

# GOVERNANCE WORLD WATCH

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**Division for Public Economics and Public Administration  
Department of Economic and Social Affairs**

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Compiled by Networking and Outreach Clusters August 1999



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# Public Economics

## ASIA/PACIFIC

### THE INDIA ALLIANCE TO PUSH ECONOMIC REFORM

The alliance led by Indian Prime Minister Atal Behari Vajpayee's Bharatiya Janata Party (BJP) said on Monday that it planned to revitalize economic reforms and keep a nationalist thrust if voted to power. The National Democratic Alliance (NDA), tipped by opinion polls to win a comfortable majority, also said in its manifesto for the September-October elections that it planned to raise defense expenditure while trying to rein in the fiscal deficit. "We will bring GDP growth to the 7.0 to 8.0 percent bracket and control deficit -- fiscal and revenue," the alliance said in the document released ahead of the mid-term elections, which were called after its minority coalition lost power in April. GDP growth was 6.0 percent in 1998/99 (April-March) and the Government expects to sustain the rate in 1999/2000. The NDA said it aimed to legislate a "fiscal responsibility act" to discipline government finances, while maintaining a "strong nationalist thrust" in economic reforms. The Government aims to cut the fiscal deficit to 4.0 percent in 1999/2000 from 4.5 percent in the previous year. Revenue deficit is considered a key part of the fiscal deficit, which includes the overall budgetary deficit and government borrowings. The alliance said it aimed to attract \$10 billion in foreign direct investment (FDI) annually. FDI was in excess of \$2.0 billion in 1998. The manifesto echoed widespread public demand to increase defense spending after recent military tensions with arch-foe Pakistan over the disputed Kashmir territory. It said the NDA would correct the "budgetary neglect of defense needs." India and Pakistan, which have fought three wars in the past 52 years, stood on the verge of what could have been their fourth war in May when India launched a military offensive against guerrilla infiltrators in Kashmir. India said the infiltrators were mainly Pakistani soldiers. Pakistan called them "freedom fighters" but agreed under international pressure to seek their withdrawal from Indian Territory. The manifesto said the alliance would continue reforms with a strong nationalist thrust to "ensure that the national economy grows on the principle that 'India shall be built by Indians'..." The Hindu nationalist BJP, which leads the NDA, strongly believes in the policy of Swadeshi (national self-reliance). "Swadeshi is not reinventing the wheel. It means that we facilitate the domestic industry to gain enough muscles to compete with multinationals in the local and global markets," the manifesto said.

*From Reuters, 16 August 1999*

### CHINA VOWS TO PUSH REFORM, RULES OUT PRIVATIZATION

China plans to abandon some state grips on the economy, but the reform of the state-owned sector would not entail privatization, state media reported Friday. The People's Daily quoted President Jiang Zemin as telling leaders in China's industrial rustbelt Thursday that Beijing would "make a strategic adjustment to the layout of the state economy and reform state-owned enterprises further." Jiang said in a speech published in the Communist Party newspaper that China would "actively absorb and utilize non-state capital" and use asset restructuring and the "shareholding system" to reform state-owned firms. But the state must "play a dominant role in important sectors and key domains which are the lifelines of the national economy," he said, without saying where Beijing wanted to relax or retain controls. "We absolutely won't carry out privatization. This is a major principle and must never be shaken," Jiang added. State media have issued loud calls for Beijing to abandon non-essential enterprises, maintaining its grip only on lifeline sectors such as energy while rescuing state firms through debt-for-equity swaps in a last-ditch effort to resolve the public sector's debt woes. China's key state banks, by some accounts, are technically insolvent with combined bad debts of \$200 billion as a result of being the cashier for the money-losing state sector for decades. Jiang, in his first policy speech since Beijing leaders emerged from their annual seaside policy parley at Beidaihe, told regional party secretaries reforming the state sector was "a major political issue that concerns the fate of the socialist system." The steady eclipse of the state sector's share of economic activity by private firms has alarmed Communist Party leaders, whose conclave at Beidaihe this year focused on strategies to revive the sector and boost the economy. Jiang called for reforms introducing market mechanisms to solve the problems of falling economic returns, heavy debts and surplus workers, but said the state would remain the mainstay of the economy. "Promoting SOE reforms and development, in the final analysis, means strengthening the role of the state-owned economy within the socialist market economy," the Xinhua news agency quoted Jiang as saying in the northeastern city of Dalian. Jiang told officials from eight northern provinces in the cradle of state-driven industrialization that state-owned enterprises "should adhere to the essential principle that our reform does not mean privatization," the agency reported. Jiang, who also heads the Communist Party, said supporting laid-off workers and ensuring social stability were major political responsibilities for the Government. He outlined detailed plans to bolster the state sector. The People's Daily quoted him as saying Beijing planned to increase bad debt reserves at state banks to prepare for the takeover, bankruptcy and asset restructuring of large- and medium-sized state-owned enterprises. He did not give a figure. Jiang said China would also raise more funds from the domestic and foreign capital markets to help the state sector and urged local authorities to start debt-for-equity swaps to reduce the debt of large state firms. He said Beijing would increase fiscal outlays to subsidize interest payments on loans used by state firms to upgrade technology and had determined to expand government spending and make more use of monetary policies to boost the economy.

*From Reuters, 16 August 1999*

## INDIA COMMUNISTS SUGGEST ALTERNATE ECONOMIC AGENDA

India's main communist party on Thursday called for an injection of fresh capital in the public sector to bolster the economy. It also suggested a ban on foreign firms entering the insurance sector. The Communist Party of India (Marxist), CPI (M), in its manifesto for the September-October general elections said the insurance industry should remain a government monopoly and the trend of privatizing the banking sector should be halted. Releasing the manifesto party general secretary, Harkishan Singh Surjeet told reporters that India's liberalization policies initiated in 1991 had benefited the affluent 10 percent of the upper strata while subjecting the rest to acute deprivation. Blaming the Hindu nationalist Bharatiya Janata Party (BJP) for forcing an election on the people barely after 18 months, the CPI (M) said the BJP-led government had "given a bonanza to foreign capital and big business." The nation's two main communist parties between them controlled 41 of the 545 seats in the fragmented lower house of parliament. "The BJP-led government has pushed ahead with this disastrous (reforms) policy which suits the interests of the IMF-World Bank driven globalization and in the interest of the imperialist countries," the party said. Setting out a comprehensive platform of economic policies, the CPI (M) suggested land reforms, more investments in agriculture and expansion of credit facilities for poor peasants and farmers. It said capital flows should be regulated and full convertibility of the rupee on the capital account should not be allowed. Surjeet said the BJP-led government by conducting nuclear tests last year had abandoned the country's long-standing policy of developing nuclear technology without going in for weaponization.

*From Reuters, 12 August 1999*

## IMF UNHAPPY WITH PACE OF TAX REFORMS IN PAKISTAN

An IMF experts' team has reportedly expressed displeasure over the slow pace of implementation on tax reforms programme, officials told Dawn. The team visited Central Board of Revenue on Thursday and examined the report on structural adjustments in sales tax and income tax administration. The IMF team, led by David Burton, Director of IMF Middle-eastern department, sought details on taxation structural reforms, especially in the tax-net expansion and on the performance of the income tax and sales tax administrations. The CBR officials made presentations on new tax modules for scientific tax receipts estimation; structural reforms agenda for IT/ST administration; and ST net expansion programme, 1999-2000. Officials said the IMF experts pointed out a number of grey areas in structural reforms such as lack of coordination between IT and ST administrations; loopholes in curbing tax evasion; unpopular method of tax assessment; imperfect tax procedures which is an impediment in the way of GST in VAT form, especially in the textile and retail sectors; delay in legislation for implementing services (sales) tax and failure of the Government in converting CBR into a corporate body. The experts suggested to create a new system of coordination between ST/IT wings and bring new sectors and businesses in tax net. The team took serious note of the non-compliance of the Government-Fund agreement on implementation of the common tax identifier (CTI) by the end of July 1999, and the income tax wing's failure to increase the number of wealth tax payers. The officials said the Fund team noted that the CBR had not yet implemented the Scientific Tax Receipts Estimation Modules. Our Islamabad Bureau adds: Mr. Burton called on Finance Minister Ishaq Dar on Thursday and discussed with him the structural adjustment reform programme. According to official sources, the minister briefed Mr. Burton about the restructuring of the CBR with special reference to converting it into a revenue authority. He said the National Assembly was likely to adopt the Pakistan Revenue Authority (PRA) bill in its next session. Mr. Dar told the IMF deputy director that the proposed PRA would be an independent body to help increase the revenue. The Fund's Middle-eastern department director Paul Chabrier was to visit Pakistan but because of his other engagements in Washington Mr. Burton was sent in his place to lead the Fund's team in talks with Pakistan for the release of the next tranche of \$280 million from the three-year \$1.6 billion ESAF/EFF programme.

*From Dawn, 19 August 1999*

## EUROPE

### MONTENEGRINS 'PLANNING OWN CURRENCY'

Montenegro, the last Yugoslav republic linked to Serbia, is making detailed preparations to launch its own currency within the next few months - with or without agreement from Belgrade. The mountain territory headed by western-oriented President Milo Djukanovic could be ready to launch its own money within three months, according to Steve Hanke, a US economics professor and currency expert, who has been appointed an adviser to Mr. Djukanovic. Mr. Hanke, professor of applied economics at Johns Hopkins University, told the FT from Washington that he was drafting legal documents that would serve as the basis for Montenegro's new currency. The plans involve establishing a currency board under which the exchange rate of a new convertible dinar would be fixed against the D-mark. The currency would be supported by D-Mark reserves equal to or greater than the money in circulation and D-Marks would also serve as legal tender, according to Mr. Hanke. To help protect the currency from interference from Belgrade, the reserves would be held in Switzerland at the Bank for International Settlements. Currency board members would include foreigners and might meet overseas, perhaps in Switzerland, said Mr. Hanke. Montenegro has set no timetable for the launch of the currency, which is a key element in its plans to achieve economic autonomy from Yugoslavia. Mr. Djukanovic has said he wants to reach agreement with Belgrade on the autonomy programme and transform Yugoslavia from a federation of the two remaining republics into a confederation, in which each republic would have a greater degree of independence. However, if Belgrade does not agree, he seems increasingly prepared to act unilaterally and split from Serbia. Mr. Hanke said that if the talks

failed to reach agreement within about two months, he expected Montenegro to go it alone. Either way he expected the new currency to be launched in October or November, he said.

*From Financial Times, 22 July 1999*

## **RUSSIAN REGULATOR TAKES AIM AT YUKOS**

Russia's Federal Securities Commission, the stock market regulator, has asked the country's legal authorities to pursue evidence suggesting that the giant Yukos oil concern might have violated several laws. The commission's action is the strongest indication to date that Russia's regulatory bodies may finally be prepared to tackle some of the country's powerful privatized corporations. Yukos, the second biggest oil company in Russia, is headed by Mikhail Khodorkovsky, the politically influential "oligarch" who was one of the main bankers of President Boris Yeltsin's re-election campaign in 1996. Dmitry Vasilyev, FSC chairman, said the commission had uncovered facts indicating Yukos had evaded taxed and failed to implement previous court decisions. "These issues are beyond our competence. But we have gathered this information and yesterday we handed it over to the interior ministry, tax police, and security services," he said. However, Mr. Vasilyev said the commission might itself pursue legal action against Yukos to force the company to disclose more information about its involvement with Eastern Oil and Tomskneft, two affiliated companies. The commission launched an inquiry into Yukos following complaints from investors that the company had abused minority shareholder rights. Some of the minority shareholders in Tomskneft, Yuganskneftegaz, and Samaraneftegaz, Yukos's main production subsidiaries, are separately pursuing legal action to prevent a series of share issues to a group of obscure, offshore companies. The protesting shareholders have successfully obtained injunctions in Cyprus, the Isle of Man, Niue island, Ireland, the Marshall Islands, and the British Virgin Islands, preventing Yukos from issuing shares to locally registered entities. Michael Hunter, president of Dart Management, a US fund group with substantial minority holdings in the Yukos daughter companies, said the commission's action was welcome news. Yukos had previously claimed all its proposals were perfectly legal and were intended to simplify the company's ownership structure. But the company did not respond to telephone calls yesterday. The Federal Securities Commission has been at the forefront of the fight to improve Russia's poor corporate governance regime and protect investor rights. But the commission has had few resources at its disposal and has periodically come under intense pressure from Russia's powerful companies.

*From Financial Times, 22 July 1999*

## **THREAT TO FLEXIBILITY IN UK**

The UK Government has been facing a strong rearguard action from employment agencies and contracting intermediaries against proposed changes in legislation. The changes are designed to prevent the avoidance of National Insurance payments among self-employed consultants. Reports that thousands of companies could go to the wall have created a distorted image of destitute business people being thrown on the scrap heap or forced to move abroad because of Treasury heavy-handedness. Some businesses may well fold as their owners find other ways to organize their employment. But these are single-employee contracting operations. The Inland Revenue wants to clamp down on the practice of contracting individuals through their own service companies for tax advantages. At present it is possible for someone to leave a company one day and return to do the same job a few days later as a self-employed consultant, paying less tax and avoiding National Insurance. Some companies have exploited the arrangement: it allows them the services of an employee without paying National Insurance, holiday pay, sick pay or maternity pay. Employees too can avoid paying National Insurance by drawing their income as a company dividend. They also pay less tax because dividends are classed as savings. The Inland Revenue estimates the annual National Insurance loss at 220m (\$341m) and the income tax loss at 80m. The issue seems clear, but the proposals raise important questions about workplace change. Could this move to prevent tax leakage produce more damaging losses by wrecking the flexibility some believe the UK needs to be competitive in Europe?

Flexibility and outsourcing have helped companies respond to peaks and troughs in demand. The millennium bug problem - where extra software experts, often self-employed, are needed only for the time taken to update a system - is a typical blip in demand. There are other arguments against the measures. Agencies that supply interim managers point out that they are often older people who face discrimination in the permanent jobs market. Carl Hague, managing director of Praxis, an interim management company, and a spokesman for AITES, the interim managers group, says the measures are ill thought out. "I accept that there are well documented cases of people leaving on a Friday and returning on a Monday as a consultant, and if they pay themselves out of dividends I see that as an abuse of the system. But there are many who pay themselves salaries out of these companies - it is after all the only way they can provide for their pension - and the company arrangement is a way of smoothing out incomes. These are not people in regular employment across the 225 possible working days in the year. An interim manager must be very good to achieve 160 days of work." Mr. Hague says the Government is ignoring the social issues bound up in the proposals. "Many of the people who have gone freelance have at some time or another fallen off the corporate bandwagon. They have set themselves up as independents and they have taken risks, revoking their rights to the traditional employment relationship. Some have come to value this independence." Thousands of middle-aged managers lost their jobs in the large-scale downsizing of the mid-1990s. Many have found new opportunities in consulting or acting as temporary managers. And in fields such as information technology, thousands of employees have never known any other way of working than freelance contractual employment. One of the tests for whether someone should be caught by the rules is whether they are supervised, directed or controlled by their client. This is the language of the factory foremen. Do we really want to return to the master-servant relationship? Do we want a system where

everyone is traditionally employed and supervised; or do we want a system that allows diversity, where independent operators can be rewarded and respected for their skills? The proposals, referred to by the Revenue as IR35, are presented as tax changes, but their influence is primarily in the nature of employment. Contractors might be forgiven if they believed that, just as they had learnt to stand on their own feet, they were about to be slapped down once more. Nevertheless, if tax is being avoided, it is reasonable for the Treasury to try to plug the gap. Emotive lobbying with unrealistic scare-mongering is a poor way of opposing the measures. The contracting industry should help root out the abusers and devise a viable alternative if it wants to continue promoting the "portfolio" lifestyle.

*From Financial Times, 22 July 1999*

## **TURK PM DEFIANT ON REFORMS DESPITE PROTESTS**

Turkish Prime Minister Bulent Ecevit vowed on Saturday to stick to his social security reform programme, under which parliament has approved rises in retirement age, despite opposition and trade union protests. "If we give concessions today we will harm the future of our workers. We do not have the patience to take a step back," Anatolian news agency quoted Ecevit as saying. The Prime Minister was speaking a day after parliament passed a key article in a draft social security law raising retirement ages to 58 for women and 60 for men. When the assembly resumed debate on Saturday on the rest of the bill reforming the country's crumbling pension system, Turkey's main opposition Islamic party called for changes. "You don't listen to the people at all. Didn't you come here with their votes? Make changes in the bill, otherwise we will do our best to stop this mistake," a Member of Parliament for the Islam-based Virtue Party, Ismail Kahraman, told the assembly. Workers staged a one-day general strike on Friday to protest against the reforms. They chanted slogans against the International Monetary Fund (IMF), which they see as a driving force behind a series of government reforms. Debating and voting on the whole pension reform bill, consisting of 69 articles, is likely to last several days. Opposition deputies slowed down assembly discussions by interrupting with questions. The opposition and the unions say the fresh retirement ages will create "graveyard pensioners," with people retiring late in a country where life expectancy is around 65 years. Women have previously been able to retire at a minimum age of 38 and men at 43. The average retirement ages are 47 for women and 50 for men. Virtue had proposed new retirement ages as 50 for women and 55 for men. Besides opposing the retirement provision, the unions want the bill to deal with reining in a four million-strong unregistered work force by imposing fines on employers and providing job security measures. Ecevit has argued that the present social security system will collapse without an overhaul. Its deficit is expected to reach \$5.87 billion this year. Scuffles broke out during Friday's protest when some 3,000 public sector employees tried to occupy a crossroads in central Ankara and police fired teargas at the protesters as demonstrators responded by throwing plastic bottles. The Government has already delayed debate of the bill once and lowered the number of days needed to pay contributions in order to qualify for a pension in a vain search for common ground with the unions. Parliament has also approved a constitutional amendment allowing international arbitration in investment deals which unions believe will undermine the authority of national courts. Commenting on the constitutional change, Ecevit was quoted by Anatolian news agency as saying: "This will provide large foreign sources and will attract investments." The law took effect on Saturday when it was published in the official gazette.

*From Reuters, 14 August 1999*

## **EARTHQUAKE THREATENS TURKISH ECONOMIC REFORMS**

Flames leap from a key oil refinery and roads and telephone lines are in ruins in Turkey's economic heartland, devastation that is likely to jeopardize government plans to carry out tough economic reforms. The earthquake, which struck Tuesday, has left more than 5,000 people dead and parts of western Turkey in ruins. The area accounts for some 35 percent of Turkey's gross domestic product. People in the devastated region are demanding aid to rebuild their homes from a Government that is already struggling to cut back a state deficit estimated at more than \$20 billion and reduce an annual inflation rate of 50 percent. Turkey's leading business newspaper, Finansal Forum, estimated that the earthquake could cost the country as much as \$25 billion. The paper's estimate was based on the loss of production in the area struck. It was not clear if it also included the cost of rebuilding. Erkut Yucaoglu, the head of TUSIAD, the country's leading association of industrialists and businessmen, said the total cost could reach \$40 billion. The disaster comes as Turkey is hoping to sign a crucial \$5 billion loan with the International Monetary Fund later this year, and is working on reforms that are needed before the loan is approved. But as Turkey assesses the earthquake damage, reforms may become more difficult due to the need to rebuild. In a statement from Washington, the World Bank pledged \$120 million in new loans and said that \$100 million in existing loans would be transferred to Turkey more quickly. Turkey's leading carmaker, Tofas, sent its workers on leave today and suspended production until Aug. 23 to allow employees to help relatives and friends affected by the earthquake. Tofas, said, however, that its factory was not damaged. There were also worries that the quake would scare tourists away from Turkey, especially given the damage to Istanbul. About 10 million tourists come to Turkey each year, but tourism was already faltering this year. Many tourists canceled trips to Turkey when Kurdish rebels, who have been fighting for autonomy in southeastern Turkey for 15 years, threatened to attack resorts and other tourist areas following the February arrest of their leader Abdullah Ocalan.

*From CNN World News, 19 August 1999*

## SPANISH GOVERNMENT BOWS TO PRESSURE ON PENSIONS

Spain's ruling Popular Party (PP) requested an early review of the social security system on Friday after a handful of regional governments threatened to raise payments to their poorest pensioners. With a general election due by next May, the Government had been softening its resistance to calls for higher pensions. It said it now wanted to bring forward the review to this September from next year. PP officials handed the request to parliament, insisting any changes to pensions would have to guarantee the sustainability of the social security system and that pensions should remain equal from region to region. The centre-right Government of Prime Minister Jose Maria Aznar prides itself on its budgetary discipline and plans to cut the public sector budget deficit to one percent of gross domestic product by next year, down from seven percent in 1995. The Government says it expects to bring the social security system into balance next year as an important part of its deficit-cutting plan. Regional Governments, mostly run by opposition parties, began to moot increasing non-contributory pensions earlier this month, but Aznar and his ministers slammed the proposals as a "nonsense" which could upset the social security system. However, after reported pressure from the head of the powerful Catalonia region, an important government ally, the Government changed tack. Economists say the proposed increases to the lowest non-contributory category of public pensions would imply only a small extra outlay, but might make it harder for the Government to achieve its budget deficit target for 2000. The system currently pays half a million non-contributory pensions of about 38,000 pesetas (\$244) a month. Political parties and trade unions agreed in 1996 to keep pensions equal across the country, and to base increases on annual inflation. Slightly higher than expected inflation in 1999 -- seen at more than two percent versus forecasts of 1.8 percent -- will add to next year's social security spending. Helping the Government, however, is strong growth in the number of people contributing to the social security system, up nearly 800,000 in the first seven months of 1999 thanks to robust economic growth and brisk job creation.

*From Reuters, 20 August 1999*

## TURKISH PENSION REFORM GIVES TIMELY BOOST

Passage of a key pension reform bill gives Turkey's Government a timely boost in its bid to secure International Monetary Fund (IMF) support amid the grim aftermath of last week's earthquake. Turkey's parliament on Wednesday approved an overhaul of the social security system, which is seen as crucial to prevent it collapsing under the weight of spiralling pension costs. The system is expected to show a deficit of nearly \$6 billion this year, more than a quarter of the budget deficit. Erasing that deficit will take 20 years, according to official targets. The legislation, the latest in a series of reform measures delivered by the three-party coalition under Prime Minister Bulent Ecevit, is sure to win approval from foreign investors. "The government's commitment to austerity and reform should be rewarded by both the market and the IMF. This will secure the solvency of the system and guarantee the future of Turkey," said Atilla Yesilada, research director at Ege Investment. The market impact of the reform was darkly overshadowed by a massive earthquake in Turkey's industrialized heartland on August 17, which killed more than 13,000 people. Shares dived 9.93 percent in Istanbul after resuming trading on Thursday morning after a seven-day suspension. Market attention was likely to remain for some time on the economic impact of a quake, which damaged or destroyed some 60,000 buildings. State refiner Tupras (TUPRS.IS) was the only major company to sustain significant damage, but residential areas and urban infrastructure were badly hit. The benefits of pension reform are likely to feed through substantially only in the medium-term after a 10-year transition to pensionable ages of 58 for women and 60 for men from averages of 47 and 50 years currently. "The law was not as diluted as we were afraid it might be. But it will not have a major fiscal impact on the budget in the next two years," Yesilada said. In the meantime, economy officials will have to wrestle with the task of stimulating activity after an 8.4 percent dive in gross national product in the first quarter. It will also have to keep annual inflation of some 50 percent in check, while reining in a budget deficit amounting to 10 percent of GNP. One official acknowledged that much work remained to be done to put the economy on a firm footing. "The first step was taken in the area of social security but the deficit will remain for some time," said the official, adding that the law would help in forging an IMF arrangement. The Government held firm to the pension reform in the face of stiff opposition from unions. Workers took to the streets in a one-day general strike and threatened more industrial action in response to what they called an erosion of their rights. Compromise with opposition parties kept the bill on course. The length of time during which workers pay premiums was cut by some 1,000 days to 7,000. The new system envisages payment of unemployment benefit and changes in the health insurance system. The Government has forecast the reform would add \$600 million to state coffers next year and lay the groundwork for the system to break even by 2020. An IMF standby accord involving financial support looks increasingly likely following parliament's vote on Wednesday. The Fund is already considering a \$330 million emergency loan in response to the quake and is set to resume standby talks in September. Aside from benefits to public finances, such an accord would ease Turkey's ability to secure funds in international capital markets and lessen its dependence on costly domestic debt. The latest reform follows measures encouraging direct foreign investment, a tightening of supervision in the banking sector and adjustments to last year's overhaul of the inefficient tax system. The next step for the Government will be to revive a slackening privatization drive centred on Turk Telekom and major industrial concerns. It also faces pressure to slash the financial burden of agricultural subsidies.

*From Reuters, 26 August 1999*

## THE AMERICAS

### ARGENTINES SEE ETHICS PANEL AS CORRUPT

Argentines believe the state Ethics Office, created in 1997 to set standards for honesty in Government, has in fact become one of the most corrupt institutions in the country, a Gallup poll published on Wednesday found. The poll also found that Argentines felt corruption was the second most important issue before national elections in October, second only to unemployment. The country's labour unions and Customs Service were perceived to be the most corrupt institutions, the poll showed, followed by the judicial system and then the Ethics Office. The Ethics Office was created by order of President Carlos Menem on a recommendation by the U.S. Government to set norms of honesty for public officials and monitor their personal assets. Its creation followed years of reports of graft and influence peddling in Argentine public institutions. The poll was commissioned by Citizen Power, the Argentine representative for international corruption watchdog Transparency International. Of 40 public institutions rated on a scale of one to seven by Gallup, the most honest were perceived to be the National Registry, the Catholic Church and the Banco Nacion, a state-owned bank which makes loans to small businesses. The Gallup poll surveyed 1,215 people nationwide and had a 3.8 percentage point margin of error. Those surveyed said the Government should launch a fight against corruption but only 14 percent knew how to file a complaint, and many admitted they would not file charges against an institution or individual for fear of reprisal.

*From Reuters, 18 August 1999*

### AN AMERICAN IN PARIS

Surely one of the oddest features of international affairs today is the fact that half the world thinks America wants to dominate everything and half the U.S. Congress doesn't even own a passport. The gap between how foreigners see America and how America sees itself in the world could not be larger, particularly after Kosovo. China and Russia openly complain about America throwing its weight around. But there is plenty of resentment of U.S. "domination" among America's European allies as well. You can read it in the European press, or hear it in little digs like the one making the rounds over here that "the Chinese lost more people in the Kosovo war than the Americans did." The Gulf war showed the Euros how far ahead the U.S. military was in technological terms, and the Kosovo war showed how much wider that gap had become. This has left the Euros feeling victorious in Kosovo, yet diminished. As one British defense official remarked to me, "We have to avoid a situation where you [Americans] turn out the high-tech stuff and we provide the jolly good infantry." It's no wonder the French have coined a new term to describe America today - "the hyperpower." The term "superpower" was too small. It's also no wonder that right after NATO's Kosovo victory the European Union declared its intention to form its own military force capable of acting independently of the U.S. This would be laughable if it were not so pathetic. The Euros will not catch America so easily. Consider just one reason: Devotees of Ronald Reagan like to credit him with the military buildup that enabled the U.S. to run so far ahead of all its allies and enemies. They are right about Mr. Reagan, but they are wrong about what he deserves credit for. The most important thing Mr. Reagan did was break the 1981 air traffic controllers' strike, which helped break the hold of organized labour over the U.S. economy. That was critically important for spurring the information revolution in America. How so? Ask yourself this: Why is it that the Europeans have lots of money and the same access to technology as Americans do, yet most of them have been slow to absorb computers and info-technologies? Answer: U.S. companies are quick to absorb new, more productive technologies because they can easily absorb the cost of the new investment by laying off the workers who used to perform that task. And as the overall economy becomes more productive, those workers get rehired elsewhere. The Europeans have moved slower because their rigid labour laws make it very hard, or very costly, to lay off workers. And if you have to pay for a new computer and the wages of an old worker, you are much less likely to buy the new computer. The world's eight largest high-tech companies are all U.S.-based. The deregulation of the U.S. economy has fostered the quick adoption of new information technologies, and these new technologies have given the U.S. military its great technological leap forward - from laser-guided weapons to stealth technology to electronic warfare. These systems are now essential for fighting wars that modern democracies will tolerate, which is to say high-tech, remote-control, low-casualty wars. Without the economic and technological underpinnings that make such weapons possible, the Euros will have a hard time catching Uncle Sam. But just as the Euros need to understand their weakness, and how to manage it, America needs to understand its strength and how to manage it. The idea that the U.S. Congress, looking at a \$1 trillion surplus, wants to cut its paltry foreign aid budget, refuses to pay its UN arrears, talks about free trade but then won't even expand Nafta to Chile, and treats foreign policy as a sport in which you pass sanctions against your favourite enemy, like a game of darts, should embarrass every American. Congress is split between those who believe the U.S. should act everywhere alone and those who believe it should act nowhere. The idea of a generous America, leading where it must, sharing where it can and financing the development banks to give a hand up to those most in need, has a shrinking constituency. It's crazy that at this moment the President has to spend his time abroad persuading foreigners that America is not a cheap imperialist, and his time at home persuading Congress that America still has a global role.

*From The New York Times, 20 August 1999*

## GLOBAL

### THE BUSINESS OF DEVELOPMENT

From Ted Turner, to Bill Gates, to George Soros, business leaders are beginning to recognize that their responsibilities and their interests lie not only in how their companies' actions affect their shareholders, but also on their impact on the societies in which they operate. De Beer's decision to back the campaign to eradicate polio by 2000 is a good example of putting these principles into practice and getting favourable publicity at the same time. The international diamond company has joined the campaign, donating \$2.6m to a vaccination programme in Angola. Polio used to used to kill or cripple half a million people a year, mainly children. Last year that figure fell to just over 5,000. The target is within reach. Moreover, this is the first time that the World Health Organization has entered into partnership with big business. The campaign now needs a further \$500m to eliminate polio entirely. It would be money well spent. At the moment, governments spend \$1.5bn vaccinating children around the world against a disease that could be wiped out. AIDS is a scourge even greater than polio. Fighting AIDS is also a social imperative, which makes good business sense, as Kofi Annan, UN Secretary-General, recently pointed out. The UN has urged companies to educate their workers about AIDS and become active partners in initiatives to stop the spread of a virus that has killed more than 14m people, infected another 33m. It damages economies and decimates work forces. Of course no company - just like no government - can take on the challenge of AIDS alone. But some companies are already blazing a trail. Glaxo-Wellcome has invested \$40m in an international AIDS awareness programme. In Nigeria, Chevron has taken steps to help protect its workers; so has Rio Tinto, the mining company, in Zimbabwe and Eskom, the South African power company. Coping with the challenges presented by the world's poorest countries requires new kinds of partnerships. Not so long ago, alliances like that between De Beers and the WHO would have been inconceivable. The relationship between the private sector and development agencies has been one of suspicion at best, and often outright hostility. But this is changing. UN agencies have already started to build bridges with the private sector. Non-governmental organizations should adopt the same approach. This way, businesses can draw on the expertise of the NGOs, and the NGOs can become more attuned to business needs. Helping to tackle problems in poor countries can make good sense - even to hardheaded business leaders.

*From Financial Times, 22 July 1999*

# Governance Systems and Institutions

## AFRICA

### NIGERIA AIMS TO CUT ARMED FORCES BY THIRD

Defense Minister Theophilus Danjuma has said Nigeria plans to cut its armed forces by over a third to 50,000 from 80,000 and this could affect the country's regional peacekeeping role. He said the cutback over the next four years aimed at saving money would be the biggest since reductions in the armed forces in the 1970s that followed the end of a debilitating civil war. Danjuma told reporters in Lagos on Tuesday the army should be reduced to 30,000, while the navy and air force would each have 10,000 personnel. "They will do a better job, while expenditure will be minimized," said Danjuma. Major cuts have been widely expected since 15 years of army rule came to an end on May 29, when elected President Olusegun Obasanjo, a former military ruler, took office with a promise to bring the politicized forces to heel. Within a month, Obasanjo sacked 150 officers who held political jobs under previous military regimes, which dragged Africa's most populous nation through years of corruption and economic decline and made it an international pariah. Given its dire economic straits, Nigeria's first elected government for 15 years has been forced to try and cut spending to the bone wherever possible and won praise from international financial agencies for doing so. But at the same time reforming the military, which has ruled for all but 10 years since independence, was always going to be a sensitive task because of the perpetual risk it might retaliate if it felt pushed to the wall. "Nigeria is not going to war with anybody, we are friendly with our neighbours, so what are we doing with 80,000 soldiers?" said Abraham Adesanya, a veteran opponent of military rule. "But I think if they are releasing so many they should find work for them to do, otherwise they will be releasing armed robbers into the society because these are people trained in the use of weapons," he told Reuters. Nigerian troops form the backbone of the 15,000 strong ECOMOG peacekeeping force in Sierra Leone, and Obasanjo has made no secret of his intention to withdraw them as soon as possible after rival factions signed a peace deal last month. "It is not in our long-term interest because of its enormous cost to our national economy, more so as there are other competing needs for those resources at home," said Danjuma. Nigeria's army numbered just 10,000 at independence from Britain in 1960 but swelled to 250,000 at the end of the civil war in 1970. Danjuma said the United States was working with officials of the Defense Ministry to prepare training programmes to make the forces more efficient. Danjuma, a former general who was Obasanjo's army chief during the 1970s, has recently been dogged by media reports that he has been unwell and intended to resign. This has been denied by official sources.

*From Reuters, 18 August 1999*

### SIERRA LEONE MINISTER SACKED, THEN ARRESTED

Sierra Leone's Agriculture Minister Harry Will and two senior aides have been sacked and arrested in connection with corruption charges, a presidential statement said on Monday. "President Ahmad Tejan Kabbah has taken this decision notwithstanding the fact that he believes that Dr. Will is one of Sierra Leone's best agriculturists," the statement said. It said the arrest of the minister and the two officials was part of Kabbah's drive against corruption in the war-ravaged West African country. The precise allegations against the minister and his aides were not detailed but senior officials said they related to misappropriation of foreign aid money.

*From Reuters, 24 August 1999*

### ALGERIA'S BOUTEFLIKA SACKS HALF OF LOCAL GOVERNORS

President Abdelaziz Bouteflika has sacked nearly half of Algeria's provincial governors to curb corruption and complacency among civil servants, state-run media reported on Monday. Sunday's major shake-up of local administration came just days before Bouteflika is to kick off a nationwide campaign for the September 16 referendum on a peace deal with Moslem rebels. A statement from the president's office, quoted by the official media, said 16 governors had been "sacked and prohibited from holding public office." "Four governors were also sacked and placed on special leave, two governors were pensioned off, while 25 governors have been confirmed in their functions, and 22 new governors have been appointed," the statement added. The statement said the dismissals were the first of a series to come. Bouteflika has pledged to cure the North African country's political and economic woes. It was not immediately clear if Bouteflika planned to take legal action against any of those sacked. "The president deemed it fit for now to content himself just with administrative measures to curtail corruption and laissez-faire. For now he has avoided resorting to judicial trials and their consequences," the presidential statement said. "Regarding the newly appointed officials, they must fully realize that there will be a strict, objective assessment of the quality of their services," it added. Bouteflika was elected in April's one-man presidential race after the withdrawal of all his opposition rivals amid charges of ballot-rigging by the influential military. He says his first priority is to restore peace in Algeria, where 100,000 have been killed in more than seven years of violence that followed the decision by the army-led authorities to cancel a 1992 presidential election in which radical Islamists held a commanding lead. Rebel members of the Armed Islamic Group (GIA) and the Da'wa wal Jihad group oppose the peace deal now agreed between the Government and the more moderate Islamic Salvation Army (AIS). Algerian politicians said they expected more decisions after the referendum when Bouteflika sets up a new Government to replace the cabinet of caretaker Prime Minister

Smail Hamdani. They said that most of the previous contingent of governors had been appointed by Bouteflika's predecessor Liamine Zeroul who last year ended his five-year term 21 months early after a clash with influential army generals. "This is a very important move. It was expected, but not on such a large scale," one politician said.

*From Reuters, 24 August 1999*

## ASIA/PACIFIC

### SINGAPORE EX-CIVIL SERVANT SEEN AS NEXT PRESIDENT

A government-backed former civil servant is set to become Singapore's next president after emerging on Tuesday as the sole candidate for the hotly debated office. S.R. Nathan, a former ambassador to the United States and once head of Singapore's Internal Security Department, was certified by a presidential elections committee as the only candidate eligible to contest elections due on August 28. Nathan's eligibility was approved and that of two other candidates rejected, in the wake of unexpectedly open criticism of the Government by incumbent, Ong Teng Cheong, who became Singapore's first elected president in September 1993. Ong's outburst sparked a lengthy debate on the role of the president in the local media, culminating in Senior Minister Lee Kuan Yew declaring that the position was mostly ceremonial. Lee, who was Singapore's Prime Minister for 31 years until his 1990 retirement, had first mooted the idea of creating the role of elected president in the 1980s. In Parliament on Tuesday, his successor, Prime Minister Goh Chok Tong, said the laws were clear that executive power rested in his office, while the president had custodial powers over use of past reserves and the appointment of key public servants. Ong, at a July 16 news conference announcing his retirement after his six-year term in office, said he had faced a "long list" of problems in trying to fulfil his constitutional role. Goh said the president's comments implied that the Government had been unhelpful and uncooperative, seen the checks as a nuisance, withheld information, and disregarded the independent views of the president causing him not seek a second term. "The tone of the president's comments puzzled me....I did not expect him to cast doubts on the Government, that it was unwilling or reluctant to give him full access to all information and documents for him to discharge his constitutional duties," Goh said, outlining the Government response to Ong's criticisms. Goh said the Government had to respond so as to guard its honour and integrity: "If there are doubts over its probity, the Government cannot command respect and would lose its moral authority to govern," he said. He added that Singapore was still trying to grapple with the system of a custodial president. "It is still running and may well need further fine-tuning to make it workable," he told Parliament. Singapore has made four constitutional amendments regarding the presidential office since it was created. The Government recently published a white paper to set out the working relationship between itself and the president.

*From Reuters, 17 August 1999*

### VIETNAM PARTY TO TRIM ADMINISTRATION, RAISE WAGES

Vietnam has pledged to trim the country's bloated bureaucracy over the next two years by streamlining ministries, state agencies and the court system, official media reported on Tuesday. All newspapers carried a statement from the ruling Communist Party that said the aim of the administrative reforms, which would include laying off some bureaucrats, was to strengthen the party's leading role in Vietnam. The statement gave no clear details about which ministries or state agencies would be streamlined, and whether this meant some would be abolished or merged. Diplomats and government sources have said a key pillar of the moves might be to merge the powerful Planning and Investment Ministry with the Finance Ministry. The statement also gave no details about the number of bureaucrats -- who currently number a few million -- who would lose their jobs. Foreign donors regularly urge Hanoi to tackle administrative reform, saying bureaucracy, corruption and vague regulations have become a big obstacle to foreign investment. "The strengthening of the organization and apparatus of the political system is aimed at maintaining and strengthening the leading role of the party and the revolutionary nature of the state," the statement said. The statement was issued after a weeklong plenum of the party's 170-member central committee that finished on Monday. It said the reforms should take place before the party's ninth congress at the end of the first quarter of 2001. A party congress, which takes place every five years, is the key event on Vietnam's political landscape and sets the political and economic tone for the subsequent period. The plenum, which was closed to foreign media, also decided to raise wages of bureaucrats who did not lose their jobs to bring pay packets more in line with Vietnam's cost of living. Under Vietnam's arcane political system, the Government is responsible for day-to-day management of the country, but party members hold all key posts and major decisions are approved by the elite party politburo or central committee. All officials on the 19-member politburo sit on the central committee, which generally holds a plenum around every six months. Ultimate power rests with the politburo. Diplomats said Hanoi should quickly announce which parts of the Government would be affected by the streamlining to prevent the capital's rumour mill from going into overdrive. Speculation about leadership changes among key economic posts has also swirled since late last year, although the plenum statement made no reference to any planned moves. Diplomats expect Deputy Prime Minister Nguyen Tan Dung to soon step down as governor of the central bank and be replaced by Le Duc Thuy, the current permanent deputy governor. Dung was appointed governor in May last year, a post officials have always said would be temporary.

*From Reuters, 17 August 1999*

### CROOKS CAN'T ESCAPE GUANGDONG CORRUPTION CRACKDOWN

China's Guangdong Province has stepped up efforts in its war on corruption, with the number of county-level-or-above cases rising nearly 79%, on year, since the beginning of the year, the August 20 Hua Sheng Bao (Hua Sheng Overseas Chinese Newspaper) reported. Xu Tianxiang, head of the province's Anti-Corruption Bureau, said the bureau received 2,177 reports of corruption since January. Of these reports, 906 were filed and investigated by authorities, Xu said. These cases involved some 1,207 people, including 125 officials above the county level, an increase of 78.6% on year. The total amount of illicit money and bribes in these cases was estimated at RMB 118 million (US\$14.25 million). Throughout China, according to official audits, RMB 117.4 billion (US\$14.20 billion) of Government allocated funds were diverted, misappropriated, squandered, or simply pocketed during the first half of 1999. According to Xu, from January to July, Guangdong's anti-corruption authorities investigated 572 major cases that involved bribes greater than RMB 50,000 (US\$6,040) and embezzled funds more than RMB 100,000 (US\$12,080). These major cases made up 63.1% of the bureau's cases so far this year. Of these major cases, 343 were suspected to involve sums between RMB 100,000-1,000,000 (US\$12,080-120,802), and another 70 cases involved sums over RMB 1 million (US\$120,802). Of the 125 officials above the county level charged with corruption, 13 are at the provincial government's departmental level, Xu said. The province's Anti-Corruption Bureau was founded in August 1989, the first such group of corruption fighters ever assembled in China, the newspaper reported. During the past decade, Xu said the bureau has investigated over 20,000 corruption cases involving some 24,000 people. A total of RMB 2.36 billion (US\$285.09 million) of illicit money and bribes has been recovered during this time period, Xu said.

*From China Online, 23 August 1999*

## **MONGOLIA STARTS FIRST TOP-LEVEL CORRUPTION TRIAL**

Mongolia's first major corruption trial began on Wednesday with three legislators from the ruling Democratic Union coalition and a leading member of the opposition charged over a casino tender. "The court hearing has started and all of the charged are present," a court spokeswoman said. She declined to give further details. "All of the charged are in court in connection with corruption, either as parties giving, delivering or receiving bribes," said Davaadorj of the Ulan Bator prosecutor's office. The four men, being tried with two others, face up to 15 years in jail if found guilty. The three lawmakers accused of corruption, D. Enkhbaatar, D. Battulga and S. Batchuluun, were suspended from parliament, losing their immunity from an investigation into the award of a casino tender last year. B. Enkhmandakh, a leading member of the opposition Mongolian People's Revolutionary Party, was charged later in connection with the case. They have all denied the charges. The casino's Mongolian deputy director, L. Baigal, and a former lawyer of one of the legislators are on trial with them. A year ago, a Mongolian-Macau joint venture called MonMacau won a tender for a license to operate a casino in Ulan Bator for 10 years. A German-run casino, which had started to operate before a casino law came into effect, was ordered to close. In January, parliament scrapped the law allowing casinos and a month later police detained and charged Baigal in connection with a corruption investigation surrounding the tender. MonMacau says it has already invested \$13.7 million in the casino, housed in Ulan Bator's largest hotel. It had aimed to lure high spenders from Hong Kong and Singapore for gambling holidays.

*From Reuters, 26 August 1999*

## **EUROPE**

### **TURKEY'S PARLIAMENT PASSES NEW TAX LAW**

Turkey's parliament on Wednesday passed a new tax law, approving changes eagerly sought by financial markets and industries hit by an economic slowdown. The changes affect many aspects of Turkey's tax and credit systems, extending deadlines and easing terms to help companies recover from a sharp slowdown that has led to job losses and debt payment difficulties in many sectors. Turkish gross national product (GNP) dived 8.4 percent year-on-year in the first quarter. The slowdown stems from financial crises abroad last year. Under article three of the new tax law, an obligation to declare interest earnings on repos, bank deposits and mutual funds is abolished between January 1, 1999 and December 31, 2002. Another article raises to six monthly intervals a quarterly tax declaration and payment requirement on earnings from financial assets, which was introduced last July. Analysts say, however, that money market players are concerned that a withholding tax on repos could be raised to make up for the tax revenue losses in the budget. Finance Minister Sumer Oral has signalled such a hike in taxes could be in the offing. Currently the withholding tax on repos transactions is six percent and that on deposits 12 percent. Turkey's tax system was overhauled in a major reform last year but the Government had faced pressure for change as the economy slowed sharply from last year.

*From Reuters, 11 August 1999*

### **SCHROEDER AND EICHEL SAY NO TO MORE TAX REFORMS**

German Chancellor Gerhard Schroeder and Finance Minister Hans Eichel are not interested in joining the recent tax reform debate, despite calls from within their party to do so, a Government spokeswoman said on Monday. After weeks of public discussion sparked by parliamentary leader of Schroeder's Social Democrats, Peter Struck, about simplifying and reducing the tax bands, it seems his ideas do not have the backing of either Schroeder or Eichel. Government spokeswoman Charima Reinhardt told a news conference that Eichel had no plans to discuss Struck's tax reform proposal, which calls for a three-tier system of 15 percent, 25 percent and 35 percent. At present the top rate is 48.5 percent. "That is also the Chancellor's position on the matter," Reinhardt

said. "In any case, Mr. Struck had not discussed his initiative beforehand (with the Government)." Eichel said on Saturday that the Government's priority was to complete his stringent spending curbs before turning its attention to further tax reforms. With parliament on its summer break and Schroeder on holiday in Tuscany, the tax reform debate has topped domestic news and drawn comments from all the major parties as well as a proposal for all-party talks on the matter. Struck found unusual allies for his proposal. The country's main opposition party, the Christian Democrats, and the Liberal party all welcomed the proposal to lower the top tax rate. In addition, inheritance tax changes were also hotly debated with a leader of Schroeder's junior coalition partners, the Greens, urging reforms. Antje Radcke told the Rheinischen Post that reforms should be used to even out social differences, hitting "those for whom everything falls into their lap without having to work for it." However, CDU finance expert Friedrich Merz said raising inheritance tax was "madness" and would hurt mid-sized firms.

*From Reuters, 10 August 1999*

## **SURVIVORS FURIOUS OVER DEATH TOLL BUILDERS' GREED, CORRUPTION CITED**

Shoddy construction and municipal corruption were major reasons for the soaring death toll from Turkey's disastrous earthquake, survivors charged yesterday. The Turkish media and independent analysts joined the chorus of angry reaction to the destruction wreaked by the quake, which levelled hundreds of buildings and left a death toll passing 4,000. They also criticized the slow pace of rescue efforts, the lack of proper rescue equipment, and the failure of Turkish authorities to respond to earlier warnings about earthquake dangers. Jeweller Servet Demir said that a local businessman had erected five buildings in his Istanbul neighbourhood and that all five collapsed in Tuesday's earthquake. Some buildings were almost new, yet they fell apart, while older nearby buildings were left intact. He pointed to his own jewelry shop, now a pile of rubble after the collapse of an apartment block. "The supporting rods were very thin. The material is very bad. It was all done with bribes. There was no control by the municipality." Rural Turks by the millions have poured into cities looking for work in recent years, enabling contractors to make a killing by throwing up slapdash, concrete-and-cinderblock apartment buildings to house them. When the quake hit in the predawn hours Tuesday, many of the never-inspected blocks pancaked into the ground, crushing thousands as they slept. Yesterday, Prime Minister Bulent Ecevit promised a crackdown on unscrupulous builders, telling reporters: "The price for irresponsible behaviour is very high for our people. We shall take measures against it." Turkish newspapers said the high death toll was not merely a natural disaster. A smaller earthquake in 1996 had led to warnings that were ignored, they said. Murderers! Read a big front-page headline in the daily Hurriyet newspaper, blaming construction companies for negligent and slipshod methods. "Again unsound buildings," it said. "Again thieving and unscrupulous contractors. Those who did not listen to the warnings are responsible for the disaster." Two other newspapers said the Turkish municipal authorities had been warned in 1996 and 1997 that they were vulnerable to an earthquake, but they ignored the warnings. Under the headline The Report That Was Hidden, the Milliyet newspaper said a Turkish state mining institute had commissioned an earthquake study from a Japanese agency in 1996. This report had raised alarm bells about a fault line in exactly the same region of northwestern Turkey that was struck Tuesday, and it warned that every town in the region could be in danger. The report was sent to all local municipal leaders by the Turkish ambassador in Tokyo, but nothing was done, the paper said. Speaking on condition of anonymity, a prominent Turkish banker said the allegations were true. "We all knew this is an earthquake belt, and we should be extra cautious," the banker said in an interview. "But are we? No. There have been warnings and warnings and warnings. This was not a surprise, and we should have been prepared." The veteran Istanbul-based merchant banker, a former privatization adviser to the Turkish Government, said it is well known that bribery is "widespread" in issuing of municipal building permits. "Everything comes down to a corrupt political system. They're so corrupt they can get away with murder. And that's what's happening today -- murder. We have building codes, but they are not enforced. You just pay off officials and it gets done. It creates time bombs in the middle of the city." Novice engineers are another problem, he said. "They can authorize an entire building with one signature. This could be a kid fresh out of school." After the earthquake, according to survivors, the Government's rescue efforts were inadequate. "They were late to act," said factory worker Nazni Corak, 39. "The quake happened at 3 a.m., but they didn't begin working until 7 or 8 a.m. If they had taken precautions, would this have happened? Some people could have been saved. But there weren't enough trained people, and they didn't have enough equipment."

*From the Global and Mail, 19 August 1999*

## **ALBANIA PREMIER ADOPTS MEASURES TO CURB SMUGGLING AND CORRUPTION**

Albania's Prime Minister Pandeli Majko signed on Saturday three Government orders in an effort to curb smuggling and corruption in the customs offices, as well as deter the abuse of power by top government officials and MP's. Majko has authorized the Ministry of Finance to ensure a thorough check of all staff and leading officials in the General Customs and Tax Departments, the government agencies securing the majority of the state's revenues, with the aim of stopping the rampant corruption and other illegal activities, and boost their efficiency in collecting revenue, government sources said. The Premier has also instructed law-enforcement agencies, including the Albanian Interpol and intelligence agency, SHIK, to carry out investigations and guard against the abuse of power and illegal sources of income by top officials. In addition, the Finance Ministry is instructed to verify the source and destination of all goods passing through the customs points and send monthly reports directly to the office of the Prime Minister and the state commission on the declaration of properties of senior government officials. The agencies will offer finance officials any information on suspicious links involving clashes of interest by officials in the customs department. The Finance Ministry will also completely screen before Sept. 30 all personal property and revenue of all customs and tax officials, as well as that of their close relatives. Majko also ordered a re-examination of all disciplinary measures to be taken against guilty customs department staff

within the year and the punishment of all violations. In a separate decree signed by the prime minister, all government officials, parliamentarians and other state officials will be subject to controls at customs points on re-entering Albania from visits abroad. The measure follows allegations of the involvement of certain senior government officials in using their standing in office to help goods enter the country without dues and tariffs being paid. Also under scrutiny will be the source of incomes registered in the name of senior state officials and parliamentarians. Special agencies will confirm the payment of tax obligations by all state officials running businesses.

*From Albania Daily News, 24 August 1999*

## **POLES DISSATISFIED WITH GOVERNMENT REFORMS**

Most Poles dislike sweeping reforms introduced by the increasingly unpopular central-right Government, an opinion poll showed on Tuesday. The Government's four flagship reforms -- in health, administration, social security and education -- were meant to sweep away the remains of the pre-1989 communist system. However, an August poll by private agency Demoskop showed Poles thought them ill prepared. The survey indicated 80 percent of Poles were critical of the healthcare reform, which has introduced elements of a free market to the communist-era, free-of-charge medical system. Only nine percent supported the health reform begun at the start of the year. Uncertainty over healthcare is seen as a major reason for a plunge in the Government's popularity. Last week a poll by public CBOS agency indicated that combined support for the coalition's right-leaning Solidarity bloc and pro-business Freedom Union fell to 25 percent in August from 38 percent in July. The opposition Democratic Left Alliance (SLD), grouping many former communists, saw its popularity soar to 34 percent from 22 percent, the poll showed. Farmers' protests over falling food prices have also boosted opposition support, analysts say. Reforms of Poland's administrative system, which gave more powers to local government, were criticized by 44 percent of those surveyed and praised by 33 percent. The social security reform, creating private pension funds, was disliked by 42 percent and supported by 28 percent. Poles also criticized the education system reform, even though it will only take effect from September 1. Of those who knew about the reform, more than 50 percent were dissatisfied. Eighteen percent backed the reform, said Demoskop. The opposition has urged the 22-month-old government to step down and allow early elections. A general election is not due until late in 2001. Prime Minister Jerzy Buzek has said his cabinet is paying the price for years of delay in tough but necessary reforms, which the previous ex-communist-led government failed to implement for fear of losing popularity. Buzek has pledged to focus on making the reforms work better during his last two years in office.

*From Reuters, 24 August 1999*

## **MIDDLE EAST**

### **KHATAMI URGES IRAN CLERICS TO TOLERATE OTHER VIEWS**

Iran's moderate President Mohammad Khatami on Sunday called on the clergy to tolerate opposing views, as part of attempts to garner support for his promised "civil society." Khatami said the time had come to demonstrate Islam's merits by embracing different points of view. "I believe in showing tolerance for other views," state television quoted the president as saying. "There is nothing wrong about (other) currents and dispositions having their own platforms, newspapers and magazines to speak their views," he told the leaders of Islamic Propagation Office at theological school in the holy city of Qom. "The Islamic republic can incorporate many ideas existing in society in its own," he said. The Islamic Propagation office is a conservative organization charged with spreading the Islamic republic's revolutionary ideas. It is involved in research and dispatches clerics throughout the country and abroad to provide religious education. Khatami also urged the old guard in traditional clerical institutions to be tolerant of the younger generation of religious students. "We should welcome the (new) thoughts of the young generation in theological schools. In an open atmosphere, all the subjects can be discussed," he said. Khatami, himself a mid-ranking Shiite Moslem cleric, has accelerated efforts to justify his new ideas for Iran in the wake of last month's street riots, used by hard-liners as a pretext to hinder the president's social and political reform towards a "civil society." Last week, he warned his conservative critics in the clerical establishment not to invoke religion for factional political advantage. He said Iran was suffering from an historic identity crisis that had blinded it to those attributes of the West that could be best applied to the needs of the Islamic republic.

*From Reuters, 15 August 1999*

### **KHATAMI VOWS TO REFORM IRAN'S "SEDATE" BUREAUCRACY**

Iran's President Mohammad Khatami pledged on Thursday to shake up the country's "sedate" bureaucracy as part of his five-year reform plan to revive Iran's flagging economy. "Bureaucratic management in our country is in need of a breakthrough. The invaluable services of our public servants and administrators are going to waste. We must take this leap," he said. Khatami's comments, made to a group of civil servants to mark "Government Week," were broadcast on state radio. The Government uses the annual event to highlight economic progress in Iran, which is grappling with recession, inflation and unemployment. "We are not getting results in proportion to the hard work our employees put in. Our enthusiastic and hardworking administrators are locked in a sedate, inert, sluggish and overlapping bureaucratic system," he said. The moderate president said his Government was determined to reduce the size of the administration and transfer many of its responsibilities to the private sector. "Our system, either by mistake or due to historical necessity, has taken over many administrative responsibilities, something it should not have done. This should gradually change," he said. "We are determined to get people involved as much as possible and to transfer responsibly

to them. The Government will not get any weaker from a reduction in its size. It will get stronger," he added. Iran nationalized much of its industry and business after the 1979 Islamic revolution as part of a drive to ensure social equity. But many state firms have since gone bankrupt or performed at a fraction of their capacity, mainly due to poor management. After the end of the 1980-1988 war against Iraq, the Islamic republic launched its first five-year economic development plan which involved selling off some state-owned firms, but the move was undermined by charges of cronyism. Over 80 percent of business and industry in Iran remain in government hands. Khatami's Government has again taken up the task of privatization, imposing tighter regulations. Around 4,000 state firms, many of them loss making, have been put up for sale or dissolution. The move is part of the Government's third five-year development plan, beginning in March 2000, which also calls for greater foreign investment, reducing red tape and dependence on oil by boosting exports. The president said the present bureaucratic structure was not in tune with the changes taking place in Iran on political and cultural fronts. He also pledged his Government would work to raise wages and living standards of civil servants, which he said were too low. The average government worker in Iran makes around \$50 a month, but the Government tries to make up for the discrepancy through heavy subsidies on essential goods like bread, medicine and fuel, which eats away a chunk of the annual budget.

*From Reuters, 26 August 1999*

## THE AMERICAS

### VENEZUELA COURT HEAD QUILTS

The head of Venezuela's Supreme Court resigned Tuesday arguing that the court had "committed suicide" by caving in to President Hugo Chavez's moves to attack corruption in the judicial sector. Cecilia Sosa is the latest public official to clash with the former paratrooper's reforms, which are strongly backed by most of the South American country's 23 million people. "I cannot form a part of a fictitious Supreme Court," said Sosa, in a statement read to reporters outlining the reasons for her resignation after three years as head of the top legal body in the world's No. 3 oil exporter. The opposition-controlled Congress, which had taken an early recess to avoid clashing with a powerful Constitutional Assembly packed with Chavez's supporters, said it would return for extraordinary sessions Friday to discuss Sosa's resignation. Fresh congressional sessions are likely to anger Chavez, who has warned his political opponents not to obstruct the Constitutional Assembly which has been given six months to rewrite Venezuela's constitution. Elected on a fiercely anti-establishment platform that promised to "revolutionize" one of Latin America's longest standing democracies, Chavez has embarked on a radical shake-up of public institutions since he took office in February. His insistence that the Constitutional Assembly is the most powerful body in the land has angered opponents and alarmed investors who fear that he may use it to carry out a witch hunt of his political foes. Sosa, who has been a Supreme Court judge since 1989, objected to the assembly's decision to create an emergency commission with the power to sack lower court and Supreme Court judges. The Supreme Court's 15 magistrates voted by a slim majority Monday to collaborate with the commission's work to root out corrupt judges and reduce a huge backlog of cases. "Quite simply, the Venezuelan Supreme Court committed suicide to avoid being assassinated. The result is the same. It is dead," Sosa said. "The last control of constitutionality and legality in Venezuela has disappeared. Only the Constitutional Assembly remains," she added. Supporters of Chavez, who burst to fame as leader of a failed 1992 coup, played down the importance of Sosa's resignation, pointing out that her tenure of the Supreme Court presidency officially expired last year. "She (Sosa) knows very well that one of the most questioned powers in the country is the judicial system which has been questioned from the janitors to the Supreme Court," said Constitutional Assembly President Luis Miquilena. The assembly, which has already taken over use of the Congress building in Caracas, plans to issue a decree later this week limiting Congress' powers to administrative duties and the approval of certain laws such as next year's budget. But opposition politicians, whose parties have been decimated by Chavez's overwhelming popularity, vowed not to succumb meekly. "If this Congress is going to be closed then they'll have to come through the front door...Let the army come in and throw us out of our seats," said Pedro Tabata, faction head of the social democrat Democratic Action party. While some Supreme Court magistrates were also rumored to be planning to resign, others insisted that the court was not threatened by Chavez's reforms. "The court has not been dissolved," Ivan Rincon, second vice-president of the Supreme Court told reporters. "We've got hundreds of cases and we're going to keep working on them."

*From Reuters, 25 August 1999*

# Civil Services & Ethics in Public Sector

## AFRICA

### KENYA'S LEAKEY UNDAUNTED BY HUGE TASK OF REFORM

Famed conservationist and newly appointed head of Kenya's civil service, Richard Leakey, said Monday he was confident of wiping out corruption and inefficiency in government because he had the full support of the president. "There is a fairly gigantic task ahead of us if we are going to restore confidence in the public service," Leakey told his first news conference since his appointment Friday. "(But) I believe I have the support to do what needs to be done." The famed paleontologist turned conservationist has been given a mandate by President Daniel Arap Moi "to change the culture of corruption and inefficiency in our public service." It is a mandate which will be supported by Kenya's mainly Western donors, who have gradually pulled out of the country or scaled back development projects in the last two years. But it is one which is sure to run into opposition from certain members of the Government who have gorged themselves for years on the fruits of corruption. Leakey said Moi had been unequivocal in delivering a message of transparency and accountability to civil service chiefs in a private address earlier Monday, and said he had confidence the president was backing him all the way. "If I hadn't believed that, I wouldn't be sitting here," he said. Leakey, a white Kenyan and former political adversary of Moi, was acclaimed for his successful efforts to combat poaching as head of the Kenya Wildlife Service (KWS) in the 1990s. He was forced out of his job at the KWS in 1994 amid accusations that he was confrontational. But after years of bitter verbal battles with Moi, who accused him of being a colonialist, Leakey was last year reappointed to run the KWS. A year later, he faces perhaps his greatest challenge -- to change the philosophy of government. "I come from a tradition where public service is one of service," he said. "We are not here to puff out our chests and beat them and demand sycophancy and fear -- we are here for service." Leakey would not be drawn on the details of what he intended to do or on whether large-scale redundancies were necessary in what many see as a hopelessly bloated civil service. But he stressed that corruption would no longer be tolerated. "It is not my intention to make a lot of promises...we need to produce results," he said. "Public officers who let us down are not going to be transferred to another place to let us down again, but will be removed."

*From Reuters, 26 July 1999*

### SOUTH AFRICA FACES A WAVE OF PUBLIC SECTOR WAGE STRIKES

South Africa faces a wave of public sector and coal miner wage strikes while a post and telecommunication workers' strike on Wednesday entered its third day with no resolution in sight. Twelve unions representing the 1.1 million-strong public sector said they would mobilize up to 800,000 workers for a three-hour nation-wide march next Tuesday to protest against the Government's handling of failed wage negotiations. "We are expecting 700,000-800,000 members on the streets nationally," Gavin Moultrie, president of the Hospital Personnel Trade Union of South Africa, told a joint news conference in Cape Town. A spokesman for the Public Servants Association said unions were irate with the Government for unilaterally implementing an average 6.3 percent wage increase for 85 percent of the civil service. Unions demand for an inflation-linked 7.3 percent hike with an extra percent for teachers. "We take extreme exception to the unilateral action taken by Government. It's reminiscent of the previous regime... even in the face of such bad faith the unions remain committed to negotiations," said the PSA's Koos Kruger. The 1.8 million-member Congress of South African Trade Unions (COSATU) said it supported the public sector union in their actions challenging President Thabo Mbeki's two-month-old government, but fell short of committing the federation to a sympathy strike. "COSATU can simply not afford for his precedent to be set... COSATU also cannot afford a defeat of the public sector workers who make up nearly one third of our members," said COSATU acting President Peter Malepe. "This national congress must discuss the public sector dispute and make interventions that will push the balance of forces in favour of the workers," he told a special post-election meeting of COSATU in Johannesburg. Public Services and Administration Minister Geraldine Fraser-Moleketi said the Government's offer was final and proposed that parliamentarians award themselves a four percent salary increase to put the Government beyond criticism. She told parliament that about 60 percent of workers would fall within the range of core inflation and that predictions for consumer inflation by year-end would average 6.2 percent. Meanwhile, 17,000 of Telkom's 59,000 workforce and 7,000 out of 26,000 post office workers staged a third day of strikes to push for wage demands. The COSATU-aligned Commercial Workers Union (CWU) held talks with Telkom on Tuesday, but it rejected a 5.5 percent offer by the partially privatized utility which promptly withdrew its 0.5 percent addition and reverted to five percent. The CWU has yet to hold talks with the post office. The union is demanding increases of 11-14 percent for Telkom employees and 10-14 percent for postal workers. The predominantly white Association of Telkom Unions will bring their 17,000 members out on strike from Thursday. Up to 20,000 miners are expected to strike on Friday at Amcoal and Ingwe coal mines, which offered 7.5 percent increases in each year of a two-year deal, but the National Union of Mineworkers wants a nine percent hike in each year.

*From Reuters, 18 August 1999*

### ZIMBABWE MINISTERS' SALARIES HIKED 182 PERCENT

Zimbabwean President Robert Mugabe has awarded ministers in his cash-strapped Government a 182 percent salary hike, a private weekly paper reported on Thursday. The Financial Gazette quoted unnamed sources as saying Acting Finance Minister Emmerson Mnangagwa had disclosed the new salary structure, expected to be gazetted within two weeks, at Tuesday's weekly cabinet meeting. "It was announced that ministers' salaries will rise from the current Z\$213,000 (U.S.\$5,620) a year to Z\$600,000 and President Mugabe has endorsed the package," one source told the paper, adding that housing and general allowances, currently at Z\$40,000 and Z\$22,000 respectively, would rise by 50 percent. Mnangagwa was not immediately available for comment on Thursday. Zimbabwe's business sector has urged Mugabe to cut the number of Government ministries from 24 to 16 and to abolish all deputy ministerial posts in order to cut the state wage bill which eats up 14.5 percent of gross domestic product. In June the Government awarded its 164,000-strong civil service a total 17 percent salary hike after the workers had gone on strike demanding a 20 percent adjustment, citing the escalating cost of living.

*From Reuters, 19 August 1999*

## **PUBLIC STRIKE SOUTH AFRICA'S BIGGEST**

The public sector wage dispute is highlighting growing strains in the alliance between the ANC and trade unions. South Africa was hit by the largest strike in its history on Tuesday as hundreds of thousands of public sector workers stayed away to protest at the Government's unilateral imposition of a below-inflation pay rise. White teachers joined black prison warders in a stoppage that shut the bulk of schools, forced the Government to bus in emergency staff to run Pretoria central prison, and ground many government departments to a halt. Surgeons were unable to perform routine operations at Johannesburg's main hospital after many nurses stayed away. But emergency medical and police services were largely unaffected after the unions told essential workers to report for duty. Yesterday's strike was the most widely supported of a series of one-day stoppages, amid growing anger at the Government's decision to impose an average 6.3% increase on more than one million state workers after weeks of failed pay negotiations. The unions are asking for 7.3% for most civil servants. The protest is also the stiffest test yet of the alliance between the ruling African National Congress, the trade union confederation Cosatu, and the SA Communist Party, which has become increasingly strained by the Government's conservative economic strategy. Tens of thousands of civil servants marched through Pretoria in a demonstration that stretched for nearly 3km. Protesters carried placards proclaiming: "You can't stop corruption with low pay", and "Don't make us emigrate". There were similar marches in Cape Town, where protesters handed memoranda to cabinet ministers, and in other cities after all 12 public service unions called out their members for the first time. The strike organizer, Paddy Padayachee, accused President Thabo Mbeki of using strong-arm tactics against the unions. "If we let this go, the Government may follow similar bully tactics in future negotiations on issues like redundancies," he said. But the minister in the president's office, Essop Pahad, defended the decision. "The Government feels it has put its money on the table. In its view there wasn't more money available," he said. Some union leaders privately accuse Mbeki of taking a hard line on public sector pay to impress upon foreign governments and investors that he has distanced himself from the ANC's more militant allies and is serious about a tight fiscal policy. But Pahad denied that the close relationship between the ANC and the unions is near breaking point. "I think there's always an inherent level of tension between the trade union movement and political parties in government, because they have to do different things," he said. "The question is, do we have the capacity to manage those tensions? I think so." Police fired tear gas in the centre of Johannesburg after school pupils rioted during their own demonstration, this time to protest against their teachers joining the stayaway. Pupils in the townships are demanding separate matric exams from the formerly whites-only areas, because the townships have been worst hit by the strikes. Can anyone win the current public service wage dispute? Should Government and civil servants be working together to trim the size of the public service? What do you think?

*From Daily Mail and Guardian, 25 August 1999*

## **ASIA/PACIFIC**

### **CRICKET - PAKISTAN OFFICIALS COMPLAIN OF "IMMORAL" CONDUCT**

The Pakistan Government's anti-corruption bureau said on Sunday it had gathered evidence of "immoral" conduct by the nation's cricket players during their ill-starred appearance at the World Cup in June. Saifur Rehman, head of the Ehtesab (Accountability) Cell, told Reuters from Islamabad that the anti-corruption bureau had found evidence of undiscipline and immoral conduct by the players during the World Cup in England. "We have concrete evidence that the players were involved in immoral and unethical activities. The report is almost finalized and will be submitted to the judicial commission," Rehman said. He said a judicial commission constituted by the Government last September had asked his bureau to conduct investigations. No date has been set for the submission of its much-delayed report to President Rafiq Tarar, the patron of the Pakistan Cricket Board (PCB). Last week, Tarar suspended the PCB in the wake of Pakistan's humiliating defeat in the World Cup final against Australia at Lord's and appointed Saif Rehman's brother Mujeebur as chairman of an adhoc committee of the board. "A group of competent people closely monitored the activities of the players. A copy of the report will also be submitted to the president," Saif Rehman said. Rehman said his bureau has also found evidence that some players were living beyond their means. "Their known source income doesn't match with their lifestyle and assets," he said. Mujeebur Rehman said earlier on Sunday that Pakistan captain Wasim Akram, Salim Malik and Ijaz Ahmad would not be selected for the national side pending the completion of the judicial probe into allegations of match fixing.

*From Reuters, 25 July 1999*

## **JAPAN PASSES LAW ON ETHICS FOR PUBLIC SERVANTS**

On Monday, Japan passed into law a bill on the ethics of public servants, the country's first such legislation. The bill, which takes effect in April next year, basically bans public servants from receiving gifts and entertainment from private companies under their jurisdiction. Senior officials in the central Government will be required to report gifts or entertainment worth more than 5,000 yen (\$43), with some in higher positions required to report their stock and income transactions as well. The law was passed unanimously by the Upper House of Parliament. It follows a spate of scandals, particularly in early 1998, in which a number of government officials were arrested or reprimanded for accepting lavish wining and dining from financial institutions in return for inside information. The scandals even reached into the hallowed halls of the country's Finance Ministry and Bank of Japan. Several officials were arrested and two hanged themselves, while then-Finance Minister Hiroshi Mitsuzuka and then-Bank of Japan head Yasuo Matsuhashita were forced to resign.

*From Reuters, 9 August 1999*

## **NEW MONGOLIAN LEADER BANS DRINKING ON THE JOB**

New Mongolian Prime Minister Rinchinyamiin Amarjargal has banned drinking on the job and told officials corruption must stop if market-oriented economic reforms are to be carried out efficiently. "We aim to talk little, do much and progress much faster," he said in a weekend speech to senior officials that his office released on Monday. Amarjargal, elected on July 30 after the previous Government fell in a row over the privatization of a Russian-Mongolian copper mine, said there would be no toleration of drinking on the job in a country where heavy drinking is considered normal. "I warn strictly that there will be no compromise, no matter who has consumed alcoholic drinks while at work," he said. "If people have little or no work and have time to drink, in such cases that job must be cut out," he said. An end to corruption was equally urgent, Amarjargal said. "The Government's goal, which cannot be postponed, is to fight hard against corruption," he said. Parliament elected Amarjargal a week after former Prime Minister Janlaviin Narantsatsralt and his nine cabinet colleagues resigned after only seven months in office. It was the third Democratic Union coalition Government to fall in 15 months of political turmoil in impoverished Mongolia, which introduced democracy in 1990 after seven decades of communist rule.

*From Reuters, 9 August 1999*

## **SRI LANKAN PRESIDENT STEPS UP WAR ON CORRUPTION**

Sri Lankan President Chandrika Kumaratunga on Thursday urged citizens to directly send her complaints of corrupt activities by the country's ministers, security forces and government officials. A statement from the president's office provided two facsimile numbers to which complaints could be sent. The statement said the decision would allow citizens to speedily inform Kumaratunga of any suspicions, or knowledge, of corruption at all levels of public authority. "The above fax machines will be maintained under strict security conditions and the information received will be treated strictly confidentially," it added. The main opposition United National Party accuses the Government of failing to keep its 1994 election pledges, which included wiping out bribery and corruption. The president's office said the Government had taken steps to meet its promise to remove corruption and had "managed to limit corruption to a large extent" during the last four years. "It is unfortunate that the Bribery Commission which was set up with wide-ranging powers to investigate allegations of corruption proved to be unduly slow, completing only five investigations in a period of three and a half years..." it said. The statement said the commission had failed to successfully prosecute one case and was paralyzed by internal problems. Kumaratunga and her ruling People's Alliance coalition will face presidential and parliamentary elections due in 2000.

*From Reuters, 5 August 1999*

## **CAMBODIAN PARLIAMENT SCRAPS "IMPUNITY" LAW**

Cambodia's parliament on Tuesday approved an amendment to a much-criticized law that has effectively protected civil servants from criminal prosecution, officials said. The National Assembly voted to discard an article, which prevented the arrest of civil servants, including police and soldiers, without the approval of their ministries. The article was slammed by human rights groups as a major factor behind a climate of impunity for police, soldiers and others in power who broke the law. The new law still requires a prosecutor bringing charges against a civil servant to inform the head of the suspect's department within 72 hours of charges being filed, assembly officials said.

*From Reuters, 17 August 1999*

## **HONG KONG TAX CHIEF FIRED ON CONFLICT OF INTEREST**

Hong Kong's Government said on Thursday it had fired Wong Ho-sang as Commissioner of Inland Revenue, the highest ranking civil servant sacked since China resumed rule over the former British colony in 1997. A report by the Director of Audit revealed Wong had dealt with seven cases in which a company owned by his wife acted as the tax representative or consultant of the taxpayers concerned, the Government said in a statement. The Director of Audit could not find evidence that the due collection of public funds had been put at risk or that laws were broken in the seven cases. "However, Mr. Wong failed to report his ownership of a subscriber share in a private company, to avoid direct involvement in the cases and to avoid or report any possible conflict of

interest in accordance with the requirement of the prevailing Civil Service Regulations," the statement said. Wong said in a statement his action in the tax cases handled by his wife's company was just, he did not seek any personal gain and the Government had suffered no losses. Lam said Wong could lodge an appeal to Chief Executive Tung Chee-hwa or seek a judicial review of the Government decision. Government critics said the highly publicized case had raised misgivings about the integrity of local civil servants. In another Government officials development, the Director of Buildings, Choi Yu-leuk, was found to have used his staff to estimate the cost of removing building works on a private property he intended to buy. The Government said Choi should not have taken the action, and ordered him to repay the cost of the estimation work. Treasury Secretary Denise Yue defended Government officials. "I think the very fact that the Chief Executive has requested the Director of Audit to conduct such a thorough objective study (on Wong's case) speaks well for the integrity of the Hong Kong Government as well as for the integrity of the Inland Revenue Department," she said.

*From Reuters, 19 August 1999*

## **CHINA JAILS SENIOR OFFICIAL FOR LIFE OVER BRIBERY**

China sentenced a former provincial vice governor to life in prison on Friday for accepting 550,000 yuan (\$66,440) in bribes, Xinhua news agency reported. Xu Bingsong, former vice governor of the southern province of Guangxi, had been arrested on June 3, 1998, on suspicion of using his office to solicit bribes from 1995 to 1997, Xinhua said. A court in the provincial capital of Nanning found Xu, 56, guilty of the charges, deprived him of his political rights and confiscated cash and goods bought with the bribery money, it said. Corruption, virtually eliminated in the years after the Communists came to power in 1949, is rife and threatens the credibility of the ruling Communist Party. Last year, former Beijing Mayor Chen Xitong became the highest-ranking Chinese official ever imprisoned for corruption when a court sentenced him to 16 years in jail.

*From Reuters, 27 August, 1999*

## **EUROPE**

### **AID MINISTERS TO GEAR UP FIGHT AGAINST CORRUPTION**

Norway, Britain, Germany and the Netherlands agreed on Monday to hold an international conference to fight corruption in developing countries, saying it was one of the major challenges on the development agenda. "Corruption is stealing from the poor," Hilde Frafjord Johnson, Norwegian Development and Human Rights Minister, told Reuters by telephone. "It runs contrary to everything we do in government. It runs contrary to everything we do in development assistance and it definitely undermines our assistance to the poor," she said. Johnson was speaking after a two-day meeting in western Norway with Britain's International Development Secretary Clare Short, Dutch Development Cooperation Minister Eveline Herfkens and Germany's Minister for Overseas Development Heidemarie Wiecek-Zeulher. She said the ministers had formed a network in which each could use their influence with close partners to raise development issues higher on the political agenda. The four provide links between the European Union, the Group of Seven Industrialized Countries (G7) and the Nordic region. Johnson said that despite discussing corruption at various forums, concrete measures to fight the problem were missing. "We are still lagging behind on the operational side, for example, what kind of assistance in public sector reforms should we provide? What kind of assistance can we provide with auditing agencies?" she said. In a statement at the end of the two-day meeting, the ministers called on donor countries to improve coordination to achieve more effective assistance and to get "more development for every euro." The ministers said more resources and the setting of new priorities were needed on issues of debt relief and building on the Cologne Debt Initiative made by the G7 in June. Efforts were also needed to draw private finance into the most needy countries and to stop the decline in official development assistance from OECD countries, which stands in aggregate below the internationally accepted target of 0.7 percent of gross domestic product, the statement said. It said that developing countries also "need to get their act together" not only in combating corruption but to strengthen democracy and good governance, prevent conflicts and implement poverty reducing policies.

*From Reuters, 26 July 1999*

### **\$1 BILLION IN AID TO BOSNIA DISAPPEARS - U.S.-LED FRAUD INVESTIGATION REPORTS COLOSSAL CORRUPTION**

As much as a billion dollars has disappeared from public funds or been stolen from international aid projects through fraud carried out by the Muslim, Croatian and Serbian nationalist leaders who keep Bosnia rigidly partitioned into three ethnic enclaves, according to an exhaustive investigation by an American-led anti-fraud unit. The anti-fraud unit, set up by the Office of the High Representative, the international agency responsible for carrying out the civilian aspects of the Dayton peace agreement, has exposed so much corruption that relief aid agencies and embassies are reluctant to publicize the thefts for fear of frightening away international donors. The report names several officials linked to the governing nationalist parties as profiting from the fraud. Even though the Office of the High Representative has dismissed 15 officials or prevented them from holding office, most retain their authority. In one incident cited in the report, 10 foreign embassies and international aid agencies lost over \$20 million deposited in a Bosnian bank, but only the Swiss Embassy has publicly acknowledged its losses. The anti-fraud unit, which requires special security measures and does not publicize the names of those who work for the organization in Bosnia, is now investigating 220 cases of fraud and corruption. It documents the current cases in a 4,000-page report that has not been released to the public. Its

contents were made available to the New York Times. Organizations as diverse as the Office of the High Representative, the United Nations and the U.S. Agency for International Development, all dedicated to rebuilding the country, have lost tens of millions of dollars, the report says.

### **Critical Setback**

The widespread corruption is viewed by many as a severe setback in the long, frustrating struggle to build a democratic Bosnia, which has received \$5.1 billion in international aid since the war ended in 1995. The corruption has also played a pivotal role in driving away foreign investment, seen as the only way to free Bosnia from dependence on foreign assistance. The missing funds were supposed to have been used to rebuild roads, buildings and schools, as well as to provide municipal services in towns throughout Bosnia. Alija Izetbegovic, the Bosnian president, along with other senior nationalist leaders, has dismissed the allegations of official corruption made by the international investigators. While conceding that corruption takes place, the president disputes the scale of the charges, denying that as much as a billion dollars has been misappropriated as stated in the long and detailed report. "It would be nonsense to claim that there is no corruption, or that it is irrelevant, in a country that has just come out of the war," Izetbegovic told the local press recently, adding that Bosnia is a country "which does not have established borders, where joint institutions are still not functioning, and which has at least two armies and two police forces." The Dayton agreement called for the creation of a single state and the return of about 2 million displaced people to their homes. But Bosnia remains partitioned into three antagonistic ethnic enclaves. Serb-held Bosnia continues to operate as a separate entity. The internationally created Muslim-Croat Federation has no authority and has been unable to raise revenues. The 2 million refugees and displaced people have not gone back to their homes. And the Office of the High Representative has been reduced to promising money and aid projects to towns and cities that say they will allow some refugees to return, promises that are usually never kept. International donors say the endemic fraud is making it harder to justify continued aid levels. Without the huge infusions of money, it is unlikely that the Muslim, Croatian and Serbian enclaves will be able to continue to pay pensions and salaries and reconstruct the country. The Sarajevo Government, for instance, has asked the World Bank for loans to make its April pension payments. Tuzla, a Muslim city, is one case study of widespread corruption that infects many local governments, the report says. The report charges that \$200 million was missing from this year's budget, in addition to \$300 million missing over the last two years. Tuzla's schools were painted four times last year alone by the city government, although they were rebuilt and painted by international aid organizations as well. Tuzla officials paid two or three times the normal price for such work and sold many of the cans of paint on the local market, the auditors found. Many of the schools, meanwhile, still lack heat, and students must wear their coats to class in the winter. In the town of Sanski, most heavily damaged during the war, municipal funds are being used to build a horse-racing track, much to the consternation of aid agencies, the report said. The report charges the town's mayor, Mehmed Alagic, with 358 counts of corruption. The charges include the theft of \$450,000 in relief aid from the Government of Saudi Arabia. That money was supposed to be used to provide feed and farm equipment, but the report alleges that the mayor gave the money to his brother to start a bank. The mayor has denied the charges and accused the Office of the High Representative of mounting a campaign against him. The most sensitive case under investigation by the anti-fraud unit concerns the Bosnia and Herzegovina Bank, or BiH, in Sarajevo. The bank took in tens of millions of dollars from international agencies and 10 foreign embassies. The money, the investigators maintain, was lent to fictional businesses or given as personal loans to friends by the two owners. The bank has now collapsed. The collapse underscores a near-total failure to establish a viable banking industry. Of the some 50 banks in Bosnia, Western diplomats say, only six are solvent. The Agency for International Development, which has not made its losses public, had at least \$4 million in the BiH bank, according to Western diplomats. At least half of the \$20 million lost by international organizations deposited in the bank was to have been used for reconstruction projects, the anti-fraud investigators said in the report. "Our fear is that once the extent of the theft is known, international donors will get disgusted and walk away," said an official at the Office of the High Representative, who asked not to be identified. The rampant corruption has discouraged foreign investment.

*From New York Times, 17 August 1999*

### **BLAIR AIDES DISMISS REPORT OF PM CONTROL MOVE**

British officials on Tuesday dismissed as untrue a report that Prime Minister Tony Blair planned to increase control over Government by making top civil servants accountable for policy implementation. "It's untrue and a bit of a non-story," a spokeswoman for Blair's office told Reuters. "Cabinet Secretary Sir Richard Wilson has simply sent out a letter to permanent secretaries detailing objectives -- a normal form of management. The objectives cover things like equal opportunities and IT development and are in line with the prime minister's stated plans of modernizing the civil service". The Times led its front-page with a report that Blair planned to hold top civil servants accountable for the delivery of the ruling Labour Party's election manifesto promises. The newspaper said permanent secretaries had received letters setting out their pay for the next year and making clear that they would be held "personally responsible" for achieving targets in their departments. "The move is bound to be seized on by critics as another step towards greater politicization of the civil service," the Times said.

*From Reuters, 24 August 1999*

### **EUROPEAN COMMISSION TO TACKLE CORRUPTION**

Eil Kinnock, vice-president of the European Commission, denied accusations the body did not have the political will to tackle financial waste and corruption, although he admitted the task would not be easy. Mr. Kinnock was responding to a report by the

UK's cross-party Commons Public Accounts Committee. The report accused the commission of complacency over financial irregularities and said it was more concerned with rebutting criticism than implementing reforms. David Davis, the committee's chairman and a former Conservative Europe minister, said the commission faced a "monumental challenge" to restore public confidence.

*From Financial Times, 25 August 1999*

## **TRADE AND SERVICES DOMINATE ALBANIAN ECONOMY**

Albania's economy is oriented towards trade, which comprises more than half the total of the economic activities carried out in the country, with agriculture and industry insignificantly represented, an Institute of Statistics (INSTAT) report released late last week shows. With the establishment of a market-oriented economy in the early 90's, the former communist agriculture and industry orientated economy deteriorated with the ruining of most of the state-owned companies due to lack of funds and state subsidies. Many Albanians laid off turned to small trade as that activity produces gains more quickly and with minimum initial capital. Over 52 percent of the economic activities in Albania during 1998 were involved in trade, with a further 20 percent of the companies involved in providing services, showed INSTAT. Last year, active commercial enterprises numbered 29,392, out of a total of 56,453, maintaining a similar tendency as in 1997, when of the 59,969 companies operating in Albania, 31,264 were commercial. According to INSTAT, some 10,042 other companies have become involved in the services sector and an additional 8,199 in transport. The number of construction companies grew during the past year - 1,905 compared with 1,792 in 1997, but this still holds a small place in the Albanian economy. The increase is explained by the recent boom in construction. Only 1,242 companies were involved in agriculture, and some 5,674 in industry, during 1998 marking a fall compared to previous years. Agri-business could be considered as a losing sector, occupying only 2.2 percent of the total nationwide. Analysts maintain that the closure of the insolvent state-owned Agrarian Bank, the only remaining source of crediting for the agriculture sector, dealt a final blow to the sector. Credits are insufficient, even in other sectors of economy, with the most part of Albanian businesses using cash transactions rather than bank transfer and other facilities, showed INSTAT. The political instability in the country and the whole region in the past three years and the low development of the banking system here has forced the Albanian businessperson to resort to cash rather than bank transactions. The number of economic activities has slightly decreased this past year, with analysts mainly blaming the political situation in the country. According to INSTAT most of the companies, some 80 percent, are registered as private or small businesses. Among those classified as private, more than 80 percent are involved in commerce or services.

*From Albania Daily News, 17 August 1999*

## **MIDDLE EAST**

### **ARAFAT SETS UP COMMITTEE TO FIGHT CORRUPTION**

Palestinian President Yasser Arafat has appointed a ministerial committee to make administrative reforms called for by an international task force. Palestinian Planning and International Relations Minister Nabil Shaath said on Thursday the committee would consult with the task force in carrying out required reforms. The task force, sponsored by the U.S. Council on Foreign Relations and comprising prominent European and U.S. officials, including five former heads of state, in June laid out a plan for reforms aimed at strengthening Palestinian governance. The report said the Palestinian Authority must systematically reform its governing bodies or face possible erosion of domestic and international support. It found that unchecked executive power, a weak judiciary, secretive budgets, a bloated public sector, unaccountable administration, and competing security agencies all posed threats to effective governance and domestic legitimacy. Palestinian leaders met members of the task force on Thursday in the West Bank city of Ramallah to launch the reform process. Task Force Chairman Michel Rocard, president of the European Parliament's Committee on Development, said the task force would help the Authority implement changes but would leave it to formulate its own list of priorities. He said reforms in the embryonic Palestinian Authority, set up in 1994, would need time.

*From Reuters, 12 August 1999*

## **THE AMERICAS**

### **EDITOR FIRED AT MEDICAL REVIEW OVER ETHICS FEUD**

The owners of the highly esteemed New England Journal of Medicine have dismissed the magazine's top editor after he balked at their using the journal's prestige to sell unrelated publications and products. The Massachusetts Medical Society, which owns the New England Journal, announced in a terse statement Sunday that it would sever its relationship with Dr. Jerome Kassirer, who won high praise during his eight years as editor in chief. His tenure will not officially end for eight months, but Dr. Kassirer will go on a seven-month sabbatical beginning Sept. 1 and the journal already is searching for a replacement. The termination is sure to set off controversy in medical circles around the world, judging from the tempest surrounding the dismissal in January of the editor of the Journal of the American Medical Association. While the issues are different in the two cases, both involve questions of how medical judgments can conflict with financial and political ones at a time of crisis for America's medical establishment. "Control of the journal is slipping to the bean counters," said Dr. John Harrington, dean of Tufts Medical School, who two weeks ago resigned from the

Medical Society's Publications Committee to protest the handling of the Kassirer case. "This is a spectacular example of money beating medicine." Dr. Walter Willett, professor of epidemiology at the Harvard School of Public Health and a statistical consultant to the journal, also was concerned. "A journal that is a creation of an international medical-science community is being run essentially by a local medical society and its bureaucrats, which is troublesome," he said. The Massachusetts Medical Society's president, Dr. Jack Evjy, said in a joint statement issued with Dr. Kassirer that their differences of opinion focused on "administrative and publishing issues." The dispute over the Massachusetts Medical Society's marketing of its publications and products dates back well over a decade and mirrors one that has plagued its national counterpart, the American Medical Association. In a practice known as "branding," the society advertises its other publications for doctors and the public by saying they are produced by the "publishers of the New England Journal of Medicine." While that is technically accurate, journal editors say they resent that their hard-won trust is being used to peddle journals such as Health News and Heart Watch, whose quality and accuracy they cannot verify. The issue has heated up over the past year as the society sought to upgrade its on-line services, promote its recently purchased journal Hippocrates, and forge marketing deals with companies such as barnesandnoble.com. To society officials, that seemed like keeping up with the times. But to journal staffers, it represented a tarnishing of their publication's name. The American Medical Association encountered similar complaints two years ago in its short-lived plan to endorse humidifiers and other products made by Sunbeam Corp. Dr. Kassirer, a kidney specialist, challenged the society on branding and other issues. When those differences could not be resolved, the society decided he would have to go.

*From International Herald Tribune, 27 July 1999*

## **AMERICAN STORY ABOUT CORRUPTION IRKS POLICE**

City officials are touting the reputation of Charlotte-Mecklenburg police as a corruption-free department in the wake of a national report that suggested otherwise. "There is tremendous pride in the fact that we are as strong and as clean (a police department) as we are," city spokesperson Julie Hill said. A recent article in USA Today examined Attorney General Janet Reno's tough record of cracking down on corrupt cops. It noted her Justice Department had convicted 756 former law enforcement officers in federal court, more than any other U.S. attorney general. Tucked in the July 29 article was a figure startling to Hill and to Bob Schurmeier, interim chief of the Charlotte-Mecklenburg police: It said 21 police officers were convicted on federal corruption charges in Charlotte in the past year. That would put Charlotte ahead of New Orleans, a city known nationally for its struggles with police corruption scandals. Twenty officers were convicted in New Orleans in the last year, the article said, along with 29 in Detroit and 21 in San Antonio. However, as a check with U.S. Attorney Mark Calloway confirmed, the actual number of Charlotte-Mecklenburg police officers convicted on federal corruption charges last year was zero. In fact, many local officials including Calloway can't remember the last time a Charlotte-Mecklenburg officer was indicted in federal court. "When we were placed in that list, it certainly gave us a dubious distinction," Hill said. The department's officers have been subject to a few arrests on mostly misdemeanor state charges ranging from driving while impaired to assault on a female. But no federal convictions among Charlotte-Mecklenburg police have made news since the department formed in 1993 from the merger of the former city and county police departments. Hill has requested a correction from USA Today. Schurmeier has directed the Police Department's lawyers to investigate whether they could take legal action against the newspaper. Richard Willing, one of two reporters who wrote the article, said over the weekend that the article relied on figures in an internal memo from the Federal Bureau of Investigation. The statistic attributed to Charlotte referred to prosecutions based out of the FBI's Charlotte office, which covers the entire state of North Carolina, he said. Willing said a correction is in the works. "I didn't want to leave the impression that the figure referred to the Charlotte(-Mecklenburg) Police Department's officers," he said. Even with a correction, Schurmeier said he isn't happy. "The damage has already been done, and that disturbs me greatly," he said. To Hill, the newspaper's slip is a smear on Charlotte. "We're outraged and indignant," she said. Calloway said he can't blame Hill and Schurmeier. "If I were the Charlotte-Mecklenburg Police Department, I would be upset about it as well," he said.

*From The Charlotte Observer, 23 August 1999*

## **GLOBAL**

### **UN WORKER FIRED FOR SEX HARASSMENT IN PAKISTAN**

The United Nations Development Programme (UNDP) in Pakistan has fired a senior official for sexual harassment, a UN statement said on Friday. The statement said the official has been "separated from service" after an investigation by a disciplinary hearing in New York in June into charges first made in December 1997 by a number of women working with the UNDP in Pakistan. "The five-member disciplinary panel concluded that the staff member's conduct had created an intimidating, hostile and offensive work environment, and that it was unbecoming of an international civil servant and incompatible with continued membership of the staff," the statement said. The director of the UN Information Centre in Islamabad, Eric Falt, said the name and nationality of the person would not be released. "The United Nations enforces strict standards and is taking the lead for the promotion of women and their protection in the workplace," Falt said.

# Management Innovation & Trends

## THE AMERICAS

### CUSTOMER SERVICES COMPANY TO ADD 500 JOBS IN OKLAHOMA CITY

APAC Customer Services Inc. is hiring 500 full-time, customer service representatives at its Oklahoma City customer care center, officials said Tuesday. The Deerfield, Ill., -based provider of outsourced customer relationship management will hire 150 employees immediately and phase in an additional 350 within the next three months, spokesman Lee Tyner said. "I think it will get to about 750, but we want to under-promise and over-deliver," Tyner said. The company already has 600 employees in Oklahoma City. APAC, an acronym for All People, All Customers, handles questions from callers about insurance policies, credit card applications, balance transfers and catalog orders. Unlike a telemarketing company, no calls are made to sell a product or service. Instead, employees answer billing questions, make account changes and process other service-related transactions for clients that include major U.S. corporations, Tyner said. The company does not disclose its clientele, he said. However, accounts represent companies in energy, communications, government services, health care, financial services, retail and insurance. The company soon will begin processing pharmaceutical orders from its Oklahoma offices, Tyner said. Starting pay is \$6.50 an hour with guaranteed raises at three months, six months and one year. Employees can earn as much as \$8 in higher-paying client programs, based on availability and longevity.

*From Daily Oklahoman, 28 July 1999*

### CANADIANS SPEND BIG ON COMPUTER SERVICES

Canadians are spending billions on software and hardware and many more billions on services that help people figure out what to do with all their new technology. According to numbers compiled by International Data Corp. (Canada) Ltd., businesses and consumers spent \$15.3 billion on computer services -- which include training, desktop management and Web site design -- last year. That accounted for 46 per cent of the \$33.2 billion spent in Canada on information technology, which comprises hardware, software, and services. The Toronto-based research company projects IT-service spending will grow to \$25.6 billion, or 48 per cent of the \$53.3 billion projected to be spent on IT in 2003. "For every dollar spent on a software tool, many, many more dollars are needed for services," said Larry Smith, president of Essential Economic Corp., a company in Waterloo, Ont. that identifies markets for new technologies. "You pay for the software tool, but you have to pay people to train employees, integrate the software and manage it." IDC notes that the proliferation in computer service companies is being fueled partly by Canadian Governments, particularly the Quebec Government, which have outsourced functions at a faster rate than their U.S. counterparts. This is generally because Canadian Governments have relatively small information systems departments. The same dynamic is also at work in the private sector. E-commerce and trends such as data mining (gathering intelligence about customers) are also causing a growth in the service segment of the IT business. As more people shop on-line and gain access to more computerized information, there will be particular demand for improved customer relations management (CRM), says Michael O'Neil, general manager of IDC. "CRM is growing substantially faster than the software industry as a whole," he said, adding focus has shifted away from the installation and customization of software to improving customer relationships by automating the front office. While services have come to represent the bulk of IT spending in this country, IDC predicts the software segment will gain ground as well. Canadian businesses and consumers spent \$5.4 billion on software last year, for a 16-per-cent share of total IT spending. That is expected to increase to \$9.9 billion, or 18.6 per cent, by 2003.

*From Canada-Global & Mail, 16 August 1999*

### FLORIDA GIVES VOUCHERS TO SEND 58 YOUNGSTERS TO FIVE PRIVATE SCHOOLS

The nation's first statewide school voucher program began yesterday with 58 youngsters starting classes at four Roman Catholic schools and another private school at taxpayer expense. "I've had other children attend the public school system and right now, academically, they're having some really hard times," said Brenda McShane, whose 6-year-old daughter Brenisha started at Montessori Early School. Under a law championed by Republican Gov. Jeb Bush, students in Florida's worst public schools can get vouchers of up to \$3,389 a year to pay for a private or parochial school education. Only children in schools deemed failures by the state are eligible. So far, only two schools, both in Pensacola, have gotten a failing grade, based on student test scores. Florida has 2 million public school students. While voucher supporters declared yesterday a historic day, opponents of what the governor calls "opportunity scholarships" contend the program violates the constitutional principle of separation of church and state. Lawsuits challenging the program have been filed by the NAACP, Americans United for Separation of Church and State, teachers unions and others. Smaller voucher programs are in effect around the country in such places as Milwaukee and Cleveland. "Why should we trap kids in schools that aren't working?" Bush asked during a visit to the two failing Pensacola schools Friday. He said the wealthy often choose to send their children to private schools, and added, "What about people in poverty?" The money for the vouchers is taken out of public education. Parents who participate do not have to pay the difference between the voucher amount and the

tuition the private schools charge. Private schools that charge more must absorb the costs. Only five private schools have agreed to take voucher students. Some administrators are afraid of lowering academic standards, and others want to see how the program works the first year. Although she is a Methodist, Mary E. Smith decided to enroll her children, first-grader Antonio Held, 7, and fifth-grader Angela Atwood, 10, at St. John the Evangelist Catholic School. "I believe if they put prayer back in school that they'll see a change," she said. Sister Mary Caplice, superintendent of Catholic schools in Pensacola, said non-Catholic children, whether on vouchers or paying tuition, must attend religion classes and Mass with the rest of the students. "We've explained all of that to the parents," she said.

*From Associated Press, 17 August 1999*

# Public Finance

## AFRICA

### **KENYA'S NEW FINANCE MINISTER TO RESTRAIN SPENDING**

Kenya's new finance minister, Chris Okemo, said on Wednesday he was committed to imposing fiscal discipline and restraining spending to help the economy out of a deep recession. "We have to check runaway public expenditure, live within our means and definitely we will turn the economy around," Okemo said at a news conference shortly after being moved from the energy ministry to take over from Francis Masakhalia at the finance ministry. Okemo, a 52-year-old economist, said his priority was to instill discipline by ensuring ministries kept within their budget. He said any ministry official guilty of irregular spending will be punished. Kenya's economy plunged into a crisis in 1997 after the International Monetary Fund suspended a loan facility, protesting at official corruption. Economic growth dropped from 4.6 percent in 1996 to 2.3 percent in 1997 and 1.8 percent last year. It is expected to be even lower this year. While some analysts wondered whether Okemo has the necessary experience to restore relations with the IMF, others noted that he has already led talks with the IMF and the World Bank on energy sector reforms and had won support for the development of hydroelectric and geothermal power. Okemo said he had no illusions about the challenges facing him but found encouragement in recent public pronouncements from President Daniel Arap Moi indicating support for any change needed to fix the economy. He said recent changes in the civil service provided an impetus to tackle overspending, corruption and the country's collapsing infrastructure. "There is a general realization that unless we tackle these problems the economy will remain in a shambles," Okemo told reporters. Last month Moi appointed several private sector technocrats to various Government posts in a bid to revamp the economy. The changes saw renowned paleontologist Dr Richard Leakey appointed as head of the reform programme. Okemo said improving Kenya's relations with foreign donors was key to improving the economy. "I will focus on microeconomic stability, stable inflation, interest rates and the exchange rate to attain stable and predictable levels that can spur economic growth," he said. Okemo joined the Government as energy minister in January 1998. He had worked for years in the oil industry before setting up private insurance and investment businesses. Masakhalia met with his replacement on Wednesday and advised him to concentrate his efforts on improving relations with donors. "It is tough to survive. You will not achieve much without external funding," he said.

*From Reuters, 18 August 1999*

## ASIA/PACIFIC

### **BEIJING BANS UNCERTIFIED TAX COLLECTORS**

To stop abuses of the tax system, China's State Administration of Taxation (SAT) has declared all tax collecting agencies not approved above the provincial level to be illegal, according to the July 22 Shanghai Zhengquan Bao (Shanghai Securities News). Such unapproved tax agencies are "banned" and "must stop operations immediately," the agency announced. This move marks the latest step in an ongoing campaign in China to reduce government corruption. Early this month, Henan Province set up an internet-based complaint centre to encourage citizens to e-mail their corruption complaints. The SAT began its crackdown on uncertified tax agencies in an effort to halt unscrupulous collectors from taking advantage of their positions to increase their personal wealth. Any agencies that are not approved above the provincial level are to have their assets "checked thoroughly," and any "illegally procured properties" are to be confiscated. With regard to "cases of a serious nature," these are to be handled by the courts so that the individuals concerned can be investigated. Any tax agencies that have close contact with tax authorities—through overlapping personnel, for example—must "disconnect" immediately and undergo "structural reform."

*From Today's China Business News, 26 July 1999*

### **REAL ESTATE TAXES TO BE REDUCED IN CHINA**

In an effort to boost consumption in the real estate sector, China will reduce or eliminate the business tax, contract tax and land value-added tax on housing transactions beginning August 1 of this year, the August 9 Zhengquan Shibao (Securities Times) reported. The business tax on housing sales will be exempt for individuals who have bought housing and lived in it for over a year. For housing sales where the purchaser lives in the home for less than a year, the business tax will be based on the difference between the original price and the selling price. When individuals purchase housing for their own use, the contract tax will be temporarily reduced by 50%. Income earned by companies and institutions from low-priced housing sales will be temporarily exempted from business tax. Sales of vacant housing will be exempt from business and contract taxes until the end of 2000. Vacant housing is defined as housing that was constructed before June 30, 1998 and which has not been sold. Housing sales made by private individuals will be temporarily exempt from value-added land taxes. The plan was enacted by the Ministry of Finance and the State Administration of Taxation and approved by the State Council.

## STATE BANK PROBLEMS PLAGUE THAI GOVERNMENT

Bad debt problems at a state-run bank have embarrassed the Government of Thai Prime Minister Chuan Leekpai and depressed sentiment in the Thai stock market. Analysts say the Government is likely to ride out accusations by the opposition of mismanagement and reckless lending practices at Krung Thai Bank (KTB.BK) while the finance minister's brother was at the helm, but the issue may delay general elections by some months. Chuan is secure within a coalition that has taken credit for Thailand's recovery from two years of severe recession and has been widely praised for a series of economic and political reforms designed to rid the country of business corruption. But the six-party coalition Government has been forced back on to the defensive and may decide to delay parliamentary polls that some pundits had expected in coming months. A general election must be held at the latest by October 2000. "I believe Chuan's partners in the coalition will still stick with him," said Karn Karuhadej, of Dresdner Kleinwort Benson in Hong Kong. "The Government can ride on some good indicators. The second quarter GDP due out late this month will likely post four percent year-on-year growth," he said. "I originally expected Chuan to call an election later this year but the KTB issue will likely prompt him to delay until early next year," he said. KTB is a good target for the opposition because it has massive non-performing loans, is more than 90 percent state-owned and was until recently run by Sirin Nimmanahaeminda, younger brother of Finance Minister Tarrin. The opposition, led by the New Aspiration Party (NAP) of former Prime Minister Chavalit Yongchaiyudh, has strongly criticized Tarrin. Sirin was KTB president and chief executive for more than seven years before he stepped down in early 1999. The opposition has exploited the leak of a damning report by auditors Pricewaterhouse Coopers last week that blamed the bank's massive bad loans on questionable past lending practices. Chuan and Tarrin on Monday denied any Government attempts to cover up Krung Thai's problems and pledged to punish any executives found guilty of causing damage to the bank. Tarrin said he was confident of the honesty and integrity of his brother, who has denied any wrongdoing. But NAP Secretary General Chaturon Chaisaeng has demanded a full independent probe of KTB's past lending practices. Krung Thai has said its non-performing loans stood at about 58 percent of total lending at the end of March. The 550-branch bank has traditionally enjoyed special status as a state-owned commercial bank with the privilege of providing banking services for government agencies and state enterprises. But analysts say its special role has sometimes been exploited by politicians who have used their influence to secure loans from the bank for projects that they sponsored. "It's not surprising that KTB got itself into political difficulties because it has obviously been used as a sort of financial dustbin for all sorts of pet projects by successive governments which have instructed KTB to lend money to projects which might not appeal to independent bankers," said Richard Henderson, director of research at Kim Eng Securities. KTB was ordered by the Government to take over nationalized First Bangkok Bank City Bank Plc (FBCB) early this year. It was also told to manage viable assets of defunct Bangkok Bank of Commerce Plc. FBCB's massive problem loans were estimated at over 80 percent of total credits. To compensate Krung Thai for the burden of bailing out the two banks, the Government has agreed to provide it with 185 billion baht of fresh capital, including 108 billion baht of funds made available this week. But analysts estimate it needs at least another 130 billion baht of equity in the next year to put it in a respectable position. "It's absolutely clear this is not the end of recapitalization for KTB. It still needs an awful lot of new equity. That fact means KTB is going to stay in the political limelight. It's going to be an issue for a long time to come," Henderson said.

From Reuters, 18 August 1999

## CHINA DISCOVERS WIDESPREAD STATE FUNDS ABUSE

China has discovered that 117.4 billion yuan (\$14.18 billion) of state funds were misused in the first half of this year, the People's Daily reported on Tuesday. Auditors found more than 3.0 billion yuan meant for water conservancy had been diverted to other projects, the Communist Party newspaper said. Several government agencies overseeing the railways, postal and telecommunications sectors were found to have misappropriated one billion yuan from pension funds, it said. The former Ministry of Coal Industry -- now the State Coal Industry Bureau -- had misused 6.0 million yuan in pension funds and embezzled 800,000 yuan in interest income from the funds, the newspaper said. Auditors also found that 20 million yuan in state land funds had been diverted to other purposes or put in officials' personal bank accounts, the newspaper said. In June, Auditor-General Li Jinhua accused some central Government departments of serious misconduct, saying they had diverted some 16.4 billion yuan last year. With the approach of the 50<sup>th</sup> anniversary of the founding of the Communist republic on October 1, China's leaders have stepped up attacks on corruption in Government ranks, mindful that graft was a key reason for the fall of their Nationalist predecessors in 1949.

From Reuters, 18 August 1999

## EUROPE

### EICHEL STARTS WORK IN BERLIN, PLEDGES TAX REFORM

German Finance Minister Hans Eichel took up work in his new office in Berlin on Monday with a pledge to push through a long-awaited package of tax reforms. Eichel, whose arrival in the restored capital is part of the wider government migration from Bonn, won 30 billion marks (\$16 billion) in cuts in the 2000 budget from his fellow cabinet ministers before the summer break as part of an austerity plan. He said at the opening of his new Berlin ministry that he would also see through a raft of reforms to streamline the German tax and social security system. "What we have to do now is push through more budget cuts, corporate tax reform, tax relief

for families and ecological tax reform," Eichel told reporters. "That is an enormous package." The sound of hammers and drills was still echoing through the hallways of the 63-year-old building now housing the finance ministry. It is undergoing a major facelift after being built as the Luftwaffe air force headquarters under Nazi Hermann Goering and then serving the communist East German Government. Eichel's party, the Social Democrats, has been rocked by a heated public debate over tax reform during the summer lull. Leading figures on the left of the SPD have accused Eichel and Chancellor Gerhard Schroeder of insisting on cuts in welfare spending at the expense of the poor.

*From Reuters, 16 August 1999*

## **BANK IN LAUNDERING INQUIRY COURTED RUSSIANS ZEALOUSLY**

The Bank of New York, in an effort to expand a lucrative business in Eastern Europe over the last several years, aggressively pursued relationships with Russia's largest banks, a strategy that might have led to the embarrassing questions about money laundering now being posed by Federal investigators. The bank specialized in setting up cash and securities accounts for Russian banks in the United States, a highly competitive market that it dominated, according to American bankers and financial analysts. The accounts, which were managed by one senior officer who has now been suspended, allowed Russian institutions to transfer money outside of Russia easily. At first, working with Russian banks seemed like a fruitful new business. But now several of those banks have collapsed, and billions of dollars that passed through the Bank of New York are being examined by Federal investigators who suspect a money laundering operation by Russian organized crime, law enforcement officials say. Investigators believe that it could be one of the largest money laundering operations ever uncovered in the United States, with \$4.2 billion passing through one account alone from last October through March. The bank said Wednesday that it had been cooperating with the investigation, and that there were no allegations of wrongdoing by the company. It declined to comment further. The bank entrusted responsibility for much of the fast-growing business in Eastern Europe to Natasha Gurfinkel Kagalovsky, a senior vice president whom the bank suspended on Wednesday. Federal investigators are closely examining her role. One of her best customers was Inkombank, a fast growing Russian bank that handled more than 250 payments a day through the Bank of New York. Inkombank brought its business to the Bank of New York from the Republic New York Corporation in 1992 because Ms. Kagalovsky promised to be less vigilant than Republic about the way Inkombank's accounts were handled, according to Emanuel E. Zeltser, once a lawyer for Inkombank, who is in a dispute about fees with his former client. Ms. Kagalovsky assured Inkombank representatives that "Bank of New York would be much more understanding about how to manage correspondent accounts than Republic," Mr. Zeltser said. Republic officials declined to comment, as did lawyers for Inkombank in New York. When Republic and the Bank of New York handled similar transactions with Russian clients some time ago, one investigator said, Republic filed a suspicious activity report with bank regulators but the Bank of New York did not. The nature of the transactions could not be learned. "Bank of New York was very happy with the money Natasha and Galitzine were making and routinely let them run their own show," Mr. Zeltser said, referring to Ms. Kagalovsky and Vladimir Galitzine, another Bank of New York officer. The Bank of New York said Mr. Galitzine was unavailable for comment. An individual familiar with the investigation of the bank said that Mr. Galitzine has not been suspended. But a vice president for the bank in London, Lucy Edwards, was suspended. She worked with Ms. Kagalovsky in the Eastern European division of the bank. Neither Ms. Kagalovsky nor Ms. Edwards has been accused of any crime. It remains unclear whether there was wrongdoing by them or other individuals, and how closely the bank supervised their activities and their Russian customers. It could not be determined who supervised Ms. Kagalovsky. She was unavailable for comment, and the bank declined to comment.

Investigators have linked some of the accounts under scrutiny at the Bank of New York to a man who, Western law enforcement officials say, is a major figure in Russian organized crime, Semyon Yukovich Mogilevich. Mr. Mogilevich is involved in a wide range of activities from arms trafficking and extortion to prostitution, American and European law enforcement and intelligence agencies say. Mr. Mogilevich could not be reached for comment. One thing is certain: Ms. Kagalovsky, the wife of Konstantin Kagalovsky, a prominent Russian banker and oil executive, was a vociferous cheerleader in pushing the Bank of New York to expand its presence in Russia in the early and mid-1990's. In a 1995 memo to Thomas Renyi, who was then the president of the bank and is now the chief executive, Ms. Kagalovsky and another executive made note of how important Inkombank was to the Bank of New York. "Inkombank is our largest generator of fee income, and they are now the largest clearing bank in Russia for domestic transactions," the memo noted. The memo, which the Bank of New York declined to comment on, was given to The New York Times by Mr. Zeltser, who said he acquired it as part of a lawsuit he has filed against Inkombank over unpaid fees. Lawyers for Inkombank declined to comment about the bank's involvement with the Bank of New York or Mr. Zeltser's lawsuit. Inkombank, like many of its counterparts in Russia, is now insolvent. Another Russian bank that had accounts with the Bank of New York was Menatep, part of an industrial empire overseen by Mikhail Khodorkovsky, one of Russia's prominent financiers, called "oligarchs." The Bank of New York had an active relationship with Menatep and helped the bank list its stock for trading in the United States. Federal investigators are trying to determine whether some of the money channeled through the Bank of New York came from Menatep. Western investors and Russian regulatory authorities suspect Menatep and related companies of having looted money from the country, allegations that Mr. Khodorkovsky and his representatives have denied. Through Ms. Kagalovsky, the Bank of New York had a personal connection to Menatep. Ms. Kagalovsky's husband, Konstantin, is a former senior executive at Menatep and is now the vice chairman of Yukos, an oil company that is the flagship of Mr. Khodorkovsky's troubled business empire. Mr. Kagalovsky did not respond to an interview request. Mr. Zeltser, the former Inkombank lawyer, said that the Kagalovskys were married in the mid-1990's, when the Bank of New York began doing business with Menatep. An American official close to the money laundering investigation of the Bank of New York described the Kagalovskys' business connection as "extraordinarily provocative." The

Kagalovskys own a condominium on East 47th Street in Manhattan that Ms. Kagalovsky bought in January 1997 for \$796,000, according to real estate records. It appears that Ms. Kagalovsky paid cash. The property records show no loan.

*From New York Times, 20 August 1999*

## **YELTSIN CORRUPTION ALLEGATIONS EXPAND TO U.S.**

Russian prosecutors have called for a full investigation into a suspected multi-billion dollar money-laundering scheme, which allegedly involves President Yeltsin. The acting prosecutor-general, Vladimir Ustinov, told the Interfax news agency that if any wrongdoing were uncovered, criminal proceedings would begin. Malcolm Shearmur reports on the widening probe, which also involves investigations in Switzerland: "The latest allegations of money laundering dwarf investigations in Switzerland into claims that President Yeltsin and his family had accepted more than a million francs in bribes from a Swiss construction company. Now American newspapers are saying Mr. Yeltsin may have been involved in laundering up to fifteen billion dollars through banks in New York. The money is said to stem from foreign aid and loans given to Russia. The Kremlin has rejected the allegations as an attempt to damage Mr. Yeltsin's reputation ahead of elections in December."

*From Swiss Radio International, 27 August 1999*

## **TURKS HIT BY 'QUAKE-TAX' - CORRUPTION FEARED IN \$20B LEVY**

Turkish legislators have approved new taxes to help pay for the earthquake that ravaged the country, but some Turks fear the money will be siphoned off by corrupt builders and officials. Desperate for cash, the Government proposed a 5% tax hike on corporations, the self-employed and the wealthy, as well as a 25% monthly surcharge on cell phones. Experts estimate the measures could raise \$20 billion a year. The proposal would also give the Government the authority to raise taxes on gasoline, tobacco and alcohol. The proposals have been passed by a parliamentary committee and are widely expected to be approved by the full assembly. The new taxes were immediately met with suspicion. Although Prime Minister Bulent Ecevit is widely considered to be honest, many previous Turkish Governments were plagued by allegations of corruption. "Take Your Hands Off," one pro-Islamic newspaper said in a front-page editorial. "Levy your taxes not on the people, but on those who swindle the state." Worried investors dumped shares in Turkish companies yesterday, sending the stock market index plummeting 10% on its first day of trading since the Aug. 17 earthquake. The toll in the quake rose to 13,040 dead and 26,630 injured, thousands more are believed to be still buried beneath the rubble. Two small quakes hit the ravaged town of Adapazari last night. There were no reports of injuries or damage. In the same town, an argument between two families over whether a quake-damaged building should be torn down led to a shootout that left two dead.

*From The Toronto Sun, 27 August 1999*

## **NO TAX ON IMPORTED MACHINES PROPOSED TO ENCOURAGE INVESTMENTS IN ALBANIA**

The Albanian General Department of Customs has suggested to the Government to amend customs laws and scrap any taxes on imported machines and equipment as well on tourism investors in order to encourage foreign businesses to invest in the country. Customs Department deputy head Vasil Pilo told a press interview on Thursday that his department has suggested to the Government committee on economic policies to adopt several incentives for the attraction of foreign investments in the country. The department has suggested no taxes on the import of industry machines and the introduction of the so-called "stimulated person" term in the customs legislation with the aim to encourage investments in tourism. "We have recently proposed to Ministry of Finance the application of these two elements, as the most suitable ones in order to create a more attractive environment for the foreign investments in the country," Pilo told economic daily *Ekonomia*. He said department researchers have looked into the data of the customs revenues the past few years and suggested several incentives they believe will positively influence the state's budget. "The possible lifting of the customs tariffs on machinery and equipment would cost as many as \$3m to the state budget, according to a survey we've previously made on the imports' volume in the course of years and their stipulation for this year," said Pilo. But he added that although exempting machinery and equipment from customs taxes meant less revenue to the state budget, it was worth adopting the measure to attract more investors, hence more revenues. Pilo said that the term "stimulated persons", which was scrapped from existing legislation, should be reintroduced in the country's legislation. "There isn't actually any stimulated person, because the New Customs Code does not allow a similar regime," Pilo said referring to the former legislation adopted with the view to help investments in tourism by previous administrations. The legislation was amended recently because, although tourism had been a privileged sector regarding the fiscal and customs system the past years, it hasn't yet registered any considerable development over these years so as to justify the exemptions from taxes.

*From Albania Daily News, 27 August 1999*

# Private Sector Development

## AFRICA

### SOUTH AFRICA SAYS TO SPEED UP PRIVATIZATION

The South African Government pledged on Thursday to speed up the privatization of state assets in the next five years, but would not be drawn into setting any targets. Public Enterprises Minister Jeff Radebe told Reuters in an interview that the framework for the sale of state enterprises had been laid by the previous government of President Nelson Mandela and the new administration was now prepared to take this plan forward. "These five years of the ANC (African National Congress) Government under President (Thabo) Mbeki will see a lot of activity and acceleration of the restructuring of state assets," said Radebe. However, he said no target had been set for the disposal of the enterprises, which boast an asset base estimated at more than 150 billion rand (\$24.6 billion). Radebe, who in his first month in charge of the public enterprises ministry has overseen the selection of a management partner for the Post Office, said the Government was carrying out an evaluation of the past five years. "We are going to be coming up with a business plan that will chart the way forward on how the restructuring of state assets in South Africa is going to be accelerated," he said. Since 1996, the ANC-led Government has sold a 30 percent stake in telecommunications parastatal Telkom to SBC International and Telekom Malaysia. It has also partly privatized the Airports Company of South Africa (ACSA) with the sale of 20 percent to Aeroporti Di Roma, and has disposed of a 20 percent stake in South African Airways (SAA) to Swissair for 1.4 billion rand. Last week, the Government selected a consortium of New Zealand Post and Britain's Royal Mail for a three-year management partnership with the Post Office. These transactions have raised more than 11 billion rand for the public purse and the Government hopes to net four billion rand this year from the privatization of assets. There are plans to dispose of 60 percent in state forestry concern Safcol and 40 percent of Denel Aerospace by next April. In addition, the Government will sell a further 10 percent in Telkom and additional stakes in SAA and ACSA. Critics argue that the privatization process has stalled and is at least one year behind its original targets. "We are convinced that we are on the right track. But with consultations and cooperation of the stakeholders we can be able to speedily move forward in this process," said Radebe. He said the major challenge facing the Government in its quest to sell assets were huge debts and possible job losses. The restructuring of one of the parastatals -- transport utility Transnet -- has been complicated by its 22 billion rand pension fund deficit and debt. It is estimated Transnet will shed about 27,000 jobs and Telkom 10,000 positions this year.

*From Reuters, 22 July 1999*

### MOROCCO TO SELL 50% STAKE IN CATTLE BREEDING FIRM

Morocco's privatization ministry on Thursday announced a tender for sale of its 50 percent stake in cattle breeding firm Ranch Adarouch worth \$1.8 million. "The ministry issues a tender for sale of 50 percent stake in Adarouch's capital. The stake will be offered at a minimum of 18 million dirhams (\$1.8 million)," the statement published in local newspapers said. The firm's capital is composed of 110,000 shares of a nominal value of 100 dirhams, the statement said. The firm was set up in 1969 in a joint venture between the Moroccan Government and U.S. firm King Ranch, a Casablanca-based broker said. The tender's closing date was set for September 20, 1999. Adarouch firm was on the privatization list since 1993 when the authorities launched an ambitious programme aimed at selling state stakes in 114 companies during a six-year period.

*From Reuters, 22 July 1999*

### NIGERIA SAYS PRIVATIZATION TO BE STAGGERED TO 2001

Nigerian Vice-President Atiku Abubakar, speaking in his role as chairman of the national privatization council, said on Thursday the sale of state firms would be staggered until 2001. A statement from Abubakar's office said this was "to allow for proper rehabilitation of the public monopolies ... to make them attractive to private investors." Nigeria's elected Government, which took office at the end of 15 years of military rule in May, has repeatedly said it is serious about privatization, but has not previously said how long the process would take. International financial agencies, creditors who could offer debt relief and local businesses would like to see a rapid programme of sales of state enterprises. They argue that it is pointless to continue subsidizing management, which in the past proved woefully inefficient and sometimes corrupt. The first phase of privatization is due to end this year with the sale of the Government's stakes in quoted companies. Much bigger privatizations of power and telecommunications companies and oil refineries are supposed to follow.

*From Reuters, 26 August 1999*

## EUROPE

### NEW CZECH FINANCE MINISTER SEEKS QUICK PRIVATIZATIONS

Newly appointed Czech Finance Minister Pavel Mertlik said on Wednesday that he was keen to privatize quickly state stakes in strategic companies currently managed by the state-run National Property Fund (NPF). "It is important to quickly and reasonably sell the shares," Mertlik told journalists at a news conference during his first day as finance minister. Mertlik replaced Ivo Svoboda who was sacked on Tuesday after being indicted for financial crimes related to his management of a Czech tram maker. Mertlik said there should be a focus on "quality administration and quick but reasonable privatization of the remaining stakes in strategic companies." The NPF currently controls stakes in about 50 major companies, including telecommunications companies Ceske Radiokomunikace (RKOMsp.PR) and fixed-line monopoly SPT Telecom (SPTTsp.PR) plus hundreds of minor stakes in various firms. The Czech cabinet was scheduled to discuss at its meeting on Wednesday a plan for the full privatization of Radiokomunikace. The NPF also has controlling stakes in 16 gas and electricity distribution firms as well as 68 percent in the largest electrical generator CEZ a.s. The Social Democrat Government has already agreed to privatize fully the two remaining large state-controlled commercial banks, Komerční Banka (BKOMsp.PR) and Česká Spořitelna (SPOsp.PR) in tenders expected to be completed early in 2000.

*From Reuters, 22 July 1999*

## **ROMANIA SELLOFF BOSS COMPLAINS OF HURDLES**

Privatization has picked up speed in Romania this year, but is held back by ineffective legislation, the head of the country's main privatization agency said on Wednesday. Radu Sarbu, President of the State Ownership Fund (FPS), told Reuters in an interview that the main obstacles were the absence of guarantees on property ownership, shifting policy on tax incentives and a series of rating downgrades for Romania. "This year and in the last months of 1998 we had plenty of selloff contracts, but each month the number of selloffs was smaller than the previous month," Sarbu said. "We are compelled to work in unfavourable circumstances. The main issue is that the constitution does not guarantee property. You must give investors tax and customs facilities to prevent them from going elsewhere." Since Sarbu took over nine months ago, the FPS has privatized 1,850 companies, including 1,150 since the New Year. The jewels in the crown have been a 45 percent stake in commercial bank Banc Post sold to General Electric and Banco Portugues do Investimento and a majority interest in carmaker Dacia to France's Renault. The privatization offer for this year stands at around 3,800 companies in which the state, through the FPS, has stakes of at least 33 percent. Government ministers point to recent successes as evidence that Romania is finally making progress with selloffs after successive governments of the left and, since 1996, the centre-right were accused of dragging their feet. But Western investors still cite as an impediment the shortcomings of the 1991 post-communist constitution, which protects property ownership, but does not guarantee it. The issue of tax incentives has also landed Romania in trouble, with the International Monetary Fund urging the Government to limit their use to prevent the erosion of the medium-term budget revenue base. Romania last year adopted a decree on fiscal and customs incentives for investors, but withdrew them this year when the 1999 budget law was adopted. Cancellation of benefits has triggered a dispute over at least one big contract now in doubt -- the purchase of 65 percent in a Black Sea refinery. Sarbu also complained of the negative impact of successive downgrades for Romania by international rating agencies. "With a good rating, capital inflows would have been higher," he said. "We were frustrated with the downgrades, as the Government has really given clear signs of commitment to reforms." This was a reference to big privatizations last year, including the telephone company and a state-run bank. "With the adoption (earlier this year) of new privatization rules, we may see a selloff boom," Sarbu said. "All the more so as now company stakes may be acquired by installments, which is a good way to attract domestic capital too." Sarbu said for the rest of this year the FPS would concentrate on big selloffs, including a thermal power plant, a Bucharest hotel and two aluminium plants. Trade and tourism companies will also be in focus and at least one more state bank, Banca Agricola will be prepared for selloff. Faster selloffs and restructuring loss-making firms plaguing an economy now in its third year of contraction are targets Romania must meet to clinch loans from international lenders. Romania is seeking \$475 million from the International Monetary Fund in a stand-by credit, whose approval would release \$300 million in a World Bank loan. Romania had to contend with a mid-year peak in its external debt service.

*From Reuters, 22 July 1999*

## **EAST AND CENTRAL EUROPE'S BAD DEBTS RAISE DOUBTS ABOUT BANK PRIVATIZATIONS**

One of the main illnesses of banks in Eastern and Central Europe can be summarized in two words -- "bad debts." RFE/RL's Ron Synovitz examines how weak regulations and dubious accounting have allowed the problem to fester across the region, and how the problem in turn complicates privatization efforts. Questionable loans and accounting practices have compromised the financial health and future of many banks across Central and Eastern Europe. Eastern and western financial analysts and international organizations say loan officers have been digging many banks into a hole for years by giving cheap credit to economic allies of their institutions. They say inexperienced loan officers also have been authorizing too many risky loans. In both cases, borrowers may have neither the ability nor the intention to pay off the debts or the interest. Such loans should be listed on bank balance sheets as "bad debts" or "non-performing loans." But many banks are disguising the extent of their problems and failing to put aside enough reserves to cover losses from an eventual cleanup. Charles Randolph, a managing partner at the Prague offices of the international accounting firm KPMG, says a large enough bad debt portfolio can mean the difference between profitability and insolvency. "Whenever a bank accumulates sizeable non-performing loans, it's obviously a drain on earnings because you have no interest revenues coming from the troubled debt." In Ukraine, the Economist Intelligence Unit says evidence suggests more than 40 percent of all bank loans are bad debts, despite government claims that the figure is only 19 percent. Romania's central bank appointed a

state administrator at Bancorex earlier this year after bad debts reached an estimated 70 percent of its loan portfolio. Bad debt ratios of more than 30 percent also are reported at major banks in the Czech Republic, Slovakia, Bulgaria and the Baltics. The Economist offers one explanation for the trend. It says state firms and secretive financial groups across the region often set up their own banks to capitalize on weak regulations and to gain access to cheap credit. Ukraine's banking sector, for example, is dominated by five Soviet-era banks that are still owned by the state. But many of the country's other 170 banks were created by regional business groups to serve their own interests. In Bulgaria, several private banks were launched in the mid-1990s by a businessman who only had the minimum funds to start one bank. The businessman discovered a legal loophole that allowed him to loan the same money to himself again and again, starting a new bank with each loan. But when bad debts left one bank insolvent in 1996, the financial chain soon brought the other banks down like a house of cards. The incident was the precursor to Bulgaria's financial crisis of 1996 and early 1997. Even in the Baltics and the Czech Republic, where bank reform has been faster than further to the east, the bad debt problem is raising concerns about key mergers and privatizations. Randolph, KPMG's managing partner in Prague, says the problem can ultimately effect national budgets -- particularly when unplanned bailouts become necessary. "Prospective investors in banks that are soon to be privatized don't want to have to face dealing with problems that have come from the past. This puts the governments [who are] in the selling position under severe pressure to clean up and resolve the [bad debt] situation as best they can." The Czech Government is funding a \$287 million bailout of the country's largest and most troubled bank -- Komerční Banka. More than a quarter of Komerční's loans have been classified as non-performing -- nearly \$2 billion in lending that is unlikely to be recovered. The Czech bailout is needed to attract serious investors to the privatization of a 49 percent stake in Komerční next year. Finance Minister Pavel Mertlík says the Government also will stick to its schedule of selling off remaining stakes in the state savings bank Ceska sporitelna by next year. But there is still no plan for restructuring Ceska sporitelna's bad debts. The major banking story in Lithuania this summer has been a proposed merger of Bankas Hermis and its rival Vilniaus Bankas. Backed by Sweden's SEB, Vilniaus has been trying to obtain Hermis through a leveraged buyout for more than a year. Hermis chief Nadiežda Novickienė recently agreed to the merger. Central European magazine reports that the Russian crisis last year caused Hermis' financial situation to deteriorate to the point where a merger became more attractive to its managers. If that merger goes ahead, it will allow Sweden's SEB to expand its Baltic network. It also would create a Lithuanian bank large enough to compete in other Baltic states -- the second largest bank in the Baltics after Estonia's Hanaspank. But a spokesman (unnamed) for the international accounting firm Pricewaterhouse Coopers has warned that the balance sheets for Hermis do not appear to be in order. The bank reported a profit of \$125,000 last year. But the Pricewaterhouse Coopers spokesman said losses would have been posted if international accounting standards had been followed. Latvia, struck by its own banking crisis in 1994 and 1995, has tightened banking supervision in recent years. Riga has instigated international audits for all banks and brought regulations in line with international standards. The central bank also is clamping down on money laundering and other illegal activities involving money from Russia's shadow economy. Nevertheless, private institutions like Riga Commerce Bank appear to be in trouble because of heavy investments in Russian state bonds. Latvia's new Government has not yet decided whether to bail out Riga Commerce. Indeed, the impact of last year's Russian crisis is still being felt across much of Eastern and Central Europe -- especially by banks that were heavily involved in Russian state bonds and corporate securities. Analysts say Ukraine's banking system lost about \$1 billion last year when foreign firms withdrew their investments because of uncertainties over emerging markets following the Russian crisis.

*From RFE/RL, 13 August 1999*

## **PRIVATIZATION THREATENS LATVIAN GOVERNMENT PAPERS**

Latvia's month-old coalition Government seems already to be showing signs of strain as an old dispute over privatization has come back to haunt it, according to political analysts and the domestic media. In a series of speculative articles published on Monday, local newspapers said a row over how to privatize Latvian Shipping could even bring down the Government of Prime Minister Andris Šķēle. The main Russian-language business newspaper *Bizness i Baltija* led Monday's front page with the headline "Games surrounding Shipping could lead to the Government falling apart." The speculation emerged after former Prime Minister Vilis Krīštopāns said in a television interview at the weekend that the Latvian Shipping dispute had played a pivotal role in the downfall of his Government last month. Analysts say Šķēle could fall prey to the same special interest groups, key backers of the main political parties, who have stymied the privatization of Latvian Shipping and other firms and whom they blame for unravelling Krīštopāns' Government. "The most vivid contradictions have surfaced in the (cabinet) vote on Latvian Shipping privatization guidelines, pointing to differing party interests," the newspaper *Diena* said. Latvia is eager to privatize the shipping company and several other firms this year and next to fill a hole in the budget caused by an economic recession. Besides Latvian Shipping, shares in telecom firm Lattelekom, electric utility Latvenergo, Latvian Gas and oil terminal Ventspils Nafta are expected to go on the block at some point. Political wrangling has largely kept the sales on ice. In one month in office, Šķēle's cabinet has already had to postpone a decision on Latvian Shipping three times due to a dispute between Economy Minister Vladimirs Makarovs, of the nationalist Fatherland and Freedom party, and privatization chief Janis Naglis. Makarovs would like the sale of a strategic stake coupled with a domestically aimed public offering for privatization vouchers, while Naglis and Šķēle say that would take too long and want to press ahead with finding a strategic investor. Latvia's Way, the coalition's second-largest party, is meeting later on Monday to form a position ahead of Tuesday's cabinet meeting but it is expected to take a neutral stand. "This is turning into a serious problem for the cabinet," Andrejs Pantelejevs, head of Latvia's Way, told Reuters. Pantelejevs said Šķēle -- whose autocratic approach led coalition parties to force him out of a Government he headed in 1997 -- would have to a compromise if he wants this administration to survive. "Much depends on whether Šķēle has changed his style or will jump to sacking Makarovs, for example," said Pantelejevs. "If that does not happen we might get over this." Analysts agreed, saying a hard-line approach would

backfire. "I think they will broker a deal among themselves. There are a lot of other chips in this (privatization) game...you'll have a lot of horse trading in the background," said local political analyst Nils Muizhnieks.

*From Reuters, 16 August 1999*

## **AZERBAIJAN TO RESUME VOUCHER PRIVATIZATION AUCTIONS**

Azerbaijan's State Privatization Committee is set to resume voucher auctions for 22 companies, the head of the committee's auction centre said on Friday. "Soon we will offer 22 enterprises that have been made into joint-stock companies for voucher auction," said Rauf Suleimanov. Construction companies, six wine and vodka factories, four tobacco plants and three liquid gas supply companies will be auctioned, he said. The committee will also hold investment tenders for 13 joint stock companies including the Baku steel mill and the Absheron wine factory. Suleimanov said the auctions could be held without proposed legislation expected since the beginning of the year. The last voucher auction in Azerbaijan was held in January and privatization ground to a halt when the second programme for the sell-off of remaining state assets was not sent to parliament at the start of the year as planned. Foreign investors criticized the delay, due to a conflict between ministries over details of the plan. The plan had envisaged privatization of at least half of the oil-producing country's medium to large-scale enterprises by mid-2000. Suleimanov said the committee had had to formulate an interim legal framework for privatization as the original three-year plan had expired. He added the auction plan should revive price of state privatization vouchers, which had slumped to 40,000 manats (\$9.4) on Friday from highs of \$100 in March 1997.

*From Reuters, 6 August 1999*

## **BOSNIA TO CORRECT FAULTY PRIVATIZATION VOUCHERS**

The privatization agency of Bosnia's Moslem-Croat federation said on Friday it would start distributing some 600,000 corrected privatization vouchers by the end of September. The mass privatization programme in the Moslem-Croat federation, one of Bosnia's two post-war entities, got under way in May with the distribution of vouchers, designed to compensate citizens for war-related losses. However, many vouchers did not correctly calculate the number of working years, thereby underestimating the recipients' claims in the sell-off of state assets. Adnan Mujagic, the agency head, said on Friday that the correction programme was now under way and that the printing of the new vouchers was expected to be finished by September 21. "According to our plans, transactions with corrected privatization vouchers can start on September 23," Mujagic told a news conference. "Delays and mistakes have occurred due to some technical reasons...but now, as we have received all citizens' complaints, the correction is well on track," said Mujagic. Total claims are estimated at roughly 16 billion Bosnian marka (\$8.5 billion), translating into an average 8,000 marka for each of the 1.9 million citizens in the entity. These include frozen foreign currency bank accounts and unpaid salaries and pensions. Most people are expected to use their vouchers to buy the apartments they live in. Meanwhile Mujagic said the first stage of the privatization -- the sale of small companies as well as business premises and other smaller items -- was on track despite the incorrect vouchers. However, a report published by the agency on Friday showed that only 17 companies and 99 business premises had been sold so far, for a total amount of 13.2 million marka. Mujagic blamed the low buying interest on a lack of attractive offers, cash and information. Under the rules for the sell-off of smaller state assets, 35 percent of the purchase price must be paid in cash and the rest in vouchers, which currently trade at about 30 percent of their nominal value. The total value of assets to be privatized has been estimated at 26 billion marka, including strategic firms in the telecommunications and power supply sectors. The total number of companies to be sold off in the mass privatization programme amounts to 1,459, out of which 155 firms are considered as strategic, according to the report. The privatization process is seen as crucial for the Balkan country's efforts to reduce its dependence on massive foreign aid following the 1992-95 war. Post-war Bosnia comprises two autonomous entities: the federation and the Serb republic, which is also privatizing state-owned assets.

*From Reuters, 27 August 1999*

## **MIDDLE EAST**

### **JORDAN FINALIZES FIRST MAJOR PRIVATIZATION DEAL**

Jordan on Wednesday sealed a 25-year deal with a U.S.-led consortium to expand and operate the country's main freight railway line in its first landmark privatization scheme. The BTO (build transfer operate) deal was signed with an international consortium led by Raytheon Infrastructure, a subsidiary of Raytheon Engineers and Constructors Inc and Wisconsin Central Transportation Corp. The other partners are Athens-based Consolidated Contractors, Amman-based Kowar Group, Jordan Phosphate Mines and Japanese Mitsubishi's investment arm. The U.S. strategic partners will hold 51 percent of the equity of the joint venture company that will modernize and operate the state-owned Aqaba Railway Corporation. In addition to managing a modernized railway system, the U.S.-led consortium will build two new rail extensions that will link the country's major Eshidiya phosphate mine in the south to an industrial export jetty at the Red Sea port of Aqaba. The railway project is critical to accommodate a forecast doubling in production of phosphate, Jordan's main export raw material, to around 10 million tonnes annually by 2010. Jordan Phosphate Mines, one of the world's largest producers of phosphates, will own up to 25 percent of the project. Investors say the success of the project should give a major boost to an ambitious privatization programme that includes the sale of 40 percent of the profitable state telecommunications firm to global investors. The U.S. Government's private sector financing arm OPIC (Overseas Private

Investment Corporation) has already committed itself to extending a long-term loan of around \$50 million, a substantial part of the project's total \$130 million capital investment. The railway privatization is essential for the success of Jordan's joint venture downstream projects in fertilizers that rely on tapping Eshidiya's major reserves. They include a \$700 million project with Norway's Norsk Hydro that is expected substantially to boost production from the mine. Eshidiya, by far the lowest-cost producer of Jordan's three operating mines, holds one billion tonnes of the kingdom's 1.5 billion tonnes proven phosphate reserves.

*From Reuters, 18 August 1999*