months - are felt by the IRIS Center to have impacted unfavorably upon the ability of the Center and field office to respond effectively to economic and legal developments in Ulan Bator.

The Mongolian Program Coordinator and Mongolia Field Director have been assisted in their program implementation and technical assistance activities by a support staff of five persons at the University of Maryland - the largest support staff of any field program. A five-part series of short, two-week institutional reform workshops at the University of Maryland for Mongolian officials, business leaders, and academics (who were chosen by the IRIS Center) was a major component of the first Buy-In. Extensive follow-up technical assistance to these individuals by the field office was facilitated by the support staff. Under the second Buy-In, participants in the workshops will be chosen by the USAID Representative in Mongolia,

based on suggestions from an Advisory Committee of Mongolians. Based on the recommendation of the Mission Representative, technical assistance will no longer be provided under this second phase, except in rare cases.

One focus of the IRIS Center's activity in Mongolia has been in the area of competition law. This has involved ongoing advice and assistance provided by the IRIS Center Maryland and Mongolia staff, as well as outside professionals, to a Mongolian economic research group, a Mongolian law review group, and a Mongolian law drafting group - all working toward the goal of producing a workable draft law covering competition law. Major IRIS Center effort subsequently went into activities in support of the draft law, with a comprehensive set of explanatory and supporting documentation submitted earlier this year to the Prime Minister and several other Ministers. Much of this recent legal advice was provided by Mr. Robert Thorpe and Mr. William Kovacic, Professor of Law at George Mason University . They have reported on their findings in the IRIS Update and the Legal Times, a legal periodical.

As mentioned above, a delay in contracting the extension of the Project has been a source of concern to the Project staff, and it required the placement of an

interim field director. The IRIS Center staff appears to have prepared excellent documentation regarding the course of the Project which could become a model for legal and economic reform efforts in other developing countries, including Vietnam, Laos, Cambodia, and the Philippines. Much of the legal and economic research conducted in Mongolia has become part of the IRIS Center Research Program Working Paper Series.

IRIS Nepal Project

The IRIS Center Field program in Nepal has been in place during the last two fiscal years. It appears to have been highly successful in aiding the economic and institutional liberalization process begun by the new democratic government of Nepal, a very poor nation of 19 million people. Economic and institutional developments in Nepal impact on - and are impacted by - developments in its much larger neighbor, India.

Unlike India, Nepal has a very rudimentary private sector. It has received little International Finance Corporation (IFC) investment and, therefore, the IRIS Center is filling a substantial vacuum. The IRIS-Nepal Project, conducted under a mission Buy-In from AID Nepal, has been managed for the last two years by IRIS Center Associate Director Dr. Philip Keefer, an economist who

has been assisted by several other members of the IRIS Center staff. The IRIS Center has coordinated local and foreign experts who have provided analytical support for the drafting of reports and for the development and implementation of advocacy strategies in the areas of company law, business registration, contract law, fertilizer and petroleum product price deregulation, airline deregulation, foreign exchange convertibility, off-shore banking analysis, and stock market planning.

Company law and contract law reform received extensive support from IRIS via the Nepal Law Society. Furthermore, company law reform has been approved by the Nepalese cabinet. The IRIS-Nepal Project also succeeded in encouraging the substantial shortening of the time it takes to register a new business, an extremely important hurdle in the privatization process. Shortly after IRIS-sponsored studies on fertilizer price deregulation and foreign currency convertibility were completed, the government moved dramatically to lower fertilizer subsidies and to full convertibility on the current account. Partial price deregulation of the airlines was swiftly facilitated under guidance of an IRIS Nepal outside consultant, Dr. Steven Morrison - a leader in aviation economics and a Professor at Northwestern

University. This and other legal and economic studies conducted under the Project have become part of the IRIS Center Research Program Working Paper Series. During a phone interview, Dr. Morrison expressed his strong enthusiasm for the IRIS idea, and indicated his interest in working further with the Center in Nepal or elsewhere.

At the center of the IRIS-Nepal Project is the hiring by the IRIS Center of Mr. Praveen Dixit to be a long-term advisor in Katmandu, Nepal. His availability was make known to the IRIS Center by the USAID Mission in Nepal. Mr. Dixit is an Indian- and American-trained professional who is a member of one of Nepal's prominent families. His wife is the daughter of one of the leaders of Nepal's democratic movement, and she is also the niece of the Prime Minister. He makes himself available for several hours each day as an advisor to ministries of the Nepalese Government - primarily on budgetary and regulatory matters. This arrangement has allowed the IRIS-Nepal Project to have an unusual degree of influence on top Nepalese policy-makers. The fact that the IRIS Center is university-based has apparently successfully blunted the perception of inappropriate foreign government intervention in local affairs. This same advantage is shared by the IRIS-Poland Project, which

is based at the American Studies Center of Warsaw University - as was emphasized by the AID Poland Mission.

While the role of the long-term advisor received the most favorable comment from the AID Nepal representative, IRIS-Nepal's many other studies and draft laws were felt to be highly successful in aiding the liberalization process, given entrenched bureaucracies, private monopolies, and constraints created by the uncertain pace of liberalization in India. The IRIS-Nepal Project's current desire to address industrial concentration in the Nepalese carpet industry - not yet approved by the AID Mission - could prove to be more problematic. But to date, the IRIS Center's field staff and advisors were reported to have shown exemplary diplomatic skill in attempting to be all-inclusive in seeking comment on its policy and draft law recommendations.

Finally, there was some discussion with the AID Nepal representative about the possibility of the IRIS Center providing future technical assistance on a project to create a foreign investment "free-zone" to expand Nepalese export production beyond carpet-making for the largely European market. In addition, IRIS-Nepal has undertaken an initial study in regards to the development of a Nepalese stock market. Both of these issues will

require the provision of significant and sustained technical assistance, and will require an extension of the IRIS-Nepal program. Environmental problems associated with Nepal's booming carpet industry were also discussed with the AID Nepal representative, who felt that the IRIS Project was sufficiently cognizant of the complex political issues involved.

IRIS Chad Project

For the last two years, Chad has been the primary focus of the IRIS Center's effort to influence the hesitant democratic and economic transitions occurring on the Sub-Saharan African continent. During the last year, the IRIS Center has also initiated the early phases of a program for Madagascar, but this effort is less far along, and there is no current plan to introduce a long-term advisor there as was expected for Chad in August of this year. The Evaluators have found long-term advisors to have been the most important components of the IRIS Poland and Nepal projects. The Chadian effort is now on target and clearly will need to be extended beyond the two years remaining under the initial contract.

Other IRIS Center activities relating to Africa have involved the coordination by Dr. Robert Klitgaard of a

conference, funded by the Rockefeller Foundation, on spontaneous institution building in developing countries, which took place in early 1993 (the proceedings of which are being published). Early planning is underway for a conference on corruption and African economic liberalization tentatively set for late 1994 in N'Djamena, Chad. These activities, appropriately, are transnational in scope.

During the period 1991-93, the IRIS Center's activities in Chad have largely been directed by the Center's Director of Field Programs, Mr. Robert Thorpe. Since early 1993, Mr. Thorpe has been assisted by a new IRIS Center associate director, Mr. David Fagelson, an attorney and political scientist specializing in democratic transitions. He is also assisting in the management of the Madagascar Project. Mr. Fagelson's previous experience has been predominately in Latin American and Central and Eastern European affairs.

Over the last two years, the IRIS Center has retained an experienced group of outside lawyers, economists, and investment bankers to work with it on the legal and economic reform components of the Scope of Work requested by the AID Chad Mission. This work has involved

short-term residences by these consultants in Chad and the production of five reports. These consultancies have complemented the short, but sustained involvement in the country by IRIS Center's Director of Field Programs Robert Thorpe, and key IRIS Center advisors, including Roger Jantio and Benjamin Hardy. During the course of this evaluation, most of these outside consultants and advisors were interviewed by telephone. All commented very favorably on the program.

One of the five studies completed under the scope of work directly addresses a topic - the informal sector in Chad - which appears not to have been made the subject of direct inquiry under any of the other IRIS country projects. The topic would appear to have special importance in most African countries, where punitive government policies have forced entrepreneurial energy outside of the formal economy. The other four studies address other specific legal and economic concerns of the IRIS-Chad Project: the scope of the Chadian formal private sector, a proposed business simplification scheme, a study of the financial sector and private sector financing, and the rule of law. These are all ambitious topics of inquiry, and the resulting reports

are useful -given the limited in-country experience and time allowed for their completion.

However, the link between these studies and the field effort required to encourage policy and institutional change is open to some question. The program does not appear to have allowed for the sustained home-field interaction which has been a major factor in the IRIS Mongolia and Nepal Projects. The IRIS Center senior staff members feel that they have had significant impact on transition issues and that their assistance has been sought out by the Chadian government at the highest levels. Effectiveness is admittedly hard to measure in the uncertain transition context.

During the current fiscal year, the IRIS Center completed negotiations with USAID/Chad for a Buy-In agreement which would allow for the placement of a long-term advisor in Chad on the model that has taken place under the IRIS-Poland and IRIS-Nepal Projects for the last two years. In the spring of 1993, Ms. Karen Russell, an attorney with private sector experience, prior experience in Mali, and French language fluency, was chosen following an international search. She and her family were scheduled to arrive in Chad during August,

1993. The IRIS Center staff hopes that the placement of Ms. Russell as a long-term advisor will provide for continuity of project impact, which has been lacking under the model of short-term residencies. It is also hoped that her efforts will impact on AID mission work in other Francophone African nations. Because she is a specialist in women and development issues, it is hoped that she will be able to help renew and reform AID's approach to this global issue.

With a population in 1992 estimated at 5.2 million, Chad is just above the 5.0 million threshold cited by AID Administrator Atwood in his June, 1993, Memorandum to AID Headquarters Staff on "right-sizing" development efforts. Still, with a total Sub-Saharan population estimated at 534 million and per capita income estimated at $340 (mid-1990), it is important that the IRIS Center's effort in Chad be clearly focused and effectively communicated to AID/Washington, other AID African missions, other non-governmental groups, as well as to various African groups. The generally excellent dissemination efforts of the IRIS - Poland project could be studied towards this goal.

It is also believed that in the longer term, the IRIS Center should attempt to address problems such as the very large informal sector in Kenya and the democratic and economic transition in Ethiopia - both significantly larger countries and ones which, unlike Chad, have received initial stages of International Finance Corporation (IFC) investment in their small private sectors. The proposed conference in late 1994 on African economic liberalization and corruption issues would be a promising vehicle through which to begin to pursue these goals.

IRIS Madagascar Project

The IRIS-Center is currently negotiating with USAID/Madagascar over the Scope of Work and terms of a Buy-In agreement which would govern the IRIS Center's role in that large island-nation's transition effort. IRIS teams visited the country in the summers of 1992 and 1993. Madagascar, roughly the size of California, is widely regarded as having significant economic potential due to its vast, largely untapped natural resources, its industrious population, and its developing infrastructure - especially sea- and airports. The success of democratization and economic liberalization

governed by the rule of law in Madagascar could have significant spill-over effects on the other very poor nations of southeastern, Sub-Saharan Africa. It is apparent that this effort will need to extend beyond the two years remaining under the terms of the initial contract.

The program development and contracting process is being carried out on the IRIS Center side largely by Mr. David Fagelson, associate director, with assistance from the Executive Director, the Director of Field Programs, and the Director of Contracting. Mr. Fagelson, an attorney and democracy theorist, was hired by the Center earlier this year. He appears to be constrained to some degree by his lack of French language skill. However, his knowledge of comparative legal systems and democratic development processes, combined with high-level conceptual skills, appears to make him an inspired choice for the Center as it rethinks the relationship of democracy to economic liberalization through its "Democracy Initiative". The Center also appears to need somewhat greater focus in planning the early stages of its in-country programs, as was learned from the IRIS-Poland experience.

The decision by the Mission and the IRIS Center to focus closely on the legal environment for indigenous and foreign business investment in Madagascar was wise. Additional work on the regulation of business, judicial system reform, corruption issues, and macroeconomic stabilization is also envisioned. The development of the island's financial and banking system was a focus of the IRIS team visiting Madagascar during the summer of 1993, and the subject of a draft report. The financial sector will have a major impact on the ability of the country to attract foreign investment. The evaluators feel that the legal environment for investment and banking reform should be a prime focus of the Project and that this will require a high level of sustained input in order to be effective. The project should not be distracted by too many other issues. The effectiveness of the IRIS-Poland project, especially after its first year, was due to the sustained focus on a few issues to the point of near completion. The same is true, to a somewhat lesser degree, in the IRIS-Nepal Project.

The success of the IRIS Center staff and its core group of - largely - legal expert advisors in affecting the chaotic economic transition environment will depend

largely on the planning that is brought to the effort. The legal and economic skills of the assembled team appears to be of a very high order.

The IRIS Center, based on its experience in Nepal and Chad, is planning on convening a Roundtable in Antananarivo, Madagascar, to draw the attention of policy makers, interest groups, and professionals to the political, legal, and regulatory problems of the country. This Roundtable should provide an excellent test to the effectiveness of the thinking that has gone into the IRIS Center's "Democracy Initiative". Since it will also be introducing the IRIS idea and program to a broad cross-section of Malaguay groups, it is important that it be focused as to the type of role the IRIS Center will play. As mentioned above, investment and banking reform should be the clear focus of the Project's first year or two. Other regulatory issues could come latter. The issue of corruption, especially, could be delayed until detailed planning is underway for the proposed IRIS Center African Conference on Corruption and African Economic Liberalization set for late 1994.

IRIS India Program

The IRIS Center is in the process of implementing a field program in India in an effort to have an impact on the free-market developments that have been occurring in that country over the last two years under President Rao. The core of the IRIS Center field program in India will be a collaborative research program conducted with a small number of Indian research institutes. The IRIS Center was specifically requested by the AID India Mission to develop and implement such a collaborative research project. This program, conducted through means of a Mission Buy-In, was funded to begin in the current fiscal year - but at a level considerably below the initial request.

Five Indian research organizations (all in New Delhi) have been selected to participate in the research program. Several strong organizations with considerable capacity located in different regions of the country were contacted initially. However, because of the limited funds available, they could not be included. The IRIS India Project appears to be ably administered by Dr. Satu Kähkönen, Project Director, and involves two India specialists from the University of Maryland, College Park

faculty: Drs. Anand Swamy and Brian Fikkert. The IRIS Center Principal Investigator, Dr. Mancur Olson, is also reported to have spent more time on India than on any other IRIS-related country over the last year. This attention was clearly warranted.

In the 1993 fiscal year, the IRIS Center hosted or co-hosted two symposia in the United States on issues of South Asian economic reform. One of the symposia took place at the University of Maryland in April, 1993, while the second, co-sponsored by the Institute of Policy Reform (IPR), was held at the University of California at Berkeley in April, 1993. Attendees of the symposia included several leading South Asian economists, as well as representatives of the Washington development community. The IRIS Center's co-sponsorship of, and participation in, the symposia was arranged by Dr. Satu Kähkönen. Also participating at the Maryland symposium was Dr. Christopher Clague, the IRIS Center's Director of Research and an experienced development economist, and Dr. Philip Keefer, Project Director of the IRIS-Nepal project.

One component of the IRIS Center activity in India was a USIA WORLDNET dialogue conducted in April, 1993,

between IRIS Principal Investigator Dr. Mancur Olsen and several leading economists from Indian research institutes in New Delhi and Bombay. The dialogue consisted of an opening statement by Dr. Olsen on his impressions of India's comparative economic development to date and future potential, and the relevance of his work in institutional economics, collective action, and public choice theory to the Indian reform effort. This was followed by several questions from the Indian economists which indicated a familiarity with Dr. Olsen's writings, and which were generally supportive of the market-based economic theories he was trying to encourage.

Dr. Olsen, Dr. Kähkönen, and the IRIS Center Director, Mr. Charles Cadwell, had earlier travelled to India in the Fall of 1992, at which time the Principal Investigator gave several speeches and interviews which were widely reported in the Indian media. All of the articles were written, however, by a single economic journalist - a circumstance which could potentially lead to less than favorable perceptions if continued over time. IRIS Center Director of Field Programs, Mr. Thorpe, has also made substantive presentations on Indian legal

and institutional reform, including a paper on rulemaking and environmental law given at a joint government-private sector environmental law conference in New Delhi. It will be important, given the absence of an on-site advisor in India, that much of the IRIS-Center sponsored research be fairly practical, and that it involve financial and banking topics, as well as legal and economic issues. Given recent electoral developments in Central and Eastern Europe, as well as India's tense political situation, labor, training, and social security matters (as well as other transnational issues of interest to AID) should be given strong attention.

Some of the professionals contacted by the Evaluators also commented on the tense relations existing in early 1993 between the U.S. Embassy in New Delhi and the AID Mission. Consequently, there is a need to have any new AID initiative carried out with utmost professionalism and sensitivity. This need is reinforced by the recent widespread ethnic tensions on the Indian sub-continent and, earlier this year, tensions between the U.S. and Indian governments over arms control issues. More recent Indian electoral results from four northern states, in which Hindu fundamentalism was repudiated,

appear promising to the economic reform effort.

IRIS Western Hemisphere Activities

The IRIS Center field program appears to have had very limited impact on the democratic and economic transformations occurring in major countries of the Western Hemisphere - particularly Mexico, Chile, Argentina, and Brazil. Nor has it had much effect on the democratic and economic developments in smaller and poorer countries of the region - such as Haiti, Nicaragua, and Bolivia.

The IRIS Center staff reports that over the last three years it has kept the AID Washington office and Country Missions fully apprised of its activities. However, except for a successful short-term seminar project in Costa Rica on Public Choice Theory, there has not yet developed any Mission request for IRIS Center participation or long-term country presence. In the case of the larger countries, the IRIS Center has been behind the curve of democratization and privatization, while there have been clear military and political constraints in the cases of some of the smaller countries. The IRIS Center staff reports that conversations with AID Headquarters and representatives of individual AID

Missions have progressed farthest in the cases of Argentina and Ecuador.

The lack of greater IRIS Center impact on, or presence in, this region is somewhat surprising for two reasons: first, the institutional reform movement, initiated in large part by Hernando de Soto and his Institute for Liberty and Democracy in Lima, Peru, is widely reported to have had a major impact on AID development thinking and the genesis of the IRIS Center project in the late 1980s. Second, these nations are of strategic importance not only to U.S. security and humanitarian concerns, but also to the hemispheric, barrier-free trading region that the United States government has envisioned as potentially flowing from the U.S.-Canada and NAFTA economic agreements.

Several of the larger developing countries in the region - Mexico, Chile, and Argentina, (with Brazil lagging) - are undergoing significant economic and institutional transformations which will impact greatly on prospects for U.S. economic growth over the course of the decade (and, indeed, have already done so - given the level of U.S. exports to the region over the last 30 months). In these countries, autocratic rule and state

intervention in the economy has been giving way over the past decade to free elections, privatization, and significantly freer markets. While the fate of Mexico's economic and political modernization effort, in the near term, will have the greatest impact on U.S. security, humanitarian, and economic interests, the fate of the stabilization and reform efforts in Central America and the Caribbean - especially Haiti, Cuba, Jamaica, Panama, Nicaragua, Guatemala, and El Salvador - will also have a large impact on taxpayer perceptions of the efficacy of U.S. foreign assistance.

It is the Evaluators' belief that, given the State Department's and AID's new focus on global issues such as environment, population, health and women's issues, refugee flows, and narcotics trafficking, it would be appropriate for the IRIS Center to redouble its efforts to try to play some role in facilitating the democratic and economic changes occurring in both the Southern Western Hemispheric region, as well as the Central American and Caribbean region.

In the same way that the IRIS Center-Institute for Policy Reform (IPR) 1991 Prague Conference brought together experts to focus on economic, legal, and

institutional pathways to reform in Central and Eastern Europe (with the proceedings subsequently being translated into Russian), a similar project, perhaps taking place at the University of Maryland, could review and refocus the role of institutional and development economics in Latin America and the Caribbean - both in the larger and smaller nations. Given the general pace of privatization in the region and recent electoral developments in Central and Eastern Europe, such a conference should include a focus on social and labor issues such as social security, unemployment assistance, and education and training, as well as transnational issues. The IRIS Center Director of Research has extensive past research experience and publications in Latin American topics.

It is also recommended that the IRIS Center consider laying out for AID Washington and the AID Missions in Brazil and Ecuador (and relevant indigenous private groups), the experience to date of the IRIS-Poland Project long-term advisor, who appears to be achieving substantial success in complex issues of business law and technology commercialization reform. Similarly, with a new government taking office in Bolivia promising

economic and rural reform in that very poor nation, it might be appropriate to approach the AID Regional Desk and Bolivia Mission in order to convey the experiences and successes of IRIS programs in Mongolia and Nepal - the first involving, in large part, a series of workshops both in the country and at the University of Maryland concerning institutional reform - with follow-up technical assistance; and the second, in part, a long-term advisor indigenous to the region available to pursue reform projects with local professionals, as well as to counsel government ministries on budget and macroeconomic reform issues.

In addition to the IRIS Center's Director of Research, Dr. Christopher Clague, the IRIS Center has an associate director and experienced project director, Dr. Philip Keefer, with the Spanish language fluency which would give the Center the capacity to increase its impact on economic and institutional reform in the region. Dr. Keefer has indicated his willingness to help the IRIS Center try to achieve a greater impact on Western Hemispheric democratic and economic reform issues. Another IRIS Center associate director, Mr. David Fagelson, has some Latin American experience and

significant experience organizing conferences on democratization issues in Central and Eastern Europe. This experience could be made available for a similar effort regarding democratization issues in Latin America and the Caribbean.

SECTION IV

IRIS RESEARCH PROGRAM

The IRIS Research Program has a broad scope, but a few themes run through the projects. The primary objective is to increase understanding of the conditions for the economic growth of nations. A central theme traceable in many of the inquiries is the role of institutions in providing the soil in which the seeds of growth can take root and develop. Other studies examine the performance of centrally planned economies and the transition from socialism to market economies. Still other studies concentrate on specific industry sectors and their contributions to economic progress in developing countries.

A considerable part of the IRIS Research Program is carried out by IRIS Fellows and Scholars, but IRIS area staff also spend considerable time on research. Between October, 1990, and June, 1993, IRIS supported the work of 12 Fellows and 48 Scholars. The participants are selected through a competition held twice each year. While much of the IRIS Research Program is still underway, the output achieved so far has

provided many new insights into the processes of economic development.

The IRIS Research Program was reviewed on the basis of a large sampling of publications and working papers produced by IRIS Staff, Fellows, and Scholars. A Selected Bibliography (showing the status of the major projects) is presented in the Appendix to this Section. The topics being explored by IRIS investigators are classified into the 12 Research categories shown. The highlights of the results to date can be summarized briefly.

Institutions and Economic Development

From the earliest days of the modern economics profession, economists have advanced a number of causes to explain the marked differences in the level and growth of real per capita incomes observable among nations. The specific list of causal factors has varied widely, but virtually all of them include differential endowments of land and natural resources, labor and skills, capital and technology, and entrepreneurship. In technical terms, the way in which these factors were combined yielded an aggregate production function - which determined the maximum output of goods and services an economy could get per unit of input.

In contrast, pioneering research by economists associated with IRIS (especially Mancur Olson) has demonstrated that differential endowments - taken alone or in combination - did not explain the sizeable divergences in per capita incomes among nations. Rather, Olson concluded that the structure and performance of domestic institutions (particularly property rights and freedom to contract) have a decisive impact on the degree to which an economy prospers. In a series of studies, Christopher Clague reached similar conclusions.

The IRIS research on the effects of institutions on economic growth is on the frontier of thinking in this area. The importance of the new emphasis on institutions in economic theory was spotlighted by the Royal Swedish Academy of Sciences when it awarded the 1993 Nobel Memorial Prize in Economic Science to two U.S. economic historians (Robert W. Fogel and Douglass C. North). Commenting on Professor North's work, a leading member of the profession said:

> "Economists generally believe that markets, not institutions, are what matters. What [he] pointed to is economic historians' keenest insight, which is that markets are embedded in institutions, and that institutions change slowly over time, and - therefore - that history matters."

Socialist Transitions

The best way to make the transition from a communist political organization to a democratic political arrangement - and from a communist economic system to a market economy - has been the subject of much debate. Several IRIS research projects - especially those of Peter Murrell - explore the topic. Those on one side of the discussion argue that radically new laws and regulations implemented over a short period of time ("shock treatment") are required to eliminate the legacy of socialism. By such measures, the entrenched bureaucrats will be forced to change their behavior in the desirable direction. On the other side of the debate, a more incremental approach ("gradualism") is advocated. These commentators hold that laws and regulations cannot be severed quickly from their institutional anchors - which provide the rules of thumb that guide the actual behavior of the middle-level managers and technicians who run the system. The latter must be given incentives to change, and - even so - they react slowly. Consequently, decentralization and institutional reform is a necessary condition for a successful shift away from socialism. This does not imply (particularly for Peter Murrell) that

basic reforms such as price reform should be delayed. This whole range of issues is given excellent treatment in the IRIS Institute for Policy Reform (IPR) sponsored volume The Emergence of Market Economies in Eastern Europe (1992), edited by Christopher Clague and Gorden C. Rausser (which has subsequently been translated into Russian).

Another body of IRIS research also demonstrated the magnitude of the obstacles on the road from socialism to a market economy. Work by Peter Murrell showed that the key economic unit of the socialist system - the large - state-owned enterprise (SOE's) fashioned modes of behavior and organizational codes that served them well in the old scheme of things. However, these same characteristics made SOE's extremely resistent to change. Therefore, rapid privatization of the SOE's may not be the most efficient way to create vigorously competitive firms to foster a market economy. Instead, efforts should be made to create an environment in which new, private sector firms can be launched and encouraged to prosper. New laws and regulations which establish private property rights and provide for contract enforcement must be adopted early in the transition period.

Centrally Planned Economies

Research by Mancur Olson and Peter Murrell showed that central planning under communism initially proved highly efficient in promoting economic growth. Yet over time it created conditions which contributed to its own demise. Central planning (from the late 1920's in the Soviet Union and after World War II in Central and Eastern Europe) initially enabled the top leaders to channel a major share of available resources into investment in the industrial sector. The result was an exceptionally high rate of growth in the early years. However, few of the benefits accrued to the citizens at large. Along the way, subordinates and lower level managers came to realize that they, too, were benefiting very little from the operation of the centrally planned system. At that point, they began to capitalize on their strategic positions and to extract extra income and services ("rent") for themselves. They were able to accomplish this through cooperation along a horizonal plane beyond the view of the central authorities. As a result, these lower level managers and technocrats began to use the system to generate benefits for themselves rather than to maximize output for the society at large.

So, even before the dramatic end of central planning in the late 1980's and early 1990's, the system was eroding within.

Political Institutions and Constitutions

Another theme in IRIS Research deals with the linkage between democratic political institutions and economic progress. Research by Mancur Olson and Martin McGuire shows that - far from retarding economic growth - democratic arrangements actually enhance the chances of achieving high growth rates and advanced levels of economic welfare. This is made possible because only in a democracy are property rights made secure. Work by Barry Weingast lends support to the same conclusion.

The embodiment of individual rights in democratically-based constitutions is also of critical importance for the emergence and stability of market economies. The degree to which this is the case is demonstrated by research carried out by Dennis Mueller, Peter Ordeshook, and Vyacheslav Nikonor.

Financial Institutions

Several IRIS supported studies have attempted to explain why real interest rates in developing countries are extremely high (frequently over 80 per cent at an

annual rate). These rates - at least initially - seem not to be a function of the risk of loss due to default, and they also appear to be relatively unresponsive to changes in the general availability of credit. Karla Hoff and Joseph Stiglitz seek to explain this phenomenon via monopolistic competition theory. In the latter model, an increase in the supply of credit in the formal segment of the financial market does not necessarily spill over into the informal sector. The expansion of credit in the formal segment may induce some of the most creditworthy borrowers to leave the informal sector. As a consequence, lenders in the latter face greater risk of loss as weaker borrowers are left to make up a larger fraction of their customers. Interest rates in the informal market remain high to offset the higher risk.

The Hoff-Stiglitz analysis focuses mainly on credit extensions in rural areas. However, Pradeep Srivastava investigated informal credit extension in urban areas in India. He observed a great variety of practices, but he found little tendency for interest rates to decrease as the overall supply of credit expanded. One reason appears to be the sheer volume of currency passing through informal channels - much of it to avoid income or wealth

taxes, or to get around foreign exchange restrictions.

On balance, economists have only limited understanding of the structure and functioning of informal credit markets. As a result, they have less appreciation of the role of credit in the process of economic development.

Research undertaken by IRIS investigators has offered an explanation of why the actual behavior of corporations seems to vary so substantially from that suggested by traditional neoclassical industrial organization theory. The latter is generally posited on models of profit maximization which overlook information costs and institutional realities. In contrast, Dennis Muller has argued that greater understanding of the corporation would be achieved if economists were to introduce more realistic behavioral assumptions and managerial motivations.

Land Markets and Rural Institutions

A substantial body of work by University of Maryland - College Park economist Karla Hoff, working with others and with IRIS Center support, examined the impact of taxes imposed on land rather than on output in developing countries. The effects of variations in types

of land ownership or tenure, and in credit available to farmers, were also studied. On balance, it was shown that, because of the absence of well-developed credit markets and the presence of other constraints, restrictions on land transfers may enhance the economic well-being of the community. This unexpected conclusion results from taking explicit account of institutional impediments which are usually not allowed for in economists' models of resource markets.

Work on urban housing markets (particularly separate studies by Stephens, and Oates and Schwab) shows that differences in tenure security and the taxation of unimproved land do affect relative housing prices and the rate of investment in urban real estate. These results were observable in cities as varied as Cairo, Egypt, and Pittsburgh, Pennsylvania.

The study of rural institutions has been a major effort of the IRIS Research. Project papers produced in this area have been published in The Economics of Rural Organization, edited and substantially written by Hoff, Braverman, and Stiglitz. To a considerable extent, this work roughly parallels that of the IRIS Research Project itself. The Hoff-Braverman-

Stiglitz volume highlights the limitations of government policies in the rural sector which arise from the costly and uneven flow of information and the behavior of the private sector institutions that have evolved. To correct these market failures, the authors stress a number of potential government remedies - among which institutional reforms are ranked very high.

Fiscal Policy

A considerable amount of IRIS-supported research has been undertaken in the fiscal policy area. In general, the authors have sought to prescribe optimal fiscal policies for governments at various levels of responsibility. Most of the focus has been on the policies of central governments. Again, Karla Hoff, by examining the consequences of asymmetric and costly information, has greatly increased understanding of public finance.

The analysis of fiscal federalism by Wallace Oates (one of the pioneers in the field) has provided numerous insights regarding the optimum allocation of authority over taxes and expenditures among central, state, and local governments. So far, his research has concentrated on industrial nations, but it is now being extended to

developing countries.

Many of the latter countries emerged from colonial status with a high degree of fiscal authority concentrated in the central government. In the typical case, revenues flowed upward to the center while expenditures were distributed with little regard to the needs or desires of regional and local areas. Moreover, in many instances, the actual pattern of expenditures was greatly influenced by corruption. This range of issues has been examined by Mancur Olson, Robert Klitgaard (Africa), and John Edwards (Brazil).

International Trade

Two key objectives of the IRIS Project are to demonstrate the existence of large and persistent institutional differences among societies and to show that the economic consequences of these differences are also significant. Extensive evidence supporting these conclusions is found in the field of international trade. The most widely accepted theory (advanced years ago by Eli Heckscher and Bertil Ohlin) holds that a country should produce and trade abroad those commodities in which it has the greatest comparative advantage. The latter is determined primarily by its endowment of the

factors of production and the relative proportions of such factors required to produce a unit of different commodities. In this traditional view, institutional differences among countries have no major effects on their comparative advantage and their competitive position in international trade.

However, analyses by Christopher Clague have shown that the contrary is true. He found that developing countries have comparative advantage in self-contained commodities, and comparative disadvantage in commodities that require intensive interaction across different sectors of the economy. The absence of institutional arrangements for contract enforcement or reliable transport and communications services makes it virtually impossible to minimize the cost of producing highly interdependent commodities. Thus, it is deficiencies in institutions - rather than the lack of physical and human capital - that impede the efficient production of complex commodities.

Other Research Areas

The IRIS Project has sponsored other areas of research as well. These include studies of various aspects of collective action and group formation. The

structure and functioning of retail markets have also been examined.

Concluding Observations

The IRIS Research agenda includes a wide range of studies which seek to increase understanding of the processes and problems of economic growth. Particular emphasis is given to the role of institutions in promoting or hampering development.

A large team of first-rate researchers has been attracted to the IRIS Project. They have worked diligently to complete assignments in a timely fashion, and their output has been of a generally high quality. It has increasingly found its way into refereed publications.

The topics investigated have included the strategic role of institutions in the economic advancement of developing countries; central planning and the transition from socialism to market economies; political institutions and democratic constitutions; land markets; rural institutions; retail trade; financial institutions; fiscal policy; and international trade.

On the basis of their output, it is clear that IRIS researchers have made significant contributions to the

economic literature. They have both widened and deepened understanding of the development process and of the requirements for the emergence and progress of market economies. Consequently, the IRIS Research Program is a success and a very valuable resource to AID and the development community. The relationship of democracy to market economics has also been closely explored, and is a topic continuing research.

APPENDIX II

THE RECORD OF IRIS RESEARCH

Selected Bibliography

The output of IRIS' Research Program is divisible into three broad groupings, depending on the status of each project as of June, 1993: (1) Publications - Books (B); and reprints of articles (RP); (2) Working Papers (WP); and (3) Works Under Way (UY).

The subject matter being examined is classified by IRIS under 12 Research Categories:

RESEARCH CATEGORIES

1 Institutions and economic development
2. Socialist transitions
3. Centrally planned economies
4. Political institutions
5. Constitutions
6. Financial institutions
7. Land Markets
8. Rural institutions
9. Fiscal policy
10. International trade
11. Interest groups and collective action
12. Retail sector

1. Institutions and Economic Development

1A. Completed works
Mancur Olson, "Why are Differences in Per-Capita Incomes So Large and Persistent? (WP 38)

- "Morals, Incentives, and Effective Democracy" (RP 6)

Christopher Clague, "Rule Obedience, Organizational Loyalty and Economic Development" (WP 38)

1B. Works under way

Charles Kahn and Emilson Silva, "Optimal Provision of Public Goods Under Costly Exclusion and Corruption" (UY)

Nirvikar Singh, "The Economic Role of Government: Rents, Reform, and Rights" (UY)

Martin Baily, "Models of Economic Growth" (UY)

Francis Biebold, "Political and Civil Liberty, Investment, and Economic Growth" (UY)

Margaret Levi and Ed Campos, "Institutional Arrangements, Compliance, and the Informal Sector in Developing Economics" (UY)

Jeffrey Nugent, "Local Variability in Rainfall: Measurement, Effects, and Institutional Implications" (UY)

Joel H. Guttman, "Cooperation and Economic Development" (UY)

2. Socialist Transitions

2A. Completed works

Christopher K. Clague and Gordon C. Rausser (eds.), The Emergence of Market Economies in Eastern Europe, Basil Blackwell, Inc., 1992 (B)

Peter Murrell "Evolutionary and Radical Approaches to Economic Reform" (WP5)
- "Conservative Political Philosophy and Strategy of Economic Transition" (WP7)
- "An Evolutionary Perspective on the Transition to a Market Economy in Former Centrally Planned Economies" (WP19)

- "Reform's Rhetoric-Realization Relationship: The Experiences of Mongolia" (WP45)
- "Privatization Complicates the Fresh Start (RP12)
- "Conservative Political Philosophy and the Strategy of Economic Transition (RP13)

Peter Murrell, Dunn, and Korsun, "The Culture of Policy Making in the Transition from Socialism: Price Policy in Mongolia" (WP32)

Murrell and Wang "When Privatization Should be Delayed: The Effect of Communist Legacies on Organizational and Institutional Reforms" (WP41)

Mancur Olson, "Why is Economic Performance Even Worse when Communism is Abolished" (WP28)

Christopher Clague, "From Socialism to Market: Changing the Rules of the Game" (WP27)
- "The Transformation of Socialist Economies: Alternative Approaches of Early Lessons of Experience" (WP55)

Daniel Ostas, "Institutional Reform in East Central Europe: Hungarian and Polish Contract Laws" (RP10)

Lynn D. Nelson, Property to the People, (B-Draft) May, 1993

2B. Works under way

Barry W. Ickes and Randi Ryterman, "On the Selective Nature of Capital Markets in Emerging Market Economies"
- "The Inter-Enterprise Arrears Crisis in Russia"

John Robinson, "Survey of Entrepreneurial Activity in Russia"

Janet Tai Landa, "Economic and Legal Reforms in China (P.R.C.) and the Rise of Markets and Entrepreneurship: A Property Rights-Public

Choice Approach"

3. Centrally Planned Economies

3A. Completed works

Roger Betancourt, "The New Institutional Economics and the Cuban Economy" (WP1)
- "The Distribution Sector in CPEs: Cuba" (WP35)

Mancur Olson, "The Logic of Collective Action in Soviet-type Societies" (PR3)

Peter Murrell and Mancur Olson, "The Devolution of Centrally Planned Economies (RP4)

3B. Works underway

Mancur Olson, "From Communism to a Market Economy"

4. Political Institutions

4A. Completed Works

Mancur Olson, "Autocracy, Democracy, and History with Appendix: An Abstract Model of Autocratic Versus Democratic Government" (WP22)
- "Dictatorship, Democracy, and Development" (APSR, forthcoming) (WP52)

Keefer, "Checks and Balances, Rent-Seeking, and Economic Development"
- "Credibility, Rent-Seeking, and Political Instability" (WP31)

Hershel Crossman, "Robin Hood and the Redistribution of Property Income" (WP43)
- "Production, Approbation, and Land Reform (WP44)
- "Multiparty Representative Government" (RP16)

Barry Weingast, "The Political Foundations of Democracy and the Rule of Law" (WP54)

4B. Works under way

Avner Greif, "Institutions that Supported Anonymous Exchange in Italy, 1200-1500"

Martin McGuire and Mancur Olson, "Public Goods, Redistribution, and Form of Government"

5. Constitutions

5A. Completed Works

Dennis Muller, Constitutional Democracy, February, 1993

Peter Ordeshook and Thomas Schwartz, " Ethnic Heterogeneity, District Magnitude, and the Number of Parties" (WP50)
- "Constitutional Reform: What Direction Now?" (WP56)

Peter Ordeshook and Vyasheslov Nikonov, "Russia's Transition to Democracy: Essays 1-20" (WP48)
- "Russia's Transition to Democracy: Essays 11-18" (WP49)

5B. Works under way

John Elster, "Constitution-Making in Eastern Europe"

6. Financial Institutions

6A. Completed works

Karla Hoff and Joseph Stiglitz, "Introduction: Imperfect Information and Rural Credit Markets-Puzzles and Policy Perspectives" (PR7)

Dennis Mueller, "The Corporation and the Economists" (PR11)

6B. Works Under way

Karla Hoff and Joseph Stiglitz, "Monopolistic Competition Theory and Rural Credit Markets"

Pradeep Srivastava, "Urban Informal Credit in India: Markets and Institutions"

Maria S. Floro, "Incentive Structure in Formal and Informal Financial Institutions"

Allen Drazen, "Explaining the Volatility of Capital Flows into Latin America"

7. Land Markets

7A. Completed works

Karla Hoff, Designing Land Policies: An Overview" (WP4) (Chapter in Hoff, Braverman and Stiglitz book.)

- "Land Taxes, Output Taxes, and Sharecropping: Was Henry George Right?" (RP8)

Karla Hoff and Lyon, "Optimal Sequencing of Land and Credit Market" (WP39)

Wallace Oates and Thomas Schwab, "The Impact of Urban Land Taxation" (WP47)

Stephens, "Property Rights and Residential Capitalization Rates" (WP33)

7B. Works under way

Schlomo Angel and Stephen K. Mayo, "Measuring the Effect of the Regulatory and Institutional Environment on Housing Sector Performance: A Global Perspective"

George Clark, "Agrarian Institutions and Agricultural Productivity"

James Roumasset, Specialization and the Convolution of Agricultural Markets (B)

8. Rural Institutions

8A. Completed works

Karla Hoff, Braverman and Stiglitz, eds., Economics of Rural Organization (B)

Pradeep Srivastava and Petel, "A Tale of Two Sectors: The Formal and Informal Sectors in India (WP26)

8B. Works under way

[illegible]

James Roumasset, Specialization and the Convolution of Agricultural Markets (B)

9. Fiscal Policy

9A. Completed works

Karla Hoff, "The Second Theorem of the Second Best" (WP6)

Karla Hoff and Lyon, "Collateral, Asymmetric Information and Pareto Improving Labor Taxation" (New Title: "Leaky Buckets") (WP30

Wallace Oates, "The Role of Fiscal Decentralization in Economic Growth" (WP)

- "Principles of Fiscal Federalism: A Survey of Recent Theoretical and Empirical Research" (WP21)
- "Population Charges as a Source of Public Revenue" (WP34)
- "Federalism and Government Finance" (WP40)

Wallace Oates and Thomas Schwab, "The Impact of Urban Land Taxation: The Pittsburgh Experience" (WP47)

9B. Works under way

John Edwards, "Fiscal Federalism in Brazil"

10. International Trade

10A. Completed works

Christopher Clague, "Factor Proportions, Relative Efficiency, and Developing Countries' Trade" (RP1)

- "Relative Efficiency, Self-Containment, and Comparative Costs of Less Developed Countries" (PR2)
- A Cross-Country Study of the Agricultural Price Level" (WP3)
- "PPP Puzzles: Food Prices, Agricultural Prices, and the Cost of Living in America" (WP37)

Daniel Schydlowsky, "Foreign Exchange Regimes of Dutch Disease Prone LCDs" (WP46)

Christopher Clague and Greenway, "Incidence Theory, Specific Factors, and the Augmented Heckscher-Ohlin Model" (WP57)

10B. Works under way

Richard H. Clarida and Ronald Findlay, "The Political Economy of Trade and Comparative Advantage"

11. Interest Groups and Collective Action

11A. Completed works

Martin McGuire, "Group Composition, Collective

Consumption, and Collaborative Production" (WP10)
- "Economic Logic, International Security, and the Equilibrium Among Nations" (WP11)
- "Freedom of Association and Self-Selecting Groups" (WP12)
- "Identifying the Free Riders: How to Partition a Group Into Positive and Zero Contributors" (WP13)
- "The Pure Theory of Unemployment Insurance: Hoping for the Worst when Insurance is Available" (WP14)
- "Group Composition, Collective Consumption, and Collaborative Production" (RP14)
- "Identifying the Free Riders: How to Partition a Group Into Positive and Zero Contributors to the Common Good" (RP15)

Martin McGuire, Pratt, and Richard Zeckhauser, "Paying to Improve Your Chances: Gambling or Insurance" (RP9)

Mancur Olson, "A Collective-Choice and Macroeconomic Approach to Macroeconomics: From Sticky Prices and Lags to Incentives" (RP5)
- "Rational Ignorance, Professional Research, and Politicians' Dilemmas"
- "The Interest-Free Solution" (RP19)
- Forward to Collective Action (PR20)

12. Retail Sector

12A. Completed works

Roger Betancourt and David Gautschi, "Two Essential Characteristics of Retail Markets and Their Economic Consequences" (WP2)
- "The Outputs of Retail Activities - French Evidence" (WP23)
- "The Distribution Sector in a CPE: Cuba" (WP35)
- "The Economics of Retailing: Perspective and Prospective" (WP42)

- "The Demand for Retail Products and the Household Production Model" (RP47)

SECTION V

IRIS PROGRAM ADMINISTRATION

The IRIS Center appears to have been exceptionally well-managed. This has been achieved despite constraints. The IRIS Center operates under a variety of AID administrative requirements which appear to impose severe burdens on the Center and which appear to hamper its ability to carry out its program in the most cost-effective way. The Center is both an AID grantee and a contractor. As a grantee, it is covered by the Cooperative Agreement. As a contractor, it is covered by the Basic Ordering Agreement.

The Center is reported to comply with all specified operating guidelines and reporting requirements. However, some of them are counter-productive and should be changed.

Separation of Budget Authority From Negotiating Authority

The IRIS work for AID Missions is generally procured through Buy-Ins on the Basic Ordering Agreement (BOA). The BOA serves as a master contract designed to simplify agreement of individual delivery orders for specific tasks. The funds for particular tasks come from Missions who decide what they want to procure (by writing a Scope

of Work) and how much of it they want to buy (by completing a PIO/T - a form which allocates a ceiling amount of dollars to the Scope of Work). With these two documents, the AID Contracts office in Washington must negotiate the actual delivery order.

However, the Washington office does not have background on the nature of the work, the need, or the local costs involved. They must weigh the priority of this project against many others from the Missions in determining which gets processed first. In short, after lengthy discussion with Missions or Regional Bureaus, IRIS often faces a contracting bottleneck which damages its relationship with Missions. There is no precise way to measure the proportion of this problem which is due to the limited capability of the contracts office to handle its volume as compared to the proportion due to a lack of communication between the Mission and the contracts office - or to issues which might lay at the IRIS Center's own doorstep.

Commitments by the IRIS Center to the Mission and to the people on whom the IRIS Center will rely are hurt as days stretch into weeks without a sense of when work can actually begin. An extreme example is Mongolia. In this case, eleven months elapsed between Bureau

commitment to a delivery order and completion of communication between the Mission and the central office and completion of negotiation for the delivery order. In this instance, the communication difficulties between the Mission and the contracts office were a significant problem, but even after those were corrected, there was additional delay. The results were a delay in accomplishment of AID's goals and the redundancy and dispersion of the team built for the first phase of this project.

Once a delivery order has been negotiated, the Mission most often first hears about it from the IRIS Center, since there apparently is no mechanism for the contracts office to communicate this directly.

As work is performed, the financial status of the project is communicated formally to the contract office in Washington, but the information is not available, except informally from the IRIS Center, to the Mission. The opportunities for miscommunication on these issues is significant. The tendency to pay too much attention to the contracts office and not enough to the client Mission flows from this agreement.

Limited Ability to Act Without Approval

Both the grant and the contract documents run into dozens of pages detailing standard provisions of the Federal Acquisition Regulations which apply to the work. Limitations on rates of pay, requirements on use of U.S flag air carriers and manufacturers, mandated competitive procurement procedures, and standards for allowability all provide detailed rules of conduct. Despite this, the IRIS Center must usually obtain separate, written, advance approval from either, or both of, the contracts officer or program officer for the following sorts of transactions:

- Any purchase of furniture or equipment costing more than $500.
- Every purchase of automated data processing equipment.
- Every internal trip.
- Every consultant salary both in the U.S. and abroad.

Thus, the IRIS Center is obliged to comply with general rules and its actions are auditable. Nonetheless, it is also obliged to get additional permission for literally dozens of individual transactions. This imposes paperwork burdens and delay.

The funds available for these tasks are limited. The IRIS Center operates within the constraint of an overall budget and does not earn a profit from any activity. It has the same incentives as AID to make the funds go as far as possible. This is an additional reason to leave greater operating flexibility and responsibility to the IRIS Center. It costs AID considerable amounts of money for the IRIS Center to write the memo asking for permission, for AID to review it, and for IRIS to bother them on pending items. (Because delivery orders are more important transactions, these permissions often sit for weeks in a pile. Since the IRIS Center has no idea what criteria will be used to approve or disapprove a particular request, it is difficult to make the approval process easier for AID.)

Again, these administrative burdens are both costly and counter-productive. They ought to be relaxed considerably.

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