

## **Institutional Reform and the Informal Sector (IRIS) Project**

**Quarterly Report: October 1 - December 31, 1994**

### INTRODUCTION

The Institutional Reform and the Informal Sector (IRIS) Project was authorized on May 24, 1990 for a period of five years, through a cooperative agreement between the U.S. Agency for International Development (USAID) and the IRIS Center at the University of Maryland at College Park. An accompanying basic ordering agreement allows for AID Missions to buy into the technical assistance activities, to meet objectives specific to the respective country. The goal of the IRIS project is to support institutional reforms that enhance competitive markets and democratic processes. The purpose of the Core cooperative agreement is three-fold and includes the following:

- To promote better institutions (legislative reform, regulatory reform, improved organizational structures, and strengthened decision-making processes);
- To build awareness of the role of institutions in economic development; and
- To expand the knowledge base on the relationship between institutions and economic growth and examine new approaches to institutional reform.

The objectives of both the cooperative agreement and the respective basic ordering agreements are met with a variety of project inputs, defined by their appropriateness to the specific needs of a country or the international development community at large. Organizational development objectives are addressed through publications, workshops, technical assistance, and training. Collaborative research objectives call for designing technical assistance packages. Training needs are met with short term in-country and third-country programs, short-term US programs and/or internships. Information dissemination and outreach objectives are addressed through the IRIS clearing house and the IRIS newsletter. The development of a knowledge base for strategic approaches is furthered through working papers, books, monographs, articles, conferences, workshops, and seminars.

The status of project interventions and the resulting impact is reported to USAID on a quarterly basis, as defined in the cooperative agreement and nine (9) delivery orders currently in effect. The following report provides an overview of project activities and impact for the core project (Section One) and the respective field projects (Section Two) for the period October 1 - December 31, 1994.

## SECTION ONE: CORE REPORT

### I. PROGRESS TOWARD ACHIEVING PROJECT PURPOSES: FIELD PROGRAMS

#### 1. Promoting better institutions

##### A. Legislative reform initiatives

###### a. Plans for reporting quarter

- **Poland: Bankruptcy Law.** A study undertaken in conjunction with the Polish Juridical Institute would be completed in November.

###### b. Activities during quarter

- **Lithuania: Collateral Law Reform.** Letters were exchanged with the Lithuanian Minister of Justice, who has welcomed IRIS technical assistance. At the end of the quarter, Mr. John Corrigan, who has been the CEELI commercial law expert in Vilnius for the past year, accepted the offer to be the long-term-advisor in Vilnius. An intensive drafting program is expected in the first quarter of 1995.
- **Poland: Bankruptcy Law.** Prof. Brol of the Juridical Institute finished his draft on current bankruptcy problems in Poland, and its publication is expected in February. IRIS-Poland assisted Deloitte & Touche's Budapest office in organizing a meeting of Polish bankruptcy experts to review the status of bankruptcy law in Poland on October 28, 1994.
- **Russia: Civil Code.** IRIS organized a working seminar on bank transactions for the Code drafters. This session, at which eleven members of the Drafting Commission participated, was conducted with the participation of Professor James White of the University of Michigan Law School, and William McAndrews, a lawyer with the Financial Services Volunteer Corp who has been advising the Russian Central Bank. IRIS lawyers in attendance included Lane Blumenfeld, David Fagelson, and Charles Cadwell. The drafters examined issues of credit and payment systems, check clearing, deposit requirements and related issues that will appear in Part II of the Civil Code.

**c. Plans for next quarter**

- **Egypt, Morocco.** Initial discussions will be held with USAID offices on draft consumer protection and competition policy laws.
- **Lithuania: Collateral Law.** IRIS will establish and staff an office in Lithuania to support this reform.
- **Macedonia: Collateral Law.** A long-term advisor will be hired to support this project.
- **Nepal: Company Law.** IRIS/Nepal will support the tabling of the Law, which will depend on action by the Ministry of Industry.
- **Nepal: Consumer Protection Act.** IRIS/Nepal will support the tabling of the Law, which will depend on action by the Ministry of Supplies.
- **Nepal: Contract Law.** The completion of the draft law -- delayed by the participation of IRIS's partner in this reform, the Nepal Law Society, in election monitoring -- is expected in February 1995.
- **Poland: Collateral Law.** At request of Deputy Minister of Justice Zieliński, IRIS will organize a major conference in February to promote the draft law.

B. Regulatory reform activities

**a. Plans for reporting quarter**

- **Chad:** IRIS/Chad would continue to provide technical assistance on business law harmonization and lottery regulation.
- **Mongolia: Environmental Policy.** Plans would be completed for a fourth workshop, to be held in Ulaanbaatar. Activities for the upcoming quarter would include recruitment of faculty, a meeting of Advisory Council to suggest participants, and identification of counterpart agency in Mongolia to host fourth workshop and provide logistical assistance.
- **Poland: Intellectual Property Reform.** IRIS/Poland, working in conjunction with the Ministry of Science and the Center for Emerging Technology Enterprises, would publish a model contracts manual for technology commercialization joint ventures.

- **Poland: Intellectual Property Reform.** IRIS would hold a two-day seminar where legal and technical experts would review the legal infrastructure needed for proper development of the Internet network in Poland.

#### **b. Activities during quarter**

- **Chad:** IRIS/Chad provided technical assistance, documents, and supplies to the Executive Secretariat for the Promotion of the Private Sector in Chad. Headed by a Chadian counterpart, the Secretariat, with close coordination and supervision by the IRIS/Chad project director, undertook organizational meetings, prepared an annual work plan, and devised an advocacy strategy to promote the implementation of legal and institutional reform efforts, including banking secrecy law reform, business law harmonization, investment code reform, business law registration reform, customs fraud, judicial reform, and financial sector reform.
- **Poland: Central Registry.** On November 17, 1994, a formal letter of intent was signed between the Ministry of Justice and Norway, Group, SA, which in turn has asked IRIS-Poland to continue to work with it closely.
- **Poland: Intellectual Property Reform.** English-language versions of a series of model legal contracts for protection of intellectual property in technology commercialization projects were published in December.
- **Poland: Intellectual Property Reform.** At the request of Prof. Witold Karczewski, director of the State Committee for Scientific Research, (equivalent of the Ministry of Science), IRIS organized an October 3 seminar in which legal and technical experts discussed the legal infrastructure needed for proper development of the Internet network in Poland. At present, the network is a big drain on the state budget. This could be easily avoided with proper planning for business access to this presently academic network. IRIS consultants Debra Rogers and Willem Scholten, who came from the US for the seminar in Warsaw, were asked to meet the following week with Polish Prime Minister Pawlak at a meeting at Columbia University on information highway issues.

#### **c. Plans for next quarter**

- **Mongolia: Anti-monopoly Law Implementation.** IRIS/Mongolia will provide technical assistance on the further development of procedures for implementing the Law on Prohibiting Unfair Competition.
- **Nepal: Banking Reform.** IRIS/Nepal will continue to support this reform, although enactment is uncertain due to the priorities of the new government's Ministry of Finance.

- **Poland: Intellectual Property Reform.** IRIS will work with the Institute for the Protection of Intellectual Property at the Jagiellonian Institute to produce Polish-language versions of the model technology commercialization contracts.

C. Improved organizational structures

a. **Plans for reporting quarter**

- **Chad.** IRIS/Chad would continue to provide technical assistance to an Enterprise Network and an organization of women in private enterprise.
- **Mongolia: Insurance.** An October conference to be held in College Park would introduce Mongolian policy-makers to the development, operation, and regulation of insurance markets.

b. **Activities during quarter**

- **Chad:** IRIS/Chad provided advising on business plan and marketing strategy for a new women-owned business.
- **Mongolia:** A workshop, entitled "Risk and the Institutions of Insurance" and held in College Park, provided Mongolian decision-makers with a description of insurance markets in the United States and an opportunity to discuss policy problems related to the management of economic risk.

c. **Plans for next quarter**

- **Mongolia: Insurance Law.** IRIS/Mongolia will support the drafting of a new law on general insurance issues, including the establishment of solvency regulation.

D. Strengthened decision-making processes

a. **Plans for reporting quarter**

- **India: Enhanced dialogue on policy reform.** Policy seminars were to be held in New Delhi at the beginning of December 1994. An IRIS-India Working Paper Series would be initiated, and a background paper on the deregulation of the Indian telecommunications sector would be completed.

## **b. Activities during quarter**

- **India: Enhanced dialogue on policy reform.** IRIS organized jointly with the National Institute of Public Finance and Policy (NIPFP) a conference on "Who Taxes, Who Spends, Who Eats: Institutions in Economic Development" on December 7, 1994 at the India International Center in New Delhi. The conference disseminated research results that the IRIS/India program has generated and enhanced the policy dialogue between the Indian academic community, government, and the media. The conference sessions focused on Indian fiscal federalism, income tax enforcement and foodgrain marketing. The audience consisted of prominent Indian scholars, government officials, businesspeople and representatives of international organizations. The Indian press was also present to cover the event.

Drafts of all 22 policy papers commissioned earlier were completed, and the revision of these papers into publishable form continued. A background paper on the deregulation of the Indian telecommunications sector was completed.

- **Russia: Collateral Law.** IRIS co-sponsored an International Conference on Secured Commercial Lending in the CIS on November 4-5, held in Moscow at the Supreme Arbitration Court of the Russian Federation. Additional sponsors included the European Bank for Reconstruction and Development, the Inter-Parliamentary Assembly of the Commonwealth of Independent States, the Supreme Arbitration Court of the Russian Federation, the Scientific Consulting Center for Private Law of the CIS and USAID. The Conference targeted both law-makers and bankers, attracting almost 200 people from over 90 organizations, including banks, law firms, businesses, the government, legislature, and judiciary. Delegates from fourteen different countries attended, including the United States, Great Britain, Norway, Germany, Poland, Lithuania, and Russia. CIS countries represented, in addition to Russia, included Ukraine, Belarus, Georgia, Moldova, Azerbaijan, Kazakhstan, and Uzbekistan.

Among the speakers were the First Deputy Chairman of the Supreme Arbitration Court, the Deputy Chairman of the Federal Bankruptcy Agency, the President of Citibank-Moscow, the General Counsel of the EBRD, the Director of IRIS, the managing partners of leading western law firms in Russia, law professors from Columbia and Michigan Universities, and the Executive Director of the International Bank of Japan. Mikhail Mityukov, the First Deputy Chairman of the State Duma, delivered the Keynote Address on the parliament's role in Russian legal reform.

- **Russia: Civil Code.** During the reporting period, IRIS and the Research Center of Private Law completed the majority of the translation of the United States Uniform Commercial Code (UCC).

**c. Plans for next quarter**

- **India: Enhanced dialogue on policy reform.** The review and revision of the policy papers commissioned under the IRIS/India scholars program will be completed in March 1995 and published in the IRIS-India Working Paper Series. The best papers will also be published in a book, scheduled to go to press in December 1995. Preparations will be made for launching the Comprehensive IRIS/India Policy Research Program, a Distinguished Speaker Conference to be held in January 1996, and a tele-video conference on "Democracy and Economic Development: Friends or Enemies?" to be held in June 1996.
- **Mongolia: Environmental Policy.** IRIS/Mongolia will present a workshop on environmental policy in Ulaanbaatar during February 1995. IRIS/Mongolia will also develop a workshop curriculum for selected journalists on the use of economics in reporting and begin preparations and background research for sixth workshop on corporate governance.
- **Russia: Collateral Law.** EBRD and IRIS are preparing the November conference proceedings for February publication.
- **Russia: Civil Code.** The Russian translation of the UCC will be edited and published in the spring of 1995.

**PROGRESS TOWARD ACHIEVING PROJECT PURPOSES: CORE ACTIVITIES**

- **Exploration of New Mission Buy-In Activities**

**a. Plans for reporting quarter**

N.A.

**b. Activities during quarter**

IRIS started cooperation with AID on a West Bank project focusing on commercial law. A lawyer was hired and a team organized, who held a workshop with Palestinian investors and AID officials. Two consultants were also retained.

IRIS discussed potential buy-in activities (consumer protection and competition policy) with the AID missions in Egypt and Morocco.

IRIS was in communication with Dr. Charles Mensa, of the Institute of Economic Affairs in Accra, Ghana, to explore the possibilities of initiating a research program on governance issues.

IRIS officials explored the possibilities for applying the lessons of the Mongolian experience to other Asian countries, in particular Kazakhstan and Cambodia.

Ronald Dwight traveled to Bulgaria and Macedonia to work on establishing IRIS collateral law projects in these countries.

Consultations about a possible cooperation of IRIS with the AID mission in South Africa suggested that the present mission priorities might not, at this time, be conducive to such a collaboration.

### **c. Plans for next quarter**

Travel of an IRIS team to the West Bank to inaugurate the work on commercial law.

Exploration trip to Egypt and Morocco. In the case a new buy-in contract is signed, IRIS will provide comments on draft legislation, carry out case studies, and offer training and advise to key policy makers in the field of competition.

Explore funding options for collaboration with the Institute of Economic Affairs in Ghana and develop options for cooperation with the Institute.

Negotiations in view of renewal of buy-in contracts with India and Nepal missions.

Preparations for exploration visit to Bangladesh by the IRIS/India director, to be held during the following quarter.

Further communication with IRIS contacts in Sri Lanka, expected to result in an exploration visit to that country by the IRIS/India director.

The AID mission in Kazakhstan will be approached and briefed on the appropriateness of the IRIS/Mongolia experience for the Central Asian Republics of the NIS.

The AID missions in Eritrea and Ethiopia will be contacted to discuss the adaptability of the IRIS/Chad lessons to these countries.

IRIS will examine the options for a buy-in in Indonesia, where a program to evaluate the rule of law is being considered.

- **IRIS Seminar Series**

- a. Plans for reporting quarter**

N.A.

- b. Activities during quarter**

A review of similar existing educational programs was begun as a first step in the preparation of a marketing plan. The objectives of this review are to identify possible gaps in geographic coverage and in topics that would provide opportunities for IRIS and to learn from the prior experiences of AID contractors and other educational service providers.

IRIS conducted an in-house seminar for all staff to review our own past experiences in the provision of seminars and workshops, focusing on topics, logistics, curriculum development, and staffing. This session provided several possible topics and sites for holding a pilot regional seminar.

- c. Plans for next quarter**

We will complete the review of existing programs and develop a more detailed marketing plan. We will discuss our list of possible topics with AID and retain two or three for further development. The possibilities for holding the pilot seminar in the series in Kazakhstan or Cambodia will be explored.

- **Updating Expertise Seminar for AID**

- a. Plans for reporting quarter**

IRIS staff were assigned responsibilities for investigating how IRIS could best address needs of AID staff: which issues were of most interest, to what groups within AID, and other concerns.

- b. Activities during quarter**

On December 7th, Christopher Clague (IRIS Research Director) and IRIS consultant Robert Klitgaard (University of Natal) participated in a collaborative exercise with USAID staff to explore the relevance of the New Institutional Economics to AID programming. Attended

by 15 economists and others, the session was well-received and will be followed-up by targeted activities.

**c. Plans for next quarter**

Written descriptions of potential topics will be developed as examples of seminars. These examples will be used to further target the needs of staff from AID's Economic Growth Center and other divisions.

- **Rule of Law/Governance Project**

- a. Plans for reporting quarter**

- N.A.

- b. Activities during quarter**

- During the quarter ending December 31, 1995 this project took some initial steps to identify foundation and other non-AID sources of supplementary funding. In addition to identifying these sources, some early work has begun to identify the issues and develop a working paper.

- c. Plans for next quarter**

- In the upcoming quarter this project will begin in full swing to complete the working paper.

- **Good Government Conference**

- a. Plans for reporting quarter**

- N.A.

- b. Activities during quarter**

- IRIS adapted the scope of work for the conference in view of the possible change of venue from Chad to Senegal. IRIS repeatedly approached the AID mission in Senegal to develop the content and logistics of the conference, but barring a letter of intention dated October 28, no response has been forthcoming.

- IRIS was informed of the interest in the AID mission in Uganda for a conference similar to that envisioned for Chad and Senegal. Robert Klitgaard, of the University of Natal,

manifested his intention to be involved in the preparation of a good-government conference in Africa.

**c. Plans for next quarter**

IRIS will explore further the prospects for holding the conference in Senegal and Uganda. In the event neither mission manifests its willingness to sponsor the conference at the proposed time (June 95), IRIS will consider modifying the date and/or the venue of the conference.

**CORE ADMINISTRATIVE FUNCTIONS**

**Final Report.** The composition of the IRIS final report will begin in June 1995.

**Research dissemination.** IRIS-sponsored research was presented to broader audiences in three conferences during this quarter: "What Is Institutionalism Now?" (College Park, October 15), "Economic and Political Institutions For Sustainable Development: Implications for Assistance" (Washington, DC October 24-25) and "Who Taxes, Who Spends, Who Eats?" (New Delhi, December 7). IRIS staff and scholars presented several additional reports, noted in Section 2(A)a.

Additional conferences, presenting findings on regional constitutions the role of interest groups in Russian reforms, are planned in Moscow on March 13-17 and April 12-15, 1995. IRIS is seeking Mission support for a regional conference in sub-Saharan Africa on governance.

Beginning with its May/June issue, the Russian journal *Economics and Mathematical Methods* will devote a section to "Institutional Reform and Economic Behavior." This section will be chaired by Valerie Makarov and Mancur Olson. The first two papers to be published in this section are Alan Drazen's "The Political Economy of Delayed Reform" and Solomon Movshovich's "Inflation in an Oligopolistic Economy." This series will provide Russian economists with the results of both Russian and Western research related to institutional economics.

Requests for IRIS publications.

Period	Number of requests	Items requested
6/22/94-9/31/94	Total: 44	Total: 130
	USAID: 4	USAID: 10
10/1/94-12/31/94	Total: 38	Total: 228
	USAID: 6	USAID: 80

**Database maintenance for mailing lists.** The USAID sublists for seminar invitations and other mailings were updated and expanded from 266 to 649 names, which will enable IRIS to better inform interested USAID economists and field officers of field and research activities related to institutional reform. In the next quarter, congressional lists will be updated to reflect changes stemming from the November elections.

**University Research Corporation, International.** An URCI board meeting on October 18th addressed internal financial controls and means of servicing new grants.

**WAFERS.** No WAFERs were held in this quarter, in part due to the demands on staff of the October 24-25 conference and the December 7th meeting. Several topics are being explored, including legal reform in the West Bank/Gaza and implications of the November elections on US foreign policy, in relation to apparent interest among the development community and speaker availability.

**UPDATE.** An issue of the *Update* is undergoing internal review at IRIS, with publication anticipated in February/March 1995.

**"Lessons Learned" from Field Programs.** IRIS staff are meeting with G/EG economists to identify the most relevant topics.

**Economic and Political Institutions Conference.** IRIS sponsored a conference on the topic of "Economic and Political Institutions for Sustainable Development: Implications for Assistance" on October 24-25, 1994, at the New State Building. An agenda is included as an attachment.

**Economic and Political Institutions Book.** The papers from the October conference will be revised by their authors by April, 1995. Over the next two quarters, the papers will be edited in-house at IRIS, with the book being ready to go to press in the fall of 1995.

**Research Review.** A series of topical bibliographies were developed that categorize IRIS research in the following categories: the transition of formerly communist countries; the role of democratic and market institutions in economic development; constitutionalism and the rule of law; the operation of credit, labor, and land markets; interest groups, collective action, and governance; and regulatory and policy reform. This classification will serve as the basis of the reports to be generated.

2. **Disseminating information to build awareness of the role of institutions in economic development**

A. Forums, conferences, presentations

a. **Activities during quarter**

**Papers presented at Scholarly Meetings by IRIS staff and consultants:**

Ronald Dwight, at the US-Poland Chamber of Commerce in NYC (Oct. 3) and in Chicago (Oct. 5), spoke on collateral law and legal reform generally in Poland.

Mancur Olson (Economic History Association, Cincinnati, October 10) "Unrealized Economic Growth."

Mancur Olson (Social Science History Association, Atlanta, October 14) "Capitalism, Socialism, and Democracy: Economic Performance under Dictatorship and Democracy in East and West."

Leonid Polishchuk (CalTech, Department of Economics, October 20) "Rent Seeking as a Means of Allocation: The Case of Spontaneous Privatization"

Leonid Polishchuk (University of Indiana, Department of Economics, November) "Rent Seeking as a Means of Allocation: The Case of Spontaneous Privatization"

Leonid Polishchuk (Jacob Marschak Interdisciplinary Colloquium on Mathematics in the Behavioral Sciences, UCLA, October 21) "Robber Barons and Economic Efficiency"

Leonid Polishchuk (Center for European and Russian Studies, UCLA, October 21) "Russian Reform: Institutional Changes and Political Implications"

Christopher Clague (Conference: What Is Institutionalism Now?, College Park, October 15) "Economics, Institutions, and Development"

Mancur Olson (IRIS Conference, October 24, Washington, DC) "An Intellectual Framework for Sustainable Development"

Christopher Clague (IRIS Conference, October 24, Washington, DC) "The New Institutional Economics and Economic Development"

Christopher Clague, Philip Keefer, Stephen Knack, and Mancur Olson (IRIS Conference, October 24, Washington, DC) "Institutions and Economic Performance: Property Rights and Contract Enforcement"

Christopher Clague, Philip Keefer, Stephen Knack, and Mancur Olson, (IRIS Conference, October 25, Washington, DC) "Institutions and Economic Performance: A New Look at Democracies and Growth"

Peter Murrell and Georges Korsun (IRIS Conference, October 25, Washington, DC) "The Transition to a Market Economy in Mongolia"

Charles Cadwell (IRIS Conference, October 25, Washington, DC) "Implementing Legal Reforms in Transition Economies"

Robert Klitgaard (IRIS Conference, October 25, Washington, DC) "Information and Incentives in Institutional Reform"

Mancur Olson (IRIS Conference, October 25, Washington, DC) "Perforating the Stovepipe: How to Integrate Institutional Economics into AID Programming"

Ronald Dwight (IRIS Conference, October 25, Washington, DC) spoke on implementing institutional reform in formerly communistic societies.

Brian Fikkert (Columbia University, November 14) "Reforming India's Technology Policies: Is There a Trade-Off Between Short-Run Efficiency and Long-Run Self-Reliance?"

Ronald Dwight (AIESEC conference, University of Warsaw, November 18) gave a speech on the functioning of the market economy.

Ronald Dwight (Agricultural Round Table, Poznań November 30), made a presentation on collateral law reform to help secure support of the farming sector for this reform.

Satu Kähkönen and Ashok Gulati (Conference: "Who Taxes, Who Spends, Who Eats?," New Delhi, December 7) "Food Corporation of India: Successes and failures in Indian Foodgrain Marketing."

### **Training Provided to Scholars from LDCs and the NIS:**

Eight Mongolian decision-makers attended a workshop, entitled "Risk and the Institutions of Insurance" in College Park during October 1994.

Eleven members of the Drafting Commission for the Russian Civil Code participated in an IRIS-organized working seminar on bank transactions. This session, which was conducted by Professor James White of the University of Michigan Law School, and William McAndrews, a lawyer with the Financial Services Volunteer Corp who has been advising the Russian Central Bank, examined issues of credit and payment systems, check clearing, deposit requirements and related issues that will appear in Part II of the Civil Code.

IRIS has sponsored a lecture at the High Arbitration Court on American perspectives on the draft Russian Civil Code by Professors Summers and White. IRIS also ran seminars for both faculty and students at Moscow State University Law School on banking and securities law with Professor Patricia McCoy of Cleveland State University.

In the Fall of 1994, IRIS brought twenty-two civil law judges and court administrators from federal, regional, and city courts across Russia to the US to study commercial law, civil procedure, and court administration.

#### **b. Plans for next quarter**

Mancur Olson (American Economic Association, Washington, DC, January 7) "The Devolution of the Nordic and Teutonic Economies"

Mancur Olson (Harvard University, Russian Research Center, February 6)

Mancur Olson (Warsaw, Conference on Collateral Law, February 27) "Contract Law, Capital Accumulation, and Economic Development."

Professor J. A. Spanogle (Warsaw, Conference on Collateral Law, February 27) "Secured transactions -- Western experience."

Mancur Olson (NBER/CREI conference on Growth and Political Institutions, March 31)  
"The Economics of Autocracy and Majority Rule."

Polish Television and IRIS have signed separate contracts with a production company to co-finance two TV programs: one focused on collateral law and the other on bankruptcy in Poland. These will serve to bring wide public awareness to these two important areas of legal reform. Filming was completed in December. Editing will take place in January, and emission on Polish television is expected in February or March 1995.

A conference in Moscow, titled "Russian Reforms: Established Interests and Practical Alternatives" is scheduled to take place on April 12-15, 1995, is planned as a broad forum to discuss causes and consequences of the fragmentation of the Russian institutional and economic fabrics, and to outline policy alternatives reflecting the role of the interest groups in the Russian society.

A workshop on regional constitutions will be held in Moscow, March 13-17. (An agenda is included as an attachment.) The Chechen crisis is only an extreme manifestation of how federal-provincial relationships in Russia are coming back to the forefront of the country's political and economic development. The regional constitutions are one of the focal points of the current debates.

B. Publications

a. **Activities during quarter**

**Completion of IRIS Scholars/Fellows Papers**

**Working papers:**

Yew-Kwang Ng, "Big Bang vs Gradualism: Why Were Economists too Optimistic about the Transformation in Eastern Europe and USSR and Why Is the Chinese Example Ambiguous?" IRIS Working Paper No. 138, October 1994.

Jack. H. Nagel, "Constitutional Reform and Social Difference in New Zealand," IRIS Working Paper No. 139, November 1994.

Stephen Haber, "Capital Immobilities and Industrial Development: A Comparative Study of Brazil, Mexico, and the United States," IRIS Working Paper No. 140, November 1994.

Jack H. Nagel, "Political Explanations of Economic Decline: Evidence from New Zealand," IRIS Working Paper No. 141, November 1994.

Jack. H. Nagel, "Market Liberalization in New Zealand: The Interaction of Economic Reform and Political Institutions in a Pluralitarian Democracy," IRIS Working Paper No. 142, November 1994.

Stephen Haber, "Financial Markets and Industrial Development: A Comparative Study of Government Regulation, Financial Innovation, and Industrial Structure in Brazil and Mexico, 1840-1930," IRIS Working Paper No. 143, November 1994.

Stephen Haber, "Capital Markets and Industrial Development: A Comparative Study of Brazil, India, Mexico, and the United States, 1840-1930," IRIS Working Paper No. 144, November 1994.

Jon Elster, "Transition, Constitution-Making, and Separation in Czechoslovakia," IRIS Working Paper No. 145, November 1994.

**IRIS Reprint:**

Avner Greif, "On the Political Foundations of the Late Medieval Commercial Revolution: Genoa During the Twelfth and Thirteenth Centuries," *Journal of Economic History*, vol. 54 (2) pp.271-287

**IRIS Country Reports:**

Lois Aucoin, "Dispute Resolution as an Alternative to the Ordinary Courts in Madagascar: A Guide to Choice in the International Arena," IRIS Country Report No. 15, December 1994.

Louis Massicotte, "Towards an Independent and Accountable Judiciary: Report on Judicial Reform in Madagascar," IRIS Country Report No. 16, December 1994.

Additional publications by IRIS staff and fellows include:

Rakesh Basant and Brian Fikkert, "The Effects of R&D, Foreign Technology Purchase, and Spillovers on Productivity in Indian Firms," accepted for publication in *The Review of Economics and Statistics*.

3. Expanding the knowledge base on the relationship between institutions and economic growth and examining new approaches to institutional reform.

A. Research

**a. Activities during quarter**

**The IRIS Index Project:** Two research projects in progress, entitled "Institutions and Economic Performance: Property Rights and Contract Enforcement" and "Democracy, Autocracy, and Development: Some Empirical Findings," were presented to an audience of scholars and development practitioners from USAID, international donors, and others in an October 24-25 conference in Washington, DC. The Knack-Keefer paper "Inequality, Property Rights, and Growth" will be presented at the Meetings of the American Economic Association in January.

Additional areas of on-going research by IRIS staff and fellows include an examination include an examination of the impact of caste on labor and tenancy markets in rural India (Anand Swamy); the relation between income and literacy growth in India (Swamy); the existence of scale and technical inefficiency in Indian firms and the impact of liberalization on such inefficiencies (Fikkert); the effects of regime type and duration on foreign direct investment (Fikkert); and several issues related to China's successful economic reforms, including industrial agglomeration and the effects of training and compensation on labor turnover (Fikkert). Mancur Olson is currently investigating processes by which encompassing social organizations that are supportive of economic growth break down over time. Satu Kähkönen is examining whether foreign aid should be used to finance private or public investment, particularly in relation to the recipient country's initial stocks of public and private capital and effects on the productivity of capital and labor.

B. Scholarships/Internships

**a. Activities during quarter**

In the fourth quarter of the 1994, 27 applications for the second tranche of IRIS-CEMI research grants for young Russian scholars were reviewed, and the selection committee has awarded 14 grants.

**b. Activities planned for next quarter**

The IRIS/IET collaborative project will work to place a few selected young scholars in the US for up to one year for graduate level studies and research work at appropriate American universities. The deadline for applications is February 15, 1995, with placements beginning in the 1995-96 academic year. Offers to apply for participation in the program of US-based studies have been made to 15 young scholars out of 39 who had been awarded "small" (\$1,500) grants at the first stage of the project. The selection of candidates was based on their research proposals, background, and overall expected ability to do well in and benefit from such a program. Additional candidates for study in the U.S. by young Russian economists will be identified from the IET junior faculty and the Higher School of Economics.

**II. PROJECT IMPACT DURING REPORTING QUARTER:**

The IRIS conference on "Economic and Political Institutions for Sustainable Development: Implications for Assistance," held on October 24-25, presented recent research in economics and political science on the role of institutions in development, together with the reflections of development practitioners who have tried to make use of institutional concepts in assistance programs. Over a hundred development practitioners, approximately half from USAID, attended.

In Nepal, IRIS Project activities slowed down considerably in the last quarter because of the Communist plurality in the November mid-term election. Despite the new government's make-up, progress on several aspects of reform such as Consumer Protection legislation is likely to continue. The IRIS representative is working to suggest procedures that would make the Government's policy of price subsidies least distortionary and to ensure continued attention on regulatory strengthening vis-a-vis the financial sector.

The conference "*Who Taxes, Who Spends, Who Eats?*," held in New Delhi on December 7, helped to expand awareness in India of issues related to the reform of tax administration and inter-governmental transfers, as shown by reports in the *Times of India* and the *Business and Political Observer*.

Following an IRIS-sponsored October 1994 workshop, Mongolian policy-makers are working to revise sections of the country's Civil Code related to insurance. These revisions will allow the tax deductibility of premia, so that they are treated like other business expenses, and subrogation, by which insurance companies can assume the policy-holder's right to collect damages from a third party. In addition, Basanjav (head of the Agricultural Insurance Company) is revising the company's undifferentiated premia and payouts, which prevent many from buying insurance and discourage policy-holders from taking adequate

precautions. These changes will support the further development of the private sector in Mongolia.

In Poland, the fourth quarter of 1994 saw substantial developments in the collateral law reform process. At the beginning of the quarter, the 7 September 1994 draft seemed to be languishing at the Ministry of Justice legal department. On November 18, the MOJ legal department, in response to urging by Minister Cimoszewicz, finally issued the collateral draft for official inter-ministerial comment. After this event, things began to move much more rapidly. At the end of the quarter, full-scale inter-ministerial meetings with lawyers from all the interested ministries were scheduled for January 4 and January 18, 1995.

IRIS/IET scholar Sergei Sinelnikov's study "Factors Affecting Tax Revenue in Russia," has analyzed the main factors responsible for the revenue shortfall in the Russian economy, particularly in relation to the current structure of the tax system and to practices such as non-payments, tax evasion, and discretionary extensions of due dates. The materials of the study have been used for drafting proposals of the "Russia's Choice" faction in the Duma on the tax reform.

On 1 January 1995, Part I of Russia's new Civil Code went into effect. Identified by President Yeltsin as the "economic constitution of the Russian Federation," the Code establishes fundamental principles of civil and commercial law. Part I contains the general provisions of civil law, including sections on corporations, property rights, contracts, and secured transactions. This modern Civil Code is a major advance in Russian reform efforts, replacing the Brezhnev-era Code of 1964, designed for an administrative-command system, and the ill-designed patchwork of laws and decrees that had been laid on top of the Soviet-era legal system.

The new Code makes fundamental breaks with past Soviet and Russian legislation by effectively guaranteeing both freedom of contract and protection of private property. The Code will also protect against the proliferation of financial crimes that is undermining society's confidence in the market.

Drafting of the Code, coordinated by President Yeltsin's Research Center for Private Law, was accomplished with the assistance of foreign legal experts from the United States and Europe. The USAID-funded IRIS Center has provided continuous expert advice to the Research Center throughout the drafting process. IRIS has convened working sessions between western commercial law experts and the Russian officials both to review the draft text and to examine the underlying theory of commercial law. IRIS has also solicited commentaries on the draft from specialists and distributed them to the Research Center. Many of the more important changes in the final text from earlier versions were the direct result of this assistance.

III. OTHER ISSUES:

With the continued poor environment for reform in Chad, and the closing of USAID/Chad, IRIS/Chad Director Karen Russell will leave Chad in mid-February and return to College Park to work on legal reform efforts in the West Bank/Gaza.

III. FINANCIAL DATA

Please see attached.

IV. ATTACHMENTS

Attachment I: Agenda, "Economic and Political Institutions For Sustainable Development: Implications for Assistance" (Washington, DC October 24-25)

Attachment II: Agenda, Workshop on Regional Constitutions (Moscow, March 13-17)

**SECTION TWO: QUARTERLY FIELD REPORTS:**  
**Chad, India, Mongolia,**  
**Nepal, Poland, and Russia**

Attachment II  
Workshop on regional constitutions  
Moscow, March 13-17

Day 1. Introduction

Sergei Shakhrai  
"Prospects and Challenges of Russian Federalism"

David Fagelson  
"Constitutional Framework of a Federal State"

Leonid Polishchuk  
"Economic Underpinnings of Federalism"

Day 2. Constitutional Design for Russian Regions

Peter Ordeshook  
"What Makes for a Stable Federal State?"

Peter Ordeshook and Leonid Smirniagin  
"Drafting Local Constitutions: Criteria, Constraints, Approaches"

Leonid Smirniagin and Alexei Novikov  
"Russian Regional Constitutions: An Overview"

Day 3. Regions in the Russian Federation: Economic Dimension

Charles Cadwell and Sergei Artobolevski  
"Property Rights and Economic Jurisdiction of Local Government"

Robert Rafuse and a Russian expert TBA  
"Problems of Russian Fiscal Federalism: A Regional Perspective"

Day 4. Regions in the Russian Federation: Socio-Political and Judicial Dimensions

Peter Ordeshook and Leonid Smirniagin  
"How to Adopt a Regional Constitution"

Evgeni Gontmakher  
"Safety Nets in Russian Regions"

David Fagelson  
"The Role of the Judiciary in Implementing Constitutional Law"

Day 5. Summing Up

Regional Constitutional Process in Comparative Perspective: Russian vs US Experience

Quarterly Field Report: Chad

I. ADMINISTRATIVE DATA

Reporting Period: October 1, 1994 - December 31, 1994

BOA No. ANE-0015-R-1019-00

Delivery Order No. 07

AID Project Office: G/EG/EIR

AID Office Funding the delivery order: G/EG/EIR

AID Office Project: Institutional Reform and the Informal Sector

(IRIS) Project

II. PERFORMANCE INFORMATION

1. Project purpose summary statement

A. The purpose of the IRIS project in Chad is to support the Government of Chad's ("GOC") promotion of the private sector by providing technical assistance, conducting studies, identifying policy changes to be implemented and designing the follow-on institution-building efforts to implement the strategy and programs from the multi-donor private sector roundtable. This complements the broader purposes and scope of the IRIS project which are to promote better institutions, to build increased international awareness of the role of institutions in economic development and to expand the knowledge base on the relationship between institutions and economic growth and examine new approaches to institutional reform.

B. A key objective of the USAID/Chad development strategy is to encourage development of the private sector as the primary engine for fostering economic growth in the country. To this end, the IRIS/Chad project provides technical assistance to business associations and groups and to government legislative commissions working on legal and economic reform issues as a means to promote an environment more conducive to private sector development.

C. During this reporting quarter, the IRIS/Chad project focussed primarily on providing technical assistance, documents, and supplies to the Executive Secretariat for the Promotion of the Private Sector in Chad. Headed by a Chadian counterpart, the Secretariat, with close coordination and supervision by the IRIS/Chad project director, undertook organizational

meetings, prepared an annual work plan, and devised an advocacy strategy to promote the implementation of a myriad legal and institutional reform efforts, which include, inter alia, many of the efforts previously undertaken by IRIS in Chad (banking secrecy law reform, business law harmonization, investment code reform, business law registration reform, customs fraud, judicial reform, and financial sector reform).

2. Progress report

A. Technical Implementation<sup>1</sup>

Activities Planned for Reporting Quarter	Current Status	Explanations
Provide technical assistance on business law harmonization	2	Continuing work with Ministry of Justice legislative commission
Provide technical assistance on lottery and gambling regulations	1	Regulations being drafted by Ministry of Finance
Provide technical assistance to Executive Secretariat	2	Executive Secretariat in operation
Provide technical assistance to Chadian Enterprise Network	2	Participates in regional meeting and export network
Provide technical assistance to women in private enterprise	2	Advising on business plan and marketing strategy for a new women-owned business

Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

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<sup>1</sup>Status of activities as defined in the delivery order.

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Provide technical assistance on business law harmonization	2/95	IRIS/Chad
Provide technical assistance to Executive Secretariat	2/95	IRIS/Chad
Provide technical assistance to Enterprise Network	2/95	IRIS/Chad
Provide technical assistance to women in private enterprise	2/95	IRIS/Chad

B. Project Administration

Activities Planned for Reporting Quarter	Current Status	Explanations
Submit quarterly report	1	Completed 12/94
Submit work plan	1	Six month work plan for G/EG/EIR
Submit project property inventory and disposal plan	1	IRIS/Chad
Notify USAID/Chad of termination of office lease, residence lease, driver contract, and request for pack out services	1	Project phase out

Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Amend project property disposal plan	1/95	IRIS/Chad
Pack out project office and residence	2/95	USAID/Chad GSO

3. Other problems/issues and intended steps toward resolution:

The Executive Secretariat is now operational and is working closely with the IRIS/Chad project in promoting institutional and legal reforms. Organizational meetings have been held, a work plan devised, and advocacy strategies undertaken. A continuing problem facing the Executive Secretariat, however, is a lack of funding for equipment, staff, and vehicles programmed under a UNDP-financed private sector development project already approved by UNDP headquarters. The IRIS/Chad project, USAID/Chad, and the Executive Secretariat have contacted UNDP in order to speed up the disbursement process. IRIS/Chad is also suggesting alternative sources of funding for Executive Secretariat activities by contacting other multilateral donors.

III. FINANCIAL DATA

Financial reports of the IRIS/Chad project current through October, 1994 have been submitted to the USAID/Chad Controller and the GDO/SP. The USAID/Chad Controller has been submitting bills of collection for approval to the IRIS/Chad project director who has forwarded them to IRIS/UMCP for payment. No payment delays have occurred during this reporting quarter.

## Quarterly Field Report: IRIS-INDIA

### I. ADMINISTRATIVE DATA

Reporting Period: October 1, 1994 - December 31, 1994

BOA Number: ANE-0015-1019-00

Delivery order Number: 13

AID Project Office: G/EG/EIR (R. Mitchell, 522 SA-2)

AID Office funding delivery order: G/EG/SMIE

AID Office project: Institutional Reform and the Informal Sector (IRIS) Project

### II. PERFORMANCE INFORMATION

#### 1. Project purpose summary statement:

A. Project Purpose: The objective of this program is to increase the understanding and awareness of the institutional aspects of economic issues in India and to generate a better knowledge base for decisions about economic policy. This will be achieved by carrying out a collaborative research program between Indian and American scholars. The program examines the current institutional framework in India, explores whether this framework constrains the economic liberalization process and determines whether there is need for reform. IRIS will disseminate the research results on the effects of institutions on economic growth to the research community, to politicians and government officials, to the media and the public in India.

B. Relationship to USAID Program Strategy: The USAID program strategy in India is to help India make progress towards sustainable development by focusing on three primary program objectives: accelerating broad-based economic growth, stabilizing population growth, and protecting the environment. IRIS activities in India--as a part of the Mission's Technical Assistance and Support Project (TASP)--contribute to Mission objectives, especially to the objective of accelerating broad-based economic growth by providing economic policy research results and advocacy to increase the competitiveness of the Indian economy and to improve financial and regulatory environment.

C. Progress toward Project Purpose during the Reporting Period: The purpose of this project, namely increasing the understanding and awareness of the role of institutions in economic development in India and generating a better knowledge base for decisions about economic policy, has been furthered during the reporting period. First, IRIS organized jointly with the

National Institute of Public Finance and Policy (NIPFP) a conference on "Who Taxes, Who Spends, Who Eats: Institutions in Economic Development" on December 7, 1994 at the India International Center in New Delhi. The purpose of the conference was twofold: first, to disseminate some of the research results that the IRIS/India program has generated, and, second, to enhance the policy dialogue between the Indian academic community, government and the media. The conference sessions focused on Indian fiscal federalism, income tax enforcement and foodgrain marketing. While the speakers were mainly Indian and American academicians, the discussants were Indian policymakers and practitioners in charge of policy implementation. The audience consisted of Indian scholars, government officials, businessmen and representatives of international organizations. The Indian press was also present to cover the event. Second, first drafts of all 22 policy papers commissioned earlier were completed. The task of revising these papers into a publishable form continued. The work continued also on the book which will include the best papers of the program. Some of these activities are additional to those specified in the delivery order: the delivery obligates IRIS to commission seven (7) policy papers and to organize one conference. IRIS has, however, commissioned 22 policy papers and organized two (2) conferences in India and two (2) seminars in the United States.

2. Progress report

A.

Technical Implementation<sup>2</sup>

Activities Planned for Reporting Quarter	Current Status	Explanations
Conference on "Who Taxes, Who Spends, Who Eats: Institutions in Economic Development" on December 7, 1994 in New Delhi.	1	See, Attachment I and Attachment II.
First drafts of all 22 policy papers completed.	1	Copies of all 22 First Drafts sent to USAID/India. Editing of Papers in Progress. <i>Note: Papers not circulated prior to their revision.</i>
Review and revision of all the first drafts and completed papers.	2	
Book.	2	IRIS is editing the best policy papers and publishing them as a book.
Launching of IRIS/India Working Paper Series.	2	Revision of papers necessary before publication.
Completion of first draft of brief background paper on the Deregulation of the Indian Telecommunications Sector.	1	See, Attachment III.  Note: Paper prepared by IRIS Summer Intern.

Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

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<sup>2</sup> Status of activities as defined in the delivery order.

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Review and revision of papers.	3/95	IRIS and Scholars
Publishing Policy Papers in the IRIS-India Working Paper Series.	3/95	IRIS
Book.	12/95	IRIS and the Publisher
Preparations for launching of the Comprehensive IRIS/India Policy Research Program.	2/95	IRIS, CDE
Launching of the Comprehensive IRIS/India Policy Research Program.	2/95	IRIS, USAID CDE, NIPFP
Planning of the Distinguished Speaker Conference to be held in January 1996.	1/96	IRIS
Planning of a tele-video conference on "Democracy and Economic Development: Friends or Enemies?"	6/96	IRIS

B. Project Administration

Activities Planned for Reporting Quarter	Current Status	Explanations
Planning and organization of conference on "Who Taxes, Who Spends, Who Eats: Institutions in Economic Development" held in New Delhi on December 7, 1994.	1	
Follow-on work on proposal for a Comprehensive Policy Research Program submitted to USAID/India.	2	

Financial management of completed contracts.	2	
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**Current Status Key:**

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Application for another 60-day No-Cost Extension. (To have adequate time to disseminate the research results through publications, IRIS will apply for another 60-day no-cost extension.)	1/95	IRIS
Follow-on work on proposal for a Comprehensive Policy Research Program submitted to USAID/India.	2/95	IRIS, USAID
Financial management of completed contracts.	3/95	IRIS
Closing of the current phase of the research program.	3/95	IRIS
Launching of the Comprehensive Policy Research Program.	2/95	IRIS, CDE, NIPFP

3. Other problems/issues and intended steps toward resolution:

None.

III. FINANCIAL DATA

Please see attached.

IV. ATTACHMENTS

Attachment I: Conference Program "Who Taxes, Who Spends, Who Eats: Institutions in Economic Development."

Attachment II: Press Clips on Conference.

Attachment III: Paper titled "Telecommunications in India: Pursuing Development through the Private Sector" by Taylor V. Ruggles (IRIS Summer Intern in 1994).

## Quarterly Field Report: Mongolia

### I. ADMINISTRATIVE DATA

Reporting Period: October 1 - December 31, 1994

BOA Number: ANE-0015-B-00-1019-00

Delivery order Number: 10

AID Project Office: G/EG/EIR (R. Mitchell, 522 SA-2)

AID Office funding delivery order: G/EG/SMIE

AID Office project: Institutional Reform and the Informal Sector (IRIS) Project

### II. PERFORMANCE INFORMATION

#### 1. Project purpose summary statement:

A. The project endeavors to strengthen the capacity of key Mongolian decision makers from all spheres of the country's economic life to design and implement institutional reforms during the country's transition to a market economy. To accomplish this purpose a series of workshops and follow-up activities will address topical policy issues and present both general background materials and discussions of specific policy options for development and implementation.

B. The USAID Program Strategy in Mongolia emphasizes encouragement and strengthening of the process of democratization and the promotion of economic growth. The project actively promotes these broad goals in the following ways. The workshops target a broad spectrum of Mongolians in order both to enable individuals from different sectors to better understand and articulate concerns and to enhance policy discussion and its results. The topical policy issues and corresponding points of institutional reform involve ingredients crucial to economic growth.

C. The purpose of the project, namely "strengthening capacity of Mongolian decision-makers to design and implement institutional reforms", has been furthered during the reporting period by two activities. First, the third workshop in the series was held in October. This workshop, entitled "Risk and the Institutions of Insurance" and held in College Park, provided eight Mongolian decision-makers with both a thorough description of insurance markets in the United States and many opportunities to discuss the various policy problems Mongolia currently faces in helping its citizens efficiently manage economic risk. Nine Western specialists in insurance assisted the IRIS staff in presenting sessions; a list of Mongolian participants, session topics, and Western specialists is attached as Appendix 1. The participants expressed strong interest in continuing IRIS assistance in this area, especially in drafting a new law on insurance regulation.

Second, preparation for the fourth workshop was continued from the previous quarter. The topic will be Environmental Policy, and the workshop will be held in Ulaanbaatar, Mongolia, in February, 1995.

#### 2. Progress report

A.

Technical Implementation<sup>5</sup>

Activities Planned for Reporting Quarter	Current Status	Explanations (Problems, steps to resolve, etc.)
Presentation of third workshop, College Park.	1	Eight Mongolian decision-makers in the field of insurance and an interpreter attended a two-week workshop in College Park, Maryland in October, 1994. Eleven instructors, including IRIS staff, conducted sessions on topics ranging from general issues of risk management to various forms of health insurance to solvency regulation. See Appendix I.
Solicit suggestions of Advisory Council members on topics for remaining workshops.	1	Advisory Council suggestions, along with IRIS recommendations were forwarded to USAID-Mongolia in December 1994.
Solicit suggestions of Advisory Council members on participants for fourth workshop.	2	Advisory Council suggestions were received and will be forwarded to the USAID Representative in January of 1995, along with evaluations developed by IRIS staff.
Continued advocacy of participant requests for follow-up technical assistance to the USAID Representative in Mongolia, Ulaanbaatar.	1	Workshop participants had requested assistance in developing procedures for enforcement of the Law on Prohibiting Unfair Competition and in the development of amendments to the Civil Code. Their requests were forwarded to the USAID Representative on September 6, 1994. In late November Interim USAID Representative Lawrence Hardy gave oral approval to James Anderson for work to proceed in the area of enforcement of the Law on

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Status of activities as defined in the delivery order.

		Prohibiting Unfair Competition.
Forward new participant requests for follow-up technical assistance arising from the third workshop to the USAID Representative in Mongolia, Ulaanbaatar.	1	Workshop participants requested assistance in drafting a new law on insurance regulation and in training a larger number of people in Mongolia. Interim USAID Representative Lawrence Hardy gave oral approval to James Anderson to proceed in developing plans for such assistance.
Background research on existing institutions relevant to the fourth workshop in Mongolia, including State agencies, non-governmental organizations, and other donor projects, Ulaanbaatar.	2	Research includes interviews with government officials, representatives of non-governmental organizations, political parties, regulatory agencies, academics, members of parliament, and the foreign assistance community.
Translation and compilation of laws and documents relevant to the fourth workshop, Ulaanbaatar.	2	Copies of these documents can be accessed by contacting James Anderson in Ulaanbaatar or Georges Korsun in College Park.
Design of fourth workshop, College Park.	2	Tasks included selection of lecturers, curriculum design, and lecture preparations.
Logistical preparations for fourth workshop, College Park and Ulaanbaatar.	2	Tasks include arranging an agreement with a host counterpart in Mongolia, who will provide classroom facilities and cover travel arrangements for Mongolian participants from localities outside Ulaanbaatar. A preliminary agreement has been reached with officials from the Ministry of Nature and the Environment, who will serve as counterpart. In College Park, tasks include obtaining country clearance and travel approval from the IRIS project officer and making travel arrangements.
Workshop development trip to Mongolia by IRIS-College Park staff	4	This trip was subsequently determined to be unnecessary.

responsible for fourth workshop.		
Workshop development trip to Mongolia by IRIS-College Park staff responsible for fifth workshop.	3	This trip was postponed until January, 1995.
Obtain decision from USAID Representative on the subject of the fifth and sixth workshop, Ulaanbaatar.	1	The Interim USAID Representative Alfreda Brewer reported in December that she had selected Economics for the Media and Laws on Corporate Governance as the subject of the fifth and sixth workshops.

**Current Status Key:**

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action cancelled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Conduct workshop on environmental policy in Ulaanbaatar.	2/24/95	IRIS-College Park and IRIS-Mongolia
Begin preparations and background research for fifth workshop on economics for the media.	4/14/95	IRIS-Mongolia
Begin preparations and background research for sixth workshop on corporate governance.	5/19/95	IRIS-Mongolia
Design of the fifth workshop, including curriculum development and instructor selection.	4/14/95	IRIS-College Park
Solicit Advisory Council members for suggestion about participants for fifth workshop.	3/15/95	Advisory Council; IRIS-Mongolia
Identification of counterpart agency in Mongolia to host fifth workshop and provide logistical assistance.	3/15/95	IRIS-Mongolia
Research/Workshop development trip to Mongolia by IRIS-College Park staff responsible for fifth workshop.	1/20/95	IRIS-College Park
Conduct follow-up technical assistance on implementation of the Law on Prohibiting Unfair Competition.	5/19/95	IRIS-Mongolia (develop agenda for assistance); IRIS-College Park (identify and hire appropriate experts in the area of antitrust enforcement)
Conduct follow-up technical assistance on developing a general insurance law and regulatory framework.	5/19/95	IRIS-Mongolia (develop agenda for assistance); IRIS-College Park (identify and hire appropriate experts in the area of insurance regulation)
Forward participant requests for new follow-up technical assistance arising from the forth workshop to the USAID Representative in Mongolia.	3/31/95	Workshop 4 Participants; IRIS-Mongolia

## B. Project Administration

Activities Planned for Reporting Quarter	Current Status	Explanations (Problems, steps to resolve, etc.)
Travel to Beijing for the acquisition of supplies.	1	Trip completed in October.
Initiate new PIOT to release incremental funding for the remainder of project.	2	Request to USAID Representative made in August. Action commenced in October. Still waiting for final response.
Hire new driver for the field office.	1	Mr. Sukhbaatar commenced work in November.

### Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Travel to Beijing for the acquisition of supplies.	3/31/95	IRIS-Mongolia
Discuss possibility of no-cost extension in order to complete sixth workshop and follow-up technical assistance.	3/31/95	IRIS-Mongolia Staff; USAID Mission Representative

3. Other problems/issues and intended steps toward resolution. We estimate that the project will run out of current obligated funds by the end of February. If the incremental funds requested in August 1994 are not obligated before then, the project will have to suspend its activities. We have raised this concern with the Mongolia Desk Officer and the IRIS Project Officer and expect a resolution by mid-February.

III. FINANCIAL DATA Following page.

IV. ATTACHMENTS Attachment I: List of Mongolian participants, session topics, and Western specialists in October insurance workshop.

## ATTACHMENT I

### *IRIS-Mongolia's Workshop on Risk and the Institutions of Insurance*

#### **List of Participants**

- D. Baasanhuu Specialist, Mongolian Employer's Association  
(represents commercial users of insurance)
- G. Basanjav President, Food and Agricultural Insurance Company (partly state-owned insurance company)
- R. Batsuury Secretary, National Health Insurance Council  
(government entity regulating health insurance), and  
Chancellor, Ministry of Health
- D. Mahval Advisor to the Minister of Finance (official with responsibility for drafting new insurance law)
- N. Natsagdulam Partner, Torgon Zam Daatgal Insurance and Reinsurance Company  
(entrepreneur starting a privately-owned insurance company)
- L. Nyamandeleg Director, Mongoldaatgal, Ulaanbaatar City Office  
(state-owned insurance company)
- T. Sukhbaatar Director, State Social Security Office  
Ministry of Population Policy and Labor
- T. Tovusuren Hural Member (the national legislature)  
(sponsor of the health insurance law)
- J. Bathoyag Professor, Economics College, and  
Workshop Interpreter

***IRIS-Mongolia's Workshop on Risk and the Institutions of Insurance***  
**Schedule of Workshop Sessions and**  
**Listing of Session Leaders**

All sessions will be held in the first floor conference room of Morrill Hall on the University of Maryland, College Park campus, unless otherwise noted below.

**Monday 10/3**

9:00            Transition Issues  
                 Peter Murrell, Staff Economist, IRIS-Mongolia Project and  
                 Professor of Economics, University of Maryland, College Park

No afternoon session due to the participants late arrival the night before.

**Tuesday 10/4**

9:00            Fundamentals of Risk Management for Businesses  
                 Steve Cassidy, Professor of Risk and Insurance, Howard University

12:00           Lunch break

13:30           Fundamentals of Risk Management for Businesses, continued

**Wednesday 10/5**

9:00            Economic Issues of Health Insurance  
                 Tom Sheldon, Professor of Economics, Syracuse University and  
                 Visiting Scholar, Agency for Health Care Policy and Research,  
                 U.S. Department of Health and Human Services

12:00           Lunch break

14:00           Risk Management for Households  
                 Steve Cassidy, Professor of Risk and Insurance, Howard University

**Thursday 10/6**

9:00            The Business of Insurance  
                 Steve Cassidy, Professor of Risk and Insurance, Howard University

12:00           Lunch break

13:30           The Business of Insurance, continued

## **Schedule of Workshop Sessions, continued**

### **Friday 10/7**

- 9:00            The Interface of Private and Social Insurance: Workers' Compensation  
Helen Doerpinghaus, Professor of Insurance, University of South Carolina
- 12:00            Lunch break
- 13:30            Workers' Compensation, continued

### **Monday 10/10**

- 9:00            Insurance, Trade Policy and Foreign Investment  
Brad Smith, Program Director, International Insurance Council
- 12:00            Lunch break
- 13:30            Insurance of Contracts  
Dennis Wyne, Surety Association of America

### **Tuesday 10/11**

- 9:00            Actuarial and Accounting Concerns for Insurance Companies  
Steve Cassidy, Professor of Risk and Insurance, Howard University
- 11:45            Lunch break
- 13:30            Regulation of the Insurance Industry  
Dwight Bartlett III, Insurance Commissioner of the State of Maryland  
Meeting at his office in Baltimore

### **Wednesday 10/12**

- 9:00            Social Security and Pensions  
Anita Schwartz, Education and Social Policy Department, World Bank  
Meeting at her office in Washington, D.C.
- 12:00            Lunch break
- 14:00            The Appropriate Role of Agricultural Insurance in Developing Countries  
Peter Hazell, Economist, International Food Policy Research Institute  
Meeting at his office in Washington, D.C.

## **Schedule of Workshop Sessions, continued**

### **Thursday 10/13**

- 9:00 Solvency Regulation  
Barbara Stewart, Consultant, Stewart Economics Inc.
- 12:00 Lunch break
- 13:30 Solvency Regulation, continued

### **Friday 10/14**

- 9:00 Development of Insurance Institutions  
Don McIssac, Financial Sector Development Department, the World Bank
- 12:00 Lunch break
- 13:30 Mongolia's Policy Options - Roundtable Discussion  
Chaired by Peter Murrell, Staff Economist, IRIS-Mongolia Project and  
Professor of Economics, University of Maryland, College Park

## Quarterly Field Report: NEPAL

### I. ADMINISTRATIVE DATA

Reporting Period: October 1, 1994 - December 31, 1994

BOA Number: ANE-0015-B-00-1019-00

Delivery Order Number: 367-0161

AID Project Office: G/EG/EIR

AID Office funding delivery order:

AID Office project: Institutional Reform and the Informal Sector (IRIS) Project

### II. PERFORMANCE INFORMATION

#### 1. Project purpose summary statement:

- A. Project Purpose: To help the Government of Nepal formulate and implement policies that support a pro-market, private sector led economy by providing financial and technical assistance, identifying policy changes to be implemented, and advocating the need for crucial institutional reforms in the judicial and regulatory areas.
- B. Relationship to USAID Program Strategy: The USAID program strategy in Nepal is to help the economy enter a new era of economic prosperity by promoting market reform and addressing the health, education, and other needs of the rural poor. IRIS activities in Nepal contribute to Mission objectives by assisting with expertise on policy reform initiatives conducive to the growth of the private sector. IRIS's assistance on institutional and regulatory reform is especially helpful for small and micro enterprises, which are crucial to the success of any poverty alleviation scheme
- C. Progress towards Project Purpose: IRIS Project activities slowed down considerably in the last quarter because of the mid-term election which was held on November 15, 1994. The Communist party of Nepal (United Marxist-Leninist) won the largest number of seats (88), followed by the Nepali Congress (83), and the Rastriya Prajatantra Party (20). No party, however, could gain an absolute majority in the 205-seat Lower House.

The King then called on Man Mohan Adhikari, leader of the CPN-UML, to form the new Council of Ministers. The Council includes 15 members, though none

of them are women. Madhav Kumar Nepal, the general secretary of the CPN-UML, is the Deputy Prime Minister and is considered by most to be the de facto leader. Bharat Mohan Adhikari, the Prime Minister's younger brother, is the Finance Minister. He is well-versed in Marxist economics, though he has reiterated his support for an open market economy that does not adversely affect the "national bourgeoisie."

The National Planning Commission has also been reconstituted with Dilli Khanal to oversee economic and industrial policy. This means that Khanal will be the Chairman of the Policy Dialogue Committee (PDC) that oversees the activities of the Economic Liberalization Project. Khanal too is wedded to the concept of Marxist economics and would like to couch reforms in that perspective.

IRIS representative Praveen Dixit continues to spend afternoons at the Ministry of Finance to help improve communications between the government and donor agencies. However, unlike in the past, he has stayed away from actively helping the Government in formulating the Budget. Instead, he has been providing a series of memos to the new Minister and his group of advisors on policy matters. His focus is damage control -- to suggest procedures that would make the Government's policy of price subsidies least distortionary and to ensure continued attention on regulatory strengthening vis-à-vis the financial sector

Details on the Government and its economic agenda follow in an attachment to this Quarterly Report.

2. Progress Report

A. Technical Implementation

Activities Planned for Reporting Quarter	Current Status	Explanations (Problems, steps to resolve, etc.)
Tabling of Company Law	3	New Communist Government just took office along with new legislature. Agenda of Government and legislature not firm.
Tabling of Consumer Protection Act	3	New Communist Government just took office along with new legislature. Agenda of Government and legislature not firm.
Assistance in establishing Central Depository System at Nepal Stock Exchange	3	Decision deferred due to elections.
Banking Reform	3	A new Executive Chairman and General Manager appointed for Rastriya Banijya Bank. Decision awaited.
Policy Analysis Wing (PAW) assessment studies	2	Draft of all reports received by IRIS. Comments sent back for consideration.
Credit Rating Agency	3	Awaiting decision of new Government.
Liaison with Government officials	2	Helping communication between USAID and Ministry of Finance (MOF) as and when needed. Activities include preparation of supplemental Economic Survey, Finance Bill (budget), and briefing of new policymakers on-going liberalization program.
Completion of Contract Law	3	Nepal Law Society's involvement in election monitoring slowed process.

Current Status Key:

- (1) Action completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Tabling of Company Law	Decision Awaited	Ministry of Industry
Tabling of Consumer Protection Act	Decision Awaited	Ministry of Supplies
Completion of Contract Law	Feb 1995	Nepal Law Society
Assistance on Central Depository Service at Nepal Stock Exchange	Decision Awaited	IRIS/UOM
Banking Reform	Decision Awaited	MOF Privatization Cell
Economic Liberalization Project Secretariat Contract Review	Feb 7, 1995	USAID/IRIS

B. Project Administration

Activities Planned for Reporting Quarter	Current Status	Explanations (Problems, steps to resolve, etc.)
Negotiations on Nepal V	2	Need to be complete before Feb 7, 1995 when ELPS contract expires.

Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

3. Outstanding problems and issues and intended steps toward resolution:

Currently no outstanding problems.

III. FINANCIAL DATA Please see attached.

IV. ATTACHMENTS:

Attachment I: Comments on the composition and economic agenda of new Nepali government.

## THE CPN-UML GOVERNMENT: SOME INITIAL THOUGHTS

Praveen Dixit, IRIS Nepal Representative

1. A new 15-member Council of Ministers under the chairmanship of Prime Minister Man Mohan Adhikari was constituted on December 4, 1994. The Council has Madhav Kumar Nepal, the General Secretary of the CPN-UML, as Deputy Prime Minister. Nine of the ministers are cabinet ranked while 6 are ministers of state.
2. The initial reaction to the Council of Ministers has been positive. Most are of known quantities within the Communist Party hierarchy. All of them are considered clean. Two prominent members of the Communist Party who were considered corrupt in the Interim Government--Shahana Pradhan and Jhala Nath Khanal--did not get selected. An independent--Padma Ratna Tuladhar--who ran under the Communist banner is the Minister for Labor and Health.
3. The Council of Ministers has a number of conspicuous features:
  - o. It is an all-male Cabinet. One speculation is that the Cabinet will be expanded to include women once the Government gets the mandatory vote of confidence in the Lower House of Parliament. Presently, there are three women CPN-UML MPs in the Lower House.
  - o. The Minister of Industry and Water resources--Hari Pandey--has a business background. This could facilitate relations between the business community and the Government.
  - o. The two Adhikaris and the two Mainalis are brother combinations. This is not the case with the Nepals.
  - o. The Minister of Law & Justice -- Subash Nemwang -- is a practicing Supreme Court Advocate and is familiar with the various economic legislation, including Company Law. His Achilles heel might be the two wives he is reported to have.
  - o. The Minister of Finance -- Bharat Mohan Adhikari -- is reportedly well-versed in Marxist economic principles. This could be an indication that the Government intends to pursue socialist programs. The Minister's talk at MOF yesterday did not, however, give this indication.

- o. Brahmins and Chettris account for over 60 percent of the Cabinet. Tuladhar is the only Newar in the Council.
- o. C. P. Mainali, a person who seems to have regular run-ins with the Party hierarchy, is the Minister of Supplies. It will be his responsibility to "provide essential goods at reasonable prices."
- o. R. K. Mainali, who was a member of the Privatization Committee under the Congress Government, is in-charge of Agriculture and Land Reform. His role could be very important given that ending dual ownership of land, bonded labor, and absentee landlordship are priorities of the CPN-UML.

4. What might be the economic agenda of the new Government? Some of the economic policy priorities, as highlighted in the CPN-UML election manifesto, are the following (Spotlight, November 25, 1994):

- o. Agriculture: Dual ownership of land shall be ended; bonded labor and the landlord system shall be abolished; absentee landlordship shall be ended; land ownership identity cards shall be provided; ceiling of land-holding shall be fixed; collective farming shall be encouraged; and chemical fertilizer factories shall be established.
- o. Trade: Exports of cottage and handicraft products shall be promoted; the export duty shall be repealed.
- o. Foreign Investment: Foreign investment that shall not adversely affect national investment shall be encouraged.
- o. Revenue: Progressive and transparent taxation that results in the reduction of direct taxes will be introduced.
- o. Prices: Adequate arrangements shall be made for the regular supply of essential goods at reasonable prices; consumer-cards shall be issued for the distribution of essential goods; reserve granaries for regular supply shall be established; and artificial scarcity and price-rise shall be controlled.
- o. Services: Relief shall be provided to the people by controlling tariff of electricity, drinking water, health, and education.
- o. Banking: Banking services shall be provided to the low-income groups by establishing cooperatives and rural development banks.

- o. Employment: Employment opportunities in agriculture shall be increased; employment-oriented informal sector shall be expanded; and employment banks shall be established.
- o. Infrastructure: Easy availability of air transportation and construction of north-south highways, Kathmandu-Hetauda tunnel way, and an international airport outside the Kathmandu valley are top priorities.
- o. Workers's Rights: Amend and repeal provisions in the Labor Act, the Transport Act, and the Trade Union Act that are against the interest of workers; guarantee rights of workers to form Trade Unions; enact laws enabling workers related to hotel, trekking, and industries to exercise their rights and safeguard their interests; create a wage board, fix minimum wages based on inflation, form a labor court, and abolish child labor.
- o. Industry: The national economy shall be made self-reliant by protecting and promoting national bourgeoisie. The private sector shall be promoted and expanded, but selling public corporations in the name of privatization shall be ended.
- o. Miscellaneous: Foreign exchange shall be used for the development of export-oriented industries and infrastructure; and water resource programs in irrigation and industrialization will be carried out, emphasizing private or public small hydro-electricity projects.

5. Some brief comments on the CPN-UML economic agenda as highlighted above:

- o. Agriculture: Consensus will be easy to achieve on issues regarding land tenure, although implementing them effectively might be difficult in a society that is governed by the landed aristocracy. I do not believe the Government will pursue collective farming or a government-operated fertilizer factory.
- o. Trade: While repealing the 2 percent export duty is attractive at face value, our past experience has been that once policy makers are explained the reasons for the export surcharge (income tax exemption, negligible customs duty on imported raw material, alternative source of revenue to raise Rs 500 million difficult), they accept the logic for imposing the duty.
- o. Foreign Investment: Foreign investment appears to be welcome if it complements domestic investment; does the manifesto imply that investments below a certain minimum level (currently \$400,000) will still not be welcomed?

- o. Revenue: There appears to be confusion on what "progressive taxation that lowers direct taxation" implies. The bottom line, however, is that there are very few avenues to sustain the current revenue flow (nearly 30 percent growth annually) besides improvements in tax administration and introduction of the VAT.
- o. Prices: A consumer-card system will be administratively difficult to implement. In terms of lowering prices, the focus most likely would be on sugar and fertilizer. There could be some marginal reductions in the prices of these, but once policy makers realize the likelihood of diversion to India, it is unlikely to continue. The same logic would hold for grains.
- o. Services: A reduction in electric rates is the big issue. How will the World Bank and potential private sector hydro-power investors react to this? Can the Government get the Nepal Energy Authority to be operationally more efficient to compensate the loss in revenue?
- o. Banking: Nothing very different than current policy. The emphasis on rural development banks will most likely be enhanced. Sustainability will remain an issue.
- o. Employment: The previous Government did very little to directly expand employment -- the emphasis was on private sector development. Measures to facilitate self-employment schemes will probably receive attention.
- o. Infrastructure: While north-south highways are the roads of choice, donors frown upon this concept. The Kathmandu-Hetauda tunnel could be constructed through a BOT arrangement, but legislation is still needed to facilitate private sector participation in infrastructure.
- o. Workers' Rights: Labor exit laws are already one of the biggest impediments to industrialization--"if you cannot fire, you will not hire." Any additional legislation that would empower labor even more might be met with resistance from the business community.
- o. Industry: Promoting "national bourgeoisie" may not be compatible with the concept of providing consumer goods at globally competitive prices. Privatization of public enterprises is to continue but with a different modality. My guess is that the modality is unlikely to change much: block share sales will probably continue for effective management, and--despite the call for broad-based privatization/peoplization--it is unlikely that much more than the current 30 percent of total shares can be sold through the Nepal Stock Exchange under present conditions.

- o. Miscellaneous: Not included in the manifesto but part of the campaign promises appears to be the Government's commitment to abolish the octroi and the wealth tax. If the octroi were to be abolished, the Government would have to supplement the municipalities nearly Rs 450 million in revenue. Perhaps increases in sales tax would be one way of compensating the loss. However, both the octroi and wealth taxes are sources of local revenue, and abolishing them would go against the concept of decentralization.

6. The CPN-UML Government has just taken root. Their campaign promises, just as with any other parties, are indeed tall. However, they do have a dedicated group of professionals who have substantial experience with the Nepali economy. The challenge for the policy makers then is to design a system that is acceptable to the Party hierarchy but at the same time compatible with a newly emerging global economic order.

## Quarterly Field Report: POLAND

### I. ADMINISTRATIVE DATA

Reporting Period: October 1, 1994 - December 31, 1994

BOA Number: ANE-0015-B-1019-00

Delivery Order Numbers: 18

AID Project Office: G/EG/EIR (R. Mitchell, 522 SA-2)

AID Office funding delivery order: EUR/RME (Susan Gurley 4733 NS)

AID Office project: Institutional Reform and the Informal Sector (IRIS) Project  
(Robert Mitchell)

### II. PERFORMANCE INFORMATION

#### 1. Project purpose summary statement:

- A. Project Purpose: The purpose of the IRIS-Poland III (Delivery Order 18) project is to create a positive commercial law institutional framework for the development of the financial sector in Poland and three other countries (Lithuania and two others yet to be chosen). This propose is being accomplished by assisting Poland and Lithuania to reform their collateral and bankruptcy laws.
- B. Relationship to USAID Program Strategy: Poland has been one of the most successful of the C&EE countries in its transition to a market economy. There continues, however, to be a great need to create employment and to expand the private sector, especially the SME sector where most new job creation occurs.

An important constraint to job creation and private sector expansion is the lack of credit. Numerous USAID-financed studies and projects, the World Bank and the European Bank for Reconstruction and Development have identified the absence of a modern commercial banking system as one of the principal blocks to further development. Without it, private capital cannot flow into the region for lending to credit worthy firms. This has not happened because Poland, and indeed each of the countries of C&EE, lacks an effective collateral law which would enable banks to do asset-based lending to new and existing firms. At present, the only effective collateral is cash on deposit at the lender. Banks fear to lend, knowing collection is very uncertain and difficult. If an effective

collateral law with a central registry to prevent fraud were enacted, commercial lending to the private sector would increase dramatically.

The IRIS-Poland II project assisted Poland in drafting a new collateral law, and IRIS-Poland III is assisting Poland in the implementation of the draft collateral law. IRIS has encouraged the participation of local legal and banking associations in reforming their societies, leveraged upon other assistance and programs of USAID, the World Bank and EBRD to the financial sectors, and will lead to sustainable economic development by making bank credit available to new and existing businesses starved for credit. Poland III has begun similar work in Lithuania and is in the process of choosing two additional countries suitable for collateral law reform assistance.

C. Highlights of program progress during the reporting period:

1. Bank Collateral Law Reform. The major focus of the IRIS-Poland Project continues to be Polish collateral law reform.<sup>5</sup> Since its inception, IRIS has been working with the top legal experts of Poland who form the advisory Commission for Reform of the Civil Code [CRCC], the Polish Ministry of Justice [MOJ], the National Bank of Poland [NBP] and Polish and foreign legal scholars to draft a collateral law which can be presented to the Polish Parliament for enactment. The main accomplishment of IRIS-Poland has been to create and support a local **Polish-led** coalition of academic, government, and business leaders interested in collateral law reform.

The fourth quarter of 1994 saw substantial developments in this process. At the beginning of the quarter, the 7 September 1994 draft seemed to be languishing at the Ministry of Justice legal department, and there seemed no explication for the fact that it had not been officially issued for inter-ministerial discussion by the

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<sup>5</sup> Collateral law (sometimes called "secured transactions" or the creation of "charges" or "liens") is the legal institution whereby a creditor can take a "collateral interest" in certain goods (often those purchased by means of the loan) of the debtor. In case of default, the creditor is allowed to repossess and sell those goods ahead of other creditors to satisfy the loan.

Ministry. Despite Deputy Prime Minister and Minister of Justice Cimoszewicz's assertion in Chicago on October 5 that it was sent out for official comment, this was not the case. IRIS had meetings with the World Bank, IMF, and Ambassador Rey, which were followed by official inquiries to Minister Cimoszewicz on the status of the collateral law. On November 18, the MOJ legal department, in response to urging by Minister Cimoszewicz, finally issued the collateral draft for official inter-ministerial comment. After this event, things began to move much more rapidly. At the end of the quarter, full-scale inter-ministerial meetings with lawyers from all the interested ministries were scheduled for January 4 and January 18. IRIS collateral law coordinator Tomasz Stawecki was asked by the Ministry of Justice to represent the CRCC in order to answer questions at these meetings.

*Central Registry.* The organization of a central lien registry is a key portion of collateral law reform. Over the summer, IRIS-Poland and Norway, SA, a company which works closely with the Norwegian Central Registries, organized a conference for high-level Polish and Lithuanian representatives<sup>6</sup> in Oslo, Norway from September 21-25, 1994. This effort led on November 17, 1994, to the signing of a formal letter of intent between the MOJ and Norway, SA at a ceremony at the MOJ's conference center at Popowa. Norway Group SA has asked IRIS-Poland to continue to work with it closely on the central registry project, and letters have been exchanged on the kind of legal, technical and administrative assistance which IRIS can offer. The arrangement will be finalized in January 1995.

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<sup>6</sup> For list of participants, see Attachment IX

Lithuania. Two experts, Prof. Stasys Velyvis, noted civil law expert and General Counsel of the Lithuanian Savings Bank, and Dr. Jagvyga Aleksaite, of the Lithuanian Ministry of Justice, attended at IRIS-Poland's initiation, the conference on Asset-Based Lending organized by the IRIS-Russia project in Moscow on November 4-5, 1994. This conference<sup>7</sup> served to introduce them to the world's top collateral law experts and to explore the issues which must be considered as Lithuania moves forward. Letters were exchanged<sup>8</sup> with the Lithuanian Minister of Justice who has welcomed the IRIS technical assistance to their collateral law reform effort. At the end of the quarter, Mr. John Corrigan, a collateral law expert from Springfield, Massachusetts who has been the CEELI commercial law expert in Vilnius for the past year, accepted the offer to be the long-term-advisor in Vilnius. An intensive drafting program is expected in the first quarter of 1995.

2. Bankruptcy Reform.

Prof. Brol of the Juridical Institute finished his draft on current bankruptcy problems in Poland, and it was very positively reviewed by IRIS consultants. The manuscript is at the printers and publication is expected in February.

IRIS-Poland assisted Deloitte & Touche's Budapest office in organizing a meeting of Polish bankruptcy experts to review the status of bankruptcy law in Poland on October 28, 1994.

In the coming quarter, IRIS-Poland expects to nominate Poland for one of the bankruptcy workshops contemplated in the Deloitte & Touche Bankruptcy project.

3. Intellectual Property Reform.

Internet. At the request of Prof. Witold Karczewski, director of the State Committee for Scientific Research, (equivalent of the Ministry of Science), IRIS organized on October 3, 1994, a one-day seminar where legal and technical experts met to discuss the legal infrastructure needed for proper development of the Internet network

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<sup>7</sup> See Attachment VIII.

<sup>8</sup> See Attachment VII.

in Poland. At present, the network is a big drain on the state budget. This could be easily avoided with proper planning for business access to this presently academic network. The IRIS consultants who came from the US for the seminar in Warsaw were asked to meet the following week with Polish Prime Minister Pawlak at a meeting at Columbia University on information highway issues. The report prepared on the basis of the conference is attached<sup>9</sup> and was presented to Dr. Karczewski during an hour-long meeting on December 19, 1994.

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<sup>9</sup> See Attachment III.

Model Contract Project. The Center for Emerging Technology Enterprises is producing with IRIS cooperation a series of model legal contracts for protection of intellectual property in technology commercialization projects. The English language models are complete, but it was found that the Polish translations were substandard. IRIS has therefore signed an agreement with the Institute for the Protection of Intellectual Property at the Jagiellonian Institute for the Polish half of the model contracts. The English language contracts were published in December.<sup>10</sup>

Television Programs. Finally, Polish Television and IRIS have signed separate contracts with a production company to co-finance two TV programs: one focused on collateral law and the other on bankruptcy in Poland. These will serve to bring wide public awareness to these two important areas of legal reform. Filming was completed in December. Editing will take place in January, and emission on Polish television is expected in February or March 1995.

2. Progress report

A. Technical Implementation

Activities Planned for Reporting Quarter	Current Status	Explanations
The US-Poland Chamber of Commerce in NYC (Oct. 3 - luncheon address) and in Chicago (Oct. 5)	1	Ronald Dwight spoke on collateral law and legal reform generally in Poland.
NASK workshop (Oct. 3) on legal problems involved in Internet <sup>11</sup>	1	IRIS consultants Debra Rogers and Willem Scholten met with the representatives of NASK (Scientific Network)
IRIS consultants Debra Rogers and Willem Scholten visit Poland (Oct. 2 - 6) and later meet with Prime Minister Pawlak at Columbia University	1	IRIS consultants discussed the NASK situation with Prof. Karczewski, the Head of the State Committee for Scientific Research (KBN) and with the other eminent representatives of Polish scientific

<sup>10</sup> See Attachment I *Model Contracts for Technology Commercialization Projects* (received January 13, 1995). Preprint version, received December 20.

<sup>11</sup> See Attachment III, "Report on the NASK Scientific Network: Assessment and Vision (November 1994)

		community.
Seminar organized by CEELI on Letters of Credit, Shipping Documents and Bank Guarantees (Oct. 10 - 11)	1	Paweł Kunachowicz, IRIS attorney participated.
Model Contracts for Technology Commercialization Projects.	2	Justyna Misiurewicz, IRIS project coordinator and Paweł Kunachowicz, IRIS attorney met in Cracow with Prof. Markiewicz and Prof. Barta of the Cracow Institute of Inventiveness and Intellectual Property Protection to discuss future steps to prepare the Polish model contracts for Technology Commercialization (Oct. 27).
Cooperation with CETE in preparation of Model Contracts for Technology Commercialization Projects.	4	IRIS decided to hire Dr. Tabor from the Cracow Institute of Inventiveness and Intellectual Property Protection instead of CETE to prepare the second part of the manual - Polish models.
Cooperation with the AID Legal Reform Working Group	2	Meetings to prepare material on legal reform in Poland for Donald Pressley (Oct. 18, Nov. 2). Survey presented to AID by Working Group in November.
Meeting of the SME Task Force at the Ministry of Industry and Trade (Oct. 26).	1	The creation of the Agency for Small and Medium Size Enterprises was announced. Justyna Misiurewicz, IRIS project coordinator, participated.
Cooperation with American Chamber of Commerce in Poland	2	Ronald Dwight met with Michael Arsenault, AmCham manager (Oct. 20) to discuss article in Chamber magazine <sup>12</sup> which appeared in November issue.
IRIS Conference (Oct 24-25) on Economic and Political Institutions for Sustainable Development at USAID, Washington.	1	Ronald Dwight travelled to US (Oct. 21 - Nov. 1) to speak on implementing institutional reform in formerly communistic societies and to discuss collateral law reform.
Collateral Law Conference in Moscow, Russia (Nov. 4 - 5)	2	Ron Dwight travelled to Moscow (Nov.3-5) for IRIS Russia/EBRD Conference on collateral law in Poland and to accompany Lithuanian experts, who will work on IRIS Lithuania Collateral Law Project.

<sup>12</sup> See Attachment IV. "IRIS -- Collateral Law in Poland. Is it Coming?" *AmCham News*, vol. vii, no. 11 (November 1994):10-11.

Coordination with the World Bank	1	Ronald Dwight, Tomasz Stawecki, (IRIS) John Olaisen (The Norway Group SA), met with Paul Knotter, local Head of the World Bank to discuss Mr. Knotter's upcoming meeting with Prime Minister Pawlak and Minister of Justice Cimoszewicz concerning collateral law and financing of the central registry (Nov. 16).
AIIESEC conference (Nov. 18)	1	Ronald Dwight gave a speech on the functioning of the market economy at the Department of Economy, University of Warsaw. <sup>13</sup>
Cooperation with the Gdańsk Institute of Market Economy at November 24, 1994 meeting	2	Ronald Dwight, Justyna Misiurewicz and Helena Sinoracka, IRIS financial manager met with Maciej Grabowski and Grzegorz Stanislawski of the Gdańsk Institute to discuss upcoming workshop on technology commercialization, on December 12 and joint conference on black economy. (Nov. 24).
Agricultural Round Table, Poznań (Nov. 30),	1	Ronald Dwight made presentation on collateral law reform to the Agricultural Round Table (300 persons) consisting of all key players in agricultural policy to secure support of farming sector for collateral law reform.
Educational films about collateral law and intellectual property (technology commercialization). <sup>14</sup>	2	Filming for both productions was completed on December 4. Ronald Dwight played the role of an American businessman in the second film. Editing to be completed in January.
British Chamber of Commerce meeting (Dec. 7), Wrocław	1	Ronald Dwight discussed collateral law reform and met with Prof. Alfred Klein, former member of the Commission for Reform of the Civil Code.
Expansion of Program to Bulgaria and Macedonia	2	Ronald Dwight traveled to Bulgaria and Macedonia to work on establishing IRIS collateral law projects in these countries (Dec. 12 - 17). <sup>15</sup>

<sup>13</sup> See Attachment X

<sup>14</sup> See Attachment II "Biznes po polsku," *Rzeczpospolita*, December 16, 1994.

<sup>15</sup> See Attachment VI, Bulgaria, Macedonia Trip Report.

Gdańsk Institute of Market Economy workshop on the Innovation Policy for Poland (Dec. 12).	2	Ronald Dwight and Justyna Misiurewicz attended the workshop. Gdańsk Institute draft of Innovation Policy for Poland was discussed. IRIS will distribute Model contracts among the participants.
Cooperation with KBN	2	Ronald Dwight, Justyna Misiurewicz and Adam Wasilewski, IRIS computer expert met with Prof. Karczewski, Head of KBN (Polish Ministry of Science) and his deputy Dr. Jan Krzysztof Frackowiak (Dec. 19) to present Debra Rogers and Willem Scholten, IRIS consultants, report and recommendations for NASK <sup>16</sup> and to discuss TV program on technology commercialization.
Collateral Law Enactment	2	Ronald Dwight and Tomasz Stawecki met with Judge Henryk Walczewski (Dec. 20) to discuss next steps in collateral law process.
Publishing of the American Model Contracts for Technology Commercialization Projects in preprint version (Dec. 20). <sup>17</sup>	2	The first step of CETE, IRIS and KBN joint project was completed. Polish models to follow.

- (1) Action completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
IRIS consultant Tomasz Stawecki will represent Ministry of Justice at inter-ministerial meetings to discuss the MOJ collateral law project (Jan. 4, 18).	2/95	IRIS and MOJ
USAID Meeting on Collateral Law Draft.	1/18/95	USAID hosts meeting (organized by IRIS) of AID financial sector.

<sup>16</sup> See Attachment III, "Report on the NASK Scientific Network: Assessment and Vision (November 1994)

<sup>17</sup> See Attachment I

Hold draft committee meetings and hire LTA for collateral law project in Lithuania.	1/95	IRIS/Poland
Hire LTA to begin collateral law project in Macedonia.	1/95	IRIS/Poland
Publishing of the American Model Contracts for Technology Commercialization Projects.	1/95	CETE, IRIS and KBN
Dr. Tabor of the Cracow Institute of Inventiveness and Intellectual Property Protection will prepare Polish translation of Model Contracts for Technology Commercialization Projects to be printed by KBN.	3/95	IRIS and KBN
Have broadcasted on the Polish Television 1st Channel educational films about collateral law and copyright law.	3/95	IRIS-Poland
At request of Deputy Minister of Justice Zieliński, IRIS will organize a major conference for the MOJ Draft Collateral Law.	2/95	IRIS-Poland
IRIS will assist John Olaisen of the Norway Group, SA in executing Phase I of the Polish National Computerized Registries Center (CORS).		IRIS-Poland and Norway SA
Personal meeting of Ronald Dwight to discuss future legal reform in Poland with Deputy MOJ Adam Zielinski.	5/01/95	IRIS-Poland

#### B. Project Administration

Planned Activities for Reporting Quarter	Current Status	Explanations
Expansion of Program to Lithuania.	1	Preliminary steps to begin project were

		made: LTA sought and hired, letters exchanged with Lithuanian MOJ <sup>18</sup> space for office sought, and main experts retained (Nov. - Dec.)
Hiring of College Park-based lawyer to assist in the completion and implementation of collateral law and technology commercialization reforms.	1	Patrick Meagher started in December.
Purchase computer equipment and installation of LAN.	1	Completed 1/95
Renew salary structure for inflation and Polish legal requirements.	2	
IRIS-Poland audit.	1	Completed 12/94.
Hiring of Lithuania LTA - John Corrigan.	1	Began 1/95
Hiring of Polish lawyer - Artur Nowicki.	1	Began 1/95
Hiring of office manager - Cezary Mierzejewski to replace Magdalena Konieczny.	1	Began 1/95
Magdalena Konieczny began work in College Park as IRIS-College Collateral Law Program Administrator.	1	Began 12/94.

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<sup>18</sup> See Attachment VII.

Current Status Key:

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action canceled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
LAN training for staff	1/95	Adam Wasilewski
Set up office in Lithuania	2/95	IRIS-Poland
Set up financial system for new programs in Lithuania	3/95	IRIS-Poland
Assess establishment of office in Macedonia	3/95	IRIS-Poland
Set up office in third country to be chosen.	4/95	IRIS-Poland
Hire Lithuanian Legal Coordinator	1/95	IRIS-Poland, IRIS-CP will submit biosheet of Prof. Stasys Velyvis for approval

III. FINANCIAL DATA

Following page.

IV. ATTACHMENTS

- Attachment I Model contracts for Technology Commercialization Projects - Published version
- Attachment II: Article in Rzeczpospolita on TV film.
- Attachment III: NASK Report.
- Attachment IV: New Collateral Law issued by MOJ.
- Attachment V: Article on Collateral Law in AmCham Magazine.
- Attachment VI: Bulgaria, Macedonia Trip Report
- Attachment VII: Letter from Lithuanian MOJ
- Attachment VIII: Moscow Conference Agenda
- Attachment IX: Oslo Conference List of Participants
- Attachment X: Letter from AIESEC
- Attachment XI: Letter from Polish Minister of Justice

## Quarterly Field Report: Russia Commercial Law Project

### I. ADMINISTRATIVE DATA

Reporting Period: October 1, 1994 - December 31, 1994  
BOA Number: ANE-0015-B-00-1019-00  
Delivery Order Number: 12  
AID Project Office: G/EG/EIR (R. Mitchell, 522 SA-2)  
AID Office funding delivery order: Democracy and Governance  
AID Office project: Institutional Reform and the Informal  
Sector (IRIS) Project

### II. PERFORMANCE INFORMATION

#### 1. Project purpose summary statement:

##### A. Project Purpose

The objective of the IRIS-Russia Project's Commercial Law Reform Initiative is to assist and train Russian law makers, judges, and legal practitioners at the Federation level as they develop the components of a commercial law regime essential for Russia's transition to a market economy. Specifically, IRIS-Russia is concentrating its efforts in the following areas:

- 1) Collaboration with the drafters of the new *Russian Civil Code*.
- 2) Examination and implementation of measures necessary to develop a system of *secured commercial lending*.
- 3) Translation and dissemination of the United States *Uniform Commercial Code*.
- 4) Sponsorship of *forums* on the legal, institutional, and economic foundations of *commercial law*.
- 5) *Training of judges* in commercial law, market economics, civil procedure, and court administration.

##### B. Relationship to USAID Program Strategy

The IRIS approach in Russia is similar to its approach in other countries, namely, to strengthen indigenous capacity to understand and carry out needed legal reforms. Therefore, the assistance provided will not only be directed toward crafting legislation, but will also emphasize the broader economic and market principles that form the foundation of an effective commercial law regime. Additionally, IRIS will encourage Russian policy makers and draftsmen to open the legislative process to include input and discussion from private sector groups most affected by the laws. Finally, IRIS recognizes the critical role Western advisors play in the reform process. They should not, however, attempt to dictate the reform agenda or take the place of Russian draftsmen. Therefore the foreign assistance component of Russian legal reform should be less and less visible as local experts and political leaders lead and complete the process. IRIS will provide policy makers with the tools necessary to accomplish this task.

C. Progress toward Project Purpose

i. *Civil Code.*

On 01 January 1995, Part I of Russia's new Civil Code went into effect. Identified by President Yeltsin as the "economic constitution of the Russian Federation," the Code establishes fundamental principles of civil and commercial law. Part I contains the general provisions of civil law, including sections on corporations, property rights, contracts, and secured transactions.

Although not a cure-all to Russia's economic problems, this commercially modern Civil Code is a major advance in Russian reform efforts. It replaces the Brezhnev era Code of 1964, designed for an administrative-command system, and also wipes away the ill-designed patchwork of laws and decrees that had been laid on top of the Soviet era legal system.

The new Code makes fundamental breaks with past Soviet and Russian legislation by effectively guaranteeing both freedom of contract and protection of private property. In addition, the Code promotes commercial lending to small and medium-sized enterprises by instituting a faster, more efficient, and cost-effective system of debt recovery -- a significant improvement over the current Russian Law on Pledge of 1992. The Code will also serve as a sword against the proliferation of financial crimes that is undermining society's confidence in the market.

Drafting of the Code, coordinated by President Yeltsin's Research Center for Private Law, was accomplished with the assistance of foreign legal experts from the United States and Europe. The USAID-funded IRIS Center has provided continuous expert advice to the Research Center throughout the drafting process. IRIS has convened working sessions between western commercial law experts and the Russian officials both to review the draft text and to examine the underlying theory of commercial law. IRIS has also solicited commentaries on the draft from specialists and distributed them to the Research Center. Many of the more important changes in the final text from earlier versions were the direct result of this USAID-supported assistance.

The Research Center and IRIS are now directing their attention to the second part of the Code, due to be enacted in 1995. Part II will contain more detailed provisions of commercial law, including the law of sales, banking transactions, leasing, torts, intellectual property, and inheritance.

During the reporting period, IRIS organized a working seminar on bank transactions for the Code drafters. This session, at which eleven members of the Drafting Commission participated, was conducted with the participation of Professor James White of the University of Michigan Law School, and William McAndrews, a lawyer with the Financial Services Volunteer Corp who has been advising the Russian Central Bank. IRIS lawyers in attendance included Lane Blumenfeld, David Fagelson, and Charles Cadwell. The drafters examined issues of credit and payment systems, check clearing, deposit requirements and related issues that will appear in Part II of the Civil Code.

ii. *Secured Commercial Lending.*

In market economies, the institutional framework of clear laws, fast and inexpensive self-enforcement procedures--supported by the judicial system--and collateral or property registries creates an environment conducive to lending. To date, these elements are not yet fully operational in Russia.

The lack of modern commercial banking systems in Russia is one of the principal impediments to further economic development in the region. The unwillingness of commercial banks to extend credit to local firms is due less to their fears of inflation than to fears they will not be repaid. Therefore, the ability particularly of small and medium size

enterprises (SMEs) to borrow in order to expand their businesses will not improve substantially even when inflation is eventually brought under control. The creation of legal and institutional mechanisms to ensure credit repayment is thus one of the most important reform initiatives in the transitional process.

Among the legal and institutional prerequisites for a viable system of commercial lending are an effective law on secured transactions and easily accessible property registries. IRIS has worked with the drafters of the Civil Code to incorporate an improved collateral law into the new Code. However, the Russian government has paid little attention to registration issues, except in the area of real property.

In order to focus greater attention on the existing barriers to financial lending, IRIS co-sponsored an International Conference on Secured Commercial Lending in the CIS on November 4-5, held in Moscow at the Supreme Arbitration Court of the RF. Additional sponsors included the European Bank for Reconstruction and Development, the Inter-Parliamentary Assembly of the Commonwealth of Independent States, the Supreme Arbitration Court of the Russian Federation, the Scientific Consulting Center for Private Law of the CIS and USAID.

The Conference targeted both law makers who are drafting legislation on pledge, property registries, and financial institutions, and the bankers who must make the ultimate decisions of whether to lend. During the morning session of Day One, Conference speakers reviewed secured lending laws and practice in Russia, the CIS, and western market economies. In the afternoon, panelists discussed specific elements of secured transactions, such as property, enforcement, insolvency, and registration. On Day Two, the audience participated in analyzing a hypothetical secured transactions deal.

The Conference was a huge success, attracting almost 200 people from over 90 organizations, including banks, law firms, businesses, the government, legislature, and judiciary. Delegates from fourteen different countries attended, including the United States, Great Britain, Norway, Germany, Poland, Lithuania, and Russia. CIS countries represented, in addition to Russia, included Ukraine, Belarus, Georgia, Moldova, Azerbaijan, Kazakhstan, and Uzbekistan.

Among the speakers were the First Deputy Chairman of the Supreme Arbitration Court, the Deputy Chairman of the Federal

Bankruptcy Agency, the President of Citibank-Moscow, the General Counsel of the EBRD, the Director of IRIS, the managing partners of leading western law firms in Russia, law professors from Columbia and Michigan Universities, and the Executive Director of the International Bank of Japan. Mikhail Mityukov, the First Deputy Chairman of the State Duma, delivered the Keynote Address on the parliament's role in Russian legal reform.

iii. *Uniform Commercial Code.*

Enhanced access to information on commercial law in market economies is essential to increase the understanding of Russian law makers, private attorneys, judges, teachers, and students. Recognizing this fact, the Research Center of Private Law has initiated a project to translate and publish the civil and commercial codes of major European countries and the United States. IRIS and the Research Center are working together to translate, publish, and disseminate the United States Uniform Commercial Code (UCC). A Russian version of the UCC was published in the USSR in the 1960s, but the American Code has changed significantly since then, thus necessitating a revised edition.

IRIS and the Research Center selected editors and translators to update the Russian-language UCC. The editor, a prominent Russian judge, was one of the original translators of the 1960s edition. During the reporting period, the majority of the translation was completed. The text will be edited and published in the spring of 1995. The final product will include introductions by Professors Robert Summers and James White, authors of the most widely used hornbook on American commercial law, and by the Russian editor.

Furthermore, IRIS and the Research plan to develop a commentary section tailored to the Russian legal tradition. This commentary, which will include official comments from the UCC, will help Russians interpret their new Civil Code, just as annotations to the UCC assist the American legal community in understanding its commercial code.

iv. *Forums on Commercial Law and Economics*

Russians recognize the importance of the economic underpinnings and incentive structure that a commercial law regime should reflect. In order to enhance this understanding, the IRIS Center, in cooperation with assorted Russian institutions, has organized an on-

going program of workshops, seminars, and lectures on the concepts central to the establishment of an effective commercial law system, including commercial law and practice, market economics, and the rule of law.

Specifically, IRIS has sponsored a lecture at the High Arbitration Court on American perspectives on the draft Russian Civil Code by Professors Summers and White. IRIS has also run seminars for both faculty and students at Moscow State University Law School on banking and securities law with Professor Patricia McCoy of Cleveland State University. Additionally, IRIS representatives have delivered speeches on topics such as law reform, contract performance, and collateral law at a variety of international conferences, in Russia, Poland, and the United States. IRIS has also sponsored a series of talks by Russian law makers involved in drafting the new Civil Code to western audiences.

Additionally, IRIS is working to establish a Business Law Roundtable at which the ultimate consumers of law -- entrepreneurs, bankers, and lawyers -- can meet with the drafters of commercial legislation to discuss the effects of prospective laws on economic activity prior to enactment.

During the reporting period, IRIS organized a session of its Business Law Roundtable on the new Civil Code, arranging a discussion on the Code between Judge Alexander Komarov, President of the International Commercial Arbitration Court of the Russian Chamber of Commerce and Industry, and members of the International Lawyer's Group.

The Director of IRIS-Russia participated in a panel on Russian business law, which was part of the U.S. Peace Corps Business Advisor's Training Program. His remarks were titled "Historical Perspective and Current Trends in Russian Business Law."

The Director also spoke the Russian International Judicial Symposium's Conference on Cooperation on Problems of Legal Regulation and Economic Activity. During this conference, he discussed the "Legal and Institutional Impediments of Foreign Investment in Russia."

v. *Judicial Training.*

Enhancing judicial capacity to resolve complex business disputes is one of the key elements of the legal reform process. Without a better informed and more efficient judiciary, Russia's new laws, such as the Civil Code, will prove ineffective.

In the Fall of 1994, IRIS brought twenty-two civil law judges and court administrators from federal, regional, and city courts across Russia to the US to study commercial law, civil procedure, and court administration.

IRIS hopes to conduct follow-up activities to this judicial training program in Russia in the near future.

2. **Progress report**

A. **Technical Implementation**<sup>19</sup>

Activities Planned for Reporting Quarter	Current Status	Explanations
<p>1. <u>Civil Code</u></p> <p>a. Workshop on Banking Sections in Civil Code, Part II.</p> <p>b. Translation of Civil Code, Part I.</p>	<p>1</p> <p>1</p>	<p>Ran workshop on banking sections found in Part II of the Code, including bank transactions, check clearing, and deposit requirements. Code drafters worked with IRIS lawyers, Professor J. White from the University of Michigan, and W. McAndrews, an American lawyer who has been advising the Russian Central Bank.</p> <p>Commissioned translation of final text of Part I of Civil Code. Available from Interlist Publishers, London.</p> <p>IRIS-Russia Director updated</p>

<sup>19</sup> Status of activities as defined in the delivery order.

<p>c. Briefing Memorandum on Civil Code.</p> <p>d. Article on new Civil Code.</p> <p>e. Briefing/discussion on Code for western legal community by member of Drafting Commission.</p>	<p>1</p> <p>2</p> <p>1</p>	<p>briefing memorandum on status of Civil Code for interested parties.</p> <p>IRIS-Russia Director has drafted article for publication in Journal of High Arbitration Court. Currently revising.</p> <p>Organized briefing by drafter of Civil Code for the International Lawyer's Group, an association of foreign law firms in town.</p> <p>Discussion focused on major changes in the Code and effects on business and legal practice.</p>
<p>2. <u>Secured Commercial Lending.</u></p> <p>a. International Conference on Secured Commercial Lending in the CIS.</p> <p>b. Report on Conference Proceedings.</p> <p>c. Article on secured lending in Russia.</p> <p>d. Bank study</p>	<p>1</p> <p>2</p> <p>3</p> <p>4</p>	<p>Conference held in Moscow at the Supreme Arbitration Court on November 4-5. Almost 200 persons attended from over 90 organizations; 14 countries were represented, including a majority of the CIS members nations.</p> <p>EBRD and IRIS are preparing the Conference proceedings for February publication.</p> <p>Article on secured lending delayed pending publication of proceedings.</p> <p>Study suspended. IRIS hopes to work on a formal study on bank lending practice in the future.</p>
<p>3. <u>Uniform Commercial Code.</u></p> <p>a. Translation</p>	<p>2</p>	<p>Draft translation of UCC was completed.</p>

b. Editing.	2	Editing of translation in progress.
c. Publication	2	Planned for 1995, upon completion of translation, editing.
d. UCC Introduction	2	Introduction to Russian edition prepared by Professors Summers and White. Being translated by IRIS.
<b>4. <u>Forums on Commercial Law and Economics.</u></b>		
a. International Conference on Secured Commercial Lending in the CIS.	1	See section 2.
b. Business Law Roundtable on the new Civil Code.	1	See section 1.
c. Seminar on Russian business law for Peace Corp Business Advisors-in-Training.	1	IRIS-Russia Director participated in panel on Russian business law for Peace Corps Business Advisors Training Program; talk entitled "Historical Perspective and Current Trends in Russian Business Law."
d. International Judicial Symposium.	1	IRIS-Russia Director participated in International Judicial Symposium, discussing "Legal and Institutional Barriers to Foreign Investment in Russia."
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<b>5. <u>Judicial Training</u></b>		
a. Judicial Training in Commercial Law Follow-Up Activities.	3	IRIS hopes to develop follow-up activities to its Fall, 1994 Judicial Training in Commercial Law program. Activities would take place



a. Publication of proceedings of Conference on Secured Commercial Lending.	February	IRIS/EBRD
b. Article on secured lending.	April	IRIS-Russia
3. <u>UCC</u>		
a. Finish Translation.	February	IRIS-Russia, Research Center of Private Law
b. Edit.	February	IRIS-Russia, Research Center
c. Prepare introductions.	February	IRIS-Russia, Research Center
d. Publish.	April	IRIS-Russia, Research Center
4. <u>Forums on Commercial Law and Economic.</u>		
a. Conference on Resolution of Commercial Disputes Between Russian and Foreign Partners. Speaker on commercial arbitration.	January	IRIS-Russia
5. <u>Judicial Training</u>		
a. Follow-up to US training program.	Spring	IRIS-Russia, AED
5. <u>Additional Activities.</u>		
a. International Lawyers Group.	on-going	International Lawyers Association.
b. USAID Rule of Law Contractors Monthly Meeting.	on-going	USAID Rule of Law contractors.

B. Project Administration

Activities Planned for Reporting Quarter	Current Status	Explanations (Problems, steps to resolve, etc.)

Registration	2	Registration in final stages.
Open Russian Bank Account.	3	Will open upon completion of registration process.
Renegotiate office rent, renovate and move into new offices.	2	Contract signed, renovations/move-in to be completed in January.
Extend residential lease on Director's apartment.	1	Contract signed.
Installation of Satellite Line.	3	Delayed until move into new office space is complete.
Organization of Secured Commercial Lending Conference.	1	Conference held in November.
Hire Russian Lawyer.	1, 3	Lawyer hired for trial period. Dismissed for unsatisfactory performance.

**Current Status Key:**

- (1) Action Completed
- (2) Action in process
- (3) Action delayed
- (4) Action cancelled

Planned Activities for Next Quarter	Estimated Completion Date	Entity Responsible for Action
Registration.	February	IRIS-Russia/IRIS Center
Open Bank Account.	February	IRIS-Russia/IRIS Center
Relocate to new office space. Consolidate administration of various IRIS projects in Russia in single location.	January	IRIS-Russia
Install Satellite Line.	February	IRIS-Russia

Hire Administrator/ Accountant (in conjunction with other IRIS projects).	February	IRIS-Russia
Hire Russian lawyer, short-term.	February	IRIS-Russia

3. Outstanding problems and issues and intended steps toward resolution

N.A.

III. FINANCIAL DATA

Following page.

#### IV. ATTACHMENTS

##### 1. Civil Code Articles Referring to IRIS

- a. IRIS Press Release on Adoption of Civil Code
- b. Moscow Times, "New Year, New Civil Code," 12/17/94
- c. International Herald Tribune, "A Turning Point for the Economy," 12/1/94
- d. Moscow Times, "Civil Code: New Basic Law," 11/1/94
- e. Cornell Law Forum, "The New Russian Civil Code and the Cornell Law School," by Robert S. Summers, 11/94

##### 2. International Conference on Secured Commercial Lending

- a. Conference Brochure
- b. Moscow Tribune, "Experts Discuss Secured Commercial Lending," 11/5/94
- c. List of Organizations/Individuals in Attendance at Conference

##### 3. Forum/Conference Flyers

- a. IRIS Business Law Roundtable, "Discussion on the New Russian Civil Code," Led by Judge Komarov
- b. U.S. Peace Corps Advisors Training Program, Session on Business Law, Talk by IRIS-Russia Director on "Historical Perspective and Current Trends in Russian Business Law"
- c. International Judicial Symposium, Conference on "Cooperation on Problems of Legal Regulation and Economic Activity," Speech by IRIS-Russia Director on "Legal and Institutional Barriers to Foreign Investment in Russia"