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Memorandum to: Mitzi Likar, USAID Branch Chief, Economic Restructuring

From: Margot Machol, Chesapeake Associates

Subject: Work Plan *MLW*

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PROJECT IMPACT:

1. *Foster the emergence of a competitive, market-based economy in the Balkans by advocating for the removal of hidden barriers to growth.*
 - a. Initiate debate on three key areas of reform in both Albania and Bulgaria.
 - b. Introduce proposals for implementing reform (either new legislation, amendments to existing legislation, or new regulations for existing legislation) in three key areas of reform in both Albania and Bulgaria.
 - c. Advocate for reform in three areas with key policy makers in each country.
 - d. Focus public attention on the need for reform in three areas in both countries, through public education and the media.
 - e. Hold three workshops, seminars, or conferences in each country on the need for reform, inviting all key local policy makers as well as experts from the west and from neighboring emerging economies, in order to convince policy makers and the public of the need for reform.

2. Promote the institutions that support democracy by strengthening the institutions that comprise the Balkan Network and by expanding and strengthening the Network itself.

a. Continue to provide assistance to ACER so that it operates on a more sophisticated level, so that it can compete for funds and international recognition, as well as become a powerful voice in support of reform in Albania.

b. Continue to work with IME so that it is recognized as one of the premiere public policy institutes in Eastern Europe and an effective advocate for policy reform in Bulgaria.

c. Expand the Network of economic/ public policy institutes so that it covers all of Central and Eastern Europe, instead of only three countries in the Balkans. Link the Network members via email and get them comfortable sharing information with each other, including data, technical assistance, experiences in attempting to implement reform in similar areas in their country, and approaches to reform.

d. Have the Network members assist each other in promoting policy reform, by using the example of a recent experience in a neighboring country to encourage implementation of the most successful policy changes. Network members will meet during two regional conferences and at several smaller workshops during the year, thus developing regional ties and learning to work with their neighbors to accomplish their goals.

e. Through exposure to Network activities, attract investment from the international business and financial community, which will promote economic opportunity and growth for the region.

EXPECTED OUTPUTS:

First Quarter: October-December 1996

Bulgaria:

1. Participate in final conference of one-year project. Present three policy papers in Bucharest with policy recommendations based on year-long effort. Publicize results in Bulgaria.

2. Discuss policy agenda with Network members, including partners from Albania, Romania, Czech Republic, Poland, Slovakia, Hungary, Yugoslavia, Macedonia, and Croatia. Make recommendations about macroeconomic stabilization issues discussed at

Bucharest conference, identifying three specific policy areas for upcoming efforts and related objectives:

a) *fragmented financial markets*: campaign to amend the deposit insurance law; the goal is to contribute to the restoration of confidence in the financial system.

b) *hidden subsidies*: campaign to amend or discontinue the Price Act; the goal is to contribute to the discontinuation of major price distortions which politically motivates control and prevents economies from finding equilibrium on their own.

c) *informal market*: campaign to facilitate privatization through debt-equity and lifting bans on trading stock; the goal is to foster the formation of the private sector.

3. Identify team members and partners within and outside Bulgaria. Brainstorm necessary advocacy steps and schedule for the next 12 months. Develop a work plan.
4. Meet with Bulgarian National Bank Board members to discuss deposit guarantee scheme and hyperinflation issues (October). Develop deposit guarantee proposal. Visit FDIC in Washington and consult with FDIC experts visiting Bulgaria; identify and establish team to work on amending and promoting this program. Meet with the Budget and Finance Committee of the Parliament.
5. Participate in AID-sponsored conferences on urgent economic policies for Bulgaria. Recruit support from the business and technical communities (November, December).
6. Participate in the Bulgarian Ministry of Economic Development's Capital Markets Center, ensuring that IME representatives take part in the Center's sessions and comment on draft policies.
7. On matters related to the implementation of the mass privatization proposal, a roundtable session will be held with the Association of Privatization Funds, Mass Privatization Center, and Bulgarian Stock Exchange.
8. Promote all supporting activities through IME radio weekly live talk show, Live Money, sponsored by the Friederich Naumann Stiftung and the EU-PHARE Democracy Program.
8. Issue recommendations related to the informal labor market situation. Hold a roundtable conference with government officials. Brainstorm on recommendations with National Insurance Institute, National Statistics Institute, and United Nation's Development Program Bureau in Sofia.
9. Participate in a round table at Bulgarian Partnership Association. Discuss reduction of government interference and barriers to entry in the economy and accumulation-friendly amendments to the Profit Tax regulations.

10. Organize a seminar on the safe custody and administration of securities with the participation of broker-dealers, privatization funds, SEC Board members, and media in cooperation with ICEG.
11. Assess the prospects of establishing a Currency Board. Conduct media campaign (November-December) to promote Currency Board.
12. Publish report by a team from AUBG and IME on barriers to road transport in the Balkans.

Albania:

1. Participate in international conference in Bucharest. Present three papers and make policy recommendations on fragmented financial markets, informal market, and hidden subsidies. Publicize recommendations in Albania.
2. Discuss policy agenda with Network members, including partners from Bulgaria, Czech Republic, Romania, Slovakia, Hungary, Yugoslavia, Macedonia, and Croatia.
3. Identify three topics for advocacy for new project. Identify team members and partners within and outside Albania. Design necessary advocacy steps and schedule. Develop a work plan for the coming year.
4. Meet with Albanian Central Bank, commercial banks, the Ministry of Finance, and the Economic Faculty of the University of Tirana, to discuss banking reform issues, capital market developments, and informal credit loans.
5. Publicize efforts widely through media, to begin public information campaign.

Romania:

1. Organize the final conference of the Hidden Barriers to Economic Growth in the Balkans project. This will include discussion of the conference agenda and of the Balkan Network presentations with the Balkan Network members; revising the conference agenda and sending the remaining invitations; subcontracting services for the conference (conference rooms, accommodations, meals, interpreting, etc.); developing the conference, and post-conference evaluation.
2. Publish articles and brief presentations of the conference papers in Romanian newspapers.

3. Produce a White Paper on the final conference and policy papers produced during the project by the three institutes involved. Disseminate the White Paper to members of the Balkan Network and other interested organizations.
4. Identify partners for advocacy, to include members of the Economic Commissions of the Parliament, members of the government, and representatives of the mass media.
5. Invite MPs, CPSCA's research team members, and representatives of international organizations in Romania to participate at an informal working session.
6. Disseminate the results of the project among the people listed above and evaluate the impact of policy recommendations.
7. Produce a questionnaire and developed interviews with members of the Parliament. The questionnaire was designed to determine economic priorities in order to establish the working Agenda for advocacy groups.
8. Elaborate a report based on the key policy maker impact evaluation.
9. Select members of an advocacy group, made up of members of employers organizations, trade unions, as well as politicians, independent experts, representatives of NGOs, researchers, bankers, policy makers, and journalists.
10. Plan monthly working sessions of the group in order to design draft laws and elaborate amendments at the existing legislative framework.
11. Channel proposals to the permanent commissions of the Parliament, political parties, and Government for law amendments; set priorities for agenda in finance.
12. Offer brief information for mass media representatives, employers, organizations, and trade unions regarding the results achieved during the advocacy exercise.

Network:

1. Contact potential additional Network members, and confirm their participation. Invite six new members to attend Bucharest conference. Encourage their contribution during the conference.
2. Hold a separate meeting with all Network members attending the conference to discuss the Network, its name, its goals, and how members should work with each other.
3. Follow up with members to get agreed-upon name, solicit additional members, and begin process of sharing information on a regular basis.

Second Quarter: January-March 1997

Bulgaria:

1. Start a campaign on amending and/or discontinuing the Price Act (adopted September 1995) and on dismantling the National Price Commission. Produce a policy paper with specific proposals aimed at Members of Parliament. Conduct a joint roundtable with the Bulgarian International Business Association on Currency Board opportunities and threats.
2. Cooperate with ACER in Albania on putting together anti-fraud and pyramid investment contract regulations, and send a financial expert to Albania to participate in a workshop on financial fragility and deposit guarantees.
3. Identify team members for the three research and advocacy teams and begin organizing advocacy and media efforts.

a. Deposit guarantee:

Draft amendments to the Deposit Guarantee Act (first draft to be prepared by mid-February); prepare publications (January to February 1997).

b. Price Act:

Draft amendments to the legal framework of privatization in Bulgaria under the 1992 Privatization Law. The Privatization Funds Act restricts trading of equities under a voucher privatization scheme. Make recommendation on changes needed in the two Acts and begin attempt to convince decision-makers in the government. Begin to conduct a media campaign to convince the public of the need for change. Produce three short policy papers showing a comparison between the old regulations and new proposals, and provide arguments for changing the existing regulations.

c. Debt-equity:

Facilitate debt-equity swaps, and enable ZUNK bonds (bad-debt bonds) to be used in privatization at their face value, with their price determined by supply and demand. The price of the USD-denominated ZUNK bonds will then be close to that of Discount Bonds, which will make possible certain substitutions between the two instruments, which will provide investors with greater flexibility. To remove these limits requires only eliminating one sentence in the concluding provisions of the ZUNK (bad-debt) Act. Organize a media campaign. Contact the Government Capital Markets Center and Members of Parliament.

4. Participate in a seminar on Alternatives for the Central Bank Exchange Rate Quotations with bankers, Bulgarian Stock Exchange managers, press, etc. Produce media publications and get TV coverage.

5. Participate in World Bank Experts Group Meeting with other Eastern European policymakers.
6. Assess the first six months of the project. Conduct detailed planning for the second half of the project.

Albania:

1. *Deposit insurance:*

a. Begin to educate and form public opinion on the necessity of establishing the deposit insurance system. Radio-television talk shows will aim to give an accurate assessment of deposit insurance in the Albanian banking system; magazine and newspaper articles will aim to give experiences of countries in transition with respect to the existing legal framework and the Deposit Insurance Act; to show some expected consequences; and to give recommendations.

b. Hold advocacy meetings with policy makers, such as the Commission for Economy and Finance of the Parliament, to present ACER's work and provide complete information on the existing legal framework in the Albanian economy; meet with local experts from Albanian banks to discuss the role of individual deposits in transition; and meet with foreign experts, to present ACER's views and gain the benefit of their experience.

c. Prepare a draft law on this topic based on the Slovak model. Send to experts in Albania, the US, and Slovakia for their comments. Revise as necessary.

d. Hold a roundtable discussion on this topic (February) with at least one Western and one Eastern European expert. Through speeches, papers, and floor discussions, analyze the macro-economic and legal situation in applying such a law; through discussions of the participants on the draft Deposit Insurance law prepared by ACER, analyze some of the expected consequences after the implementation of Law, give recommendations, and encourage the approval of the Law.

Papers prepared for the Roundtable will include: (1) banking system developments; (2) analysis of draft law, including creation of fund to guarantee deposits; (3) analysis of Albania's current financial situation regarding deposits, savings, during the last five years, and why savings are not in banks. Inform the public by releasing materials of the Roundtable, including speeches, papers, and press release.

e. Meet with the Parliamentary Commission for the Economy and Finance. Cooperate with IME on putting together anti-fraud and pyramid investment contract

regulations. Prepare report and recommendations related to the regulation of the informal financial sector; conduct a roundtable conference with government officials.

f. Based on the first roundtable discussions, expand the research team as necessary and identify the most important emerging amendments and draft law changes needed for improvement of deposit guarantee law.

2. Stock Exchange Development:

a. Radio/television talk shows will aim to inform the public--individuals and businesses--on securities and the functioning of the stock exchange as an important part of the financial system; to show potential investors and companies the necessity of share registry for the normal functioning of the stock exchange; and to present some recommendations about the first phase of privatization and objectives of the second phase of mass privatization, as a basis of stock exchange development.

b. Magazine and newspaper articles will be published to present the development of and problems with the Tirana Stock Exchange; to show the necessity of developing capital markets for Albanian economic growth; to give the experience of other countries with their capital markets; and to show the role of share registry in the securities market.

c. Advocacy meetings will be held with policymakers, including senior officials of the Ministry of Finance, the Bank of Albania, and the Center for Stock Registration to find the best ways of cooperating to develop the Tirana stock exchange. Meetings will also be held with USAID experts to coordinate with their work in order to increase the number of companies listed on the Tirana stock exchange; with local experts from banks to discuss problems and to offer some recommendations for the development of the Stock Exchange; with shareholders and managers of Albanian companies around the country to offer them information on the use of the stock exchange for the development of their activities; and with representatives of the stock exchange to discuss ways to expand its activities.

d. A microsurvey will be conducted to understand the barriers for participation in the stock exchange.

3. Encouraging Private Pension Funds:

a. Radio-television talk shows will present the current social security system; recommend ways of improving the deficiencies of the existing system; and analyze the possibilities of establishing private pension funds.

b. Magazine and newspaper articles will be published about the existing social security system, the advantages of a private pension system, and the experience of successful countries in order to encourage the implementation of an alternative system.

c. Advocacy meetings with policymakers will include experts from the Ministry of Labor to discuss the current social security system and ACER's efforts to encourage a private pension fund; with experts from the Institute of Social Insurance regarding the steps to establish a private pension fund and to advocate ways to improve the law on private pensions; and with representatives of trade unions to inform them of private pension funds as a possibility to improve the standard of living of the workers.

d. A roundtable discussion will be held in March or April. Through the main speeches, papers, and floor discussions, the social security system in Albania will be analyzed; the deficiencies of the current system discussed; and recommendations made on ways to improve it, including the advantages of a private pension system, and the need to improve the private pension law through regulations and/or legislation. Papers will be prepared and materials from the roundtable will be published.

Network:

1. The Network membership will be finalized; the name agreed to; the list with office and email addresses circulated among them; and a brochure prepared.
2. Both IME and ACER will contact at least four of the other Network members, either on the telephone, via email, or in person, regarding their advocacy projects.
3. Representatives of at least two Network members will participate in ACER's workshop on deposit insurance.

Third Quarter: April-June 1997

Bulgaria:

1. Prepare the second version of the draft amendments to the Deposit Guarantee Act. A foreign expert will visit and meetings arranged with the Central Bank, the Ministry of Finance, Members of Parliament, as well as with the team and IME staff (April 1997).
2. Consult and discuss with an FDIC expert the different approaches to the problem of deposit insurance, as well as with the Central Bank, Association of Commercial Banks, and members of the Economic and Budget Committee and the Finance Committee of the Parliament (April 1997).
3. Participate in the EBRD Annual Meeting panel and floor discussion (April 1997).
4. Organize and hold a regional conference on Growth Prospects of the Balkan Economies. Draw conclusions from the experiences to date and urge policies that have been successful in other transition countries. Representatives from at least six other countries will participate, as well as at least one Western speaker (April or May 1997).

5. Organize a lecture by the conference keynote speaker before Members of Parliament (Economic, Budget and Finance, and Social Welfare committees). Publish the speech.
6. Complete work on a major publication on the progress of free market reforms in the Balkans based on the 1996 and 1997 results of the project and its recommendations. Executive summaries will be distributed by ACER and IME, and the correspondent institutes in their respective countries. There will also be widespread media attention. The goal is to emphasize the importance of lower barriers to growth in establishing competitive advantages of the national economies. (June 1997).
7. Produce three publications on the progress of the suggested policies.
8. Organize a workshop on Domestic Debt Bonds, Capital Markets and Privatization: How to Facilitate Equity Trading (June 1997).

Albania:

1. *Deposit Insurance:*

a. Radio/television talk shows will discuss the results of the roundtable discussion organized in the second quarter and the reaction of government authorities and the public to deposit insurance.

b. Ten magazine and newspaper articles will be published analyzing the economic situation and the expected consequences if a law on deposit insurance is approved by the Albanian parliament, and to give recommendations on implementation.

2. *Stock Exchange Development:*

a. Radio/TV talk shows will discuss the importance of participating in the Tirana stock exchange, the importance of the Investment Fund, and financial intermediaries.

b. Advocacy meetings will be held with policymakers, including experts of the Bank of Albania, the Tirana stock exchange and USAID in order to improve the functioning the stock exchange and, if necessary, to prepare regulations to encourage Albanian companies to register their shares in the share registry and to be listed in the Tirana Stock Exchange

c. A roundtable discussion will be held on the development of the stock exchange in Albania. Through speeches, papers, and floor discussions the development of capital markets in Albania will be discussed, as well as the steps taken, and the difficulties encountered, by the Tirana Stock Exchange, barriers faced by Albanian companies in

registering on a share registry and being listed on the Tirana Stock Exchange, and the important role of financial intermediaries and investment funds as part of the capital markets. The aim will be to show that a developed capital market will encourage foreign investors to invest in Albania, and to recommend policies for rapid development of capital markets in Albania. (May 1997)

d. Magazine and newspaper articles will be published presenting the recommendations of the roundtable on "Stock Exchange Development in Albania," to analyze recent developments in the share registry and the Tirana stock exchange; the second phase of mass privatization in Albania for further development of capital markets; and investment funds in Albania and their role after mass privatization.

3. *Encouraging Pension Funds:*

a. Radio/television talk shows will be held to show the results of the roundtable organized in the second quarter to inform the public on recent developments of the private pension system and to encourage their involvement in the private pension fund.

b. Magazine and newspaper articles will discuss Albanian farmers and the possible role of a private pension system as a way of improving their lives, and the relationship between the social security system and a private pension system.

c. Hold advocacy meetings with policy makers from Parliament, experts from the Institute of Social Insurance, Trade Unions, and the Ministry of Labor to implement the private pension law and prepare or improve possible regulations or legislation.

d. Organize another roundtable. If the Institute of Social Insurance reviews the existing law, work with them to improve and implement it. If they do not, ACER will prepare the necessary amendments and work with the Institute to encourage its implementation.

Network:

1. Representatives of at least three Network members will participate in ACER's workshop on the stock market.

2. Representatives of at least six Network members will participate in IME's regional conference.

3. The Network will begin to publicize itself and its expertise on economic issues in eastern and central Europe.

4. The Network will attract attention from the international business and financial community, and begin raising funds.

Fourth Quarter: July - September 1997

Bulgaria:

1. Produce three publications on the progress of the advocacy work in each of the three project areas. (July 1997)
2. Review the role of individual members of Parliament and the executive branch in promoting or opposing suggested policies (August 1997) Hold advocacy meetings with key policymakers to encourage policy implementation.
3. Hold discussions of the final draft of the publication on the progress of free market reforms in the Balkans and its recommendations; receive feedback and comments from the corresponding institutes; include their contribution in the body of the text (July and September 1997). A foreign expert will participate in the review (September 1997).
4. Promote the publication through a TV roundtable on the Growth Prospects of the Balkans (one private TV station, Nova TV, has already expressed a willingness to televise the show, and the public National TV Documentary Department is also considering the idea of producing a thirty minute film on Balkan economic reforms).

Albania:

1. *Deposit Insurance:*

a. Radio/TV talk shows will be held; a special issue of ACER's magazine and newspaper articles will be published; and advocacy meetings will be held with the Central Bank, Ministry of Finance, and Parliament on implementation of the law.

2. *Stock Exchange:*

a. Continue to work to educate the public on the use of the stock exchange by meeting with businesses to encourage them to list; by public education through media, audio-visual, and printed material including leaflets explaining the use of the stock exchange; and by training sessions in three different regions of the country.

b. Radio/TV talk shows will be held; publish a special issue of ACER's magazine.

c. Work with officials of the Stock Exchange, Finance Ministry and Central Bank to implement the recommendations to improve the functioning of the Stock Exchange.

3. *Private Pension Funds:*

a. A roundtable discussion will be held on private pension fund development; papers will be prepared and distributed in advance of the roundtable (July).

b. Work with the Social Institute on Insurance, Finance Ministry, and Parliament to implement the recommendations from the roundtable.

c. Radio/TV talk shows will be held on recent activities; a special issue of ACER's magazine and some newspaper articles will be published.

Network:

1. Representatives of at least two Network members will participate in ACER's workshop on pension reform.

2. Both IME and ACER will contact, via telephone, email, or in person, at least six other Network members regarding their advocacy projects.