GOVERNANCE WORLD WATCH

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

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Public Economics

AFRICA

MORE OF THE SAME ECONOMIC POLICIES IN GHANA

The Government remains committed to economic reform, introducing value-added tax at the end of last year, for example. However, privatization of sensitive parastatals such as the Ghana Cocoa Board's Produce Buying Company may spark industrial unrest and slow the divestment process.

APM Cluster's collection from EIU Business Africa, 1 Apr 1999

EDUCATION CRISIS THREAT TO AFRICA'S FUTURE

Sub-Saharan Africa faces a “social breakdown” unless urgent measures are taken to tackle the region's education crisis, Oxfam, the international aid agency, warns in a report published today. The 240-page report, “Education Now” marks the launch of an Oxfam campaign to achieve universal primary education by 2015. A target date of 2000 was originally set 10 years ago at an international conference on education held in Jomtien. Although it was endorsed by more than 150 governments, they failed to achieve it. A decade later, the target remains far out of reach, says Oxfam. Today, there are 125m children out of school throughout the world, and 872m illiterate adults, while a further 150m children start school but drop out before they can read or write. “If the world's governments fail to act now, 75m children will be deprived of basic education in 2015.” The Oxfam campaign, which has won the backing of Hillary Clinton, wife of the US president, calls for “a global action plan” to tackle the education crisis in Africa and elsewhere, funded by a combination of debt relief, more focused lending by donors, and cuts in military spending by the governments of the world's poorest countries. The report singles out sub-Saharan Africa as the region, which has the developing world's lowest net enrolment rate - 57% - with over 40m primary school age children out of school. It is the only part of the world where illiteracy is on the rise and on current trends; numbers out of school will increase to 51m by 2005 and almost 55m by 2015. Countries such as Zambia, Ethiopia, Niger, Kenya and Tanzania, says the report, are spending between two times and four times as much on debt repayments as they are on basic education. “Unless determined action is taken to address the education crisis, the human resources needed to drive social and economic recovery in the 21st century will not exist.” To meet the target, it will be necessary to enroll additional 22m children by 2005. With the right policies and sufficient resources, it can be done, says Oxfam: “Uganda's universal primary education program has succeeded in increasing enrolments by over 2m in little over a year.”

Mr. Horn's collection from Financial Times, 22 March 1999

ECONOMIC REFORM IN TANZANIA

While expressing satisfaction at the current progress of economic reform in Tanzania, the IMF is pushing Dar Es Salaam to accelerate its program. In a statement this month, the Fund says that the regime needs to strengthen its reforms, in the financial sector especially, and finalize its privatization of the National Bank of Commerce, whose sale was originally due to have been completed by the end of March. In addition, the Fund is pressuring Tanzania to: a)Accelerate its privatization program "in a transparent manner"; b) Undertake a systematic reduction of both customs duties and exemptions from such duties, a move that should boost local trade and growth; c) maintain a policy of wage restraint while pressing ahead with retrenchments in the civil service and thorough reform of local government; d) Liberalize its foreign investment code so as to allow foreign portfolio investment in companies that are listed on the local stock market.

APM Cluster's collection from EIU Africa Business 16 April, 1999

ASIA/PACIFIC

CHINA AIMS TO CREATE JOBS IN TERTIARY SECTOR

China hopes its tertiary sector will create 10 million jobs annually - the approximate number of layoffs likely to occur each year in other industries, according to the China Daily newspaper. The tertiary sector includes technology-intensive companies, food services and temporary construction projects. The newspaper quoted Chinese officials as saying that the goal of 10 million new jobs annually in the tertiary sector can be met if China achieves a gross domestic product growth rate of 7% or more. China posted GDP growth of 7.8% in 1998. As China's economy shifts from one based on agricultural to industry, there is a growing surplus of rural workers. State companies also are cutting their labor forces, meaning more urban workers will be competing for new jobs. The Government says official urban unemployment is about 3.1%, but economists maintain actual figures are much higher.

Ms. A. Zanelli's collection from Asia Wall Street Journal, 29 March-4 April 1999

MALAYSIA TO TIGHTEN CONTROL OVER BANKING

Bank Negara, the Malaysian central bank, yesterday announced a series of measures to tighten control over the banking system as it revealed that the economy contracted 6.7% last year, after recording 7.7% growth in 1997. Ali Abul Hassan Sulaiman, the bank governor, said that he hoped to formalize the measures by the end of the month and implement them soon after to fortify the sector hit hardest by Malaysia's economic recession. The two biggest changes include reviewing the performance of bank directors and chief executives and sacking them if they are no longer performing, and separating into different holding companies banking institutions (which are supervised by the central bank) and non-banking institutions, such as securities houses, to keep problems in unsupervised entities from affecting the banks. The authorities plan to focus efforts to revive the economy on fiscal spending. The central bank said this would result in 1% economic growth in 1999 but added that 2% was possible if external conditions proved favorable.

Mr. Horn's collection from Financial Times, 1 April 1999

INDIA MINISTER URGES MORE ECONOMIC REFORM

Reform of India's labor laws, phased deregulation of currently protected small industries and other structural measures are needed to boost the country's flagging export performance, Ramakrishna Hegde, commerce minister, said yesterday during the ministry's annual trade policy review. Mr. Hegde revealed that India's exports had grown just 0.41% in dollar terms in the 10 months to January –against an initial ministry forecast of 20% growth for this year. Without providing export totals, he said exports had risen 12% in rupee terms and added that the overall performance "should not be scoffed at" given the state of world and Asian markets in the past year. Mr. Hegde announced a series of modifications to trade policy in advance of India's new fiscal year, which began today. These included moves to cut export transaction costs and ease traders' bureaucratic burdens, for example, allowing export applications to be filed by e-mail. The minister also said he would convert the country's seven Export Processing Zones, which enjoy infrastructure and fiscal benefits for exporting companies, into full Free Trade Zones, which would include exemptions from Indian Labor Laws. These zones would be corporatized.

Mr. Horn's collection from Financial Times, 1 April 1999

EUROPE

EU DEBATE ON STATE SUBSIDIES

According to new figures from the EC, EU governments supported industry to the tune of $40.7bn a year between 1995-97. Stripping out the three member states that were not EU members before 1995, the figure was 36bn compared with 40.5bn for 1993-95. The drop looks moderately impressive. Unfortunately, it is almost entirely due to a tailing off in aid payments to Germany's former communist states. Without this overall subsidy levels to EU industry have barely budged since the beginning of the decade. When the figures were released last week, the Commission did its usual handwringing. " I am convinced that this level of spending continues to distort competition and trade and thus undermines the advantages offered by economic and monetary union and the single market," said Karel Van Miert, the competition commissioner, whose job it is to root out unlawful state aid. The damage done to the single market by state aid is pernicious. It allows countries to protect non-viable businesses thereby providing them with the means to export unemployment to their neighbors. Worse still, overall levels are more likely to go up than come down, not least because of the single currency. "Government support in the form of national state aid now remains one of the few means available for companies to seek protection from competition that will be even more intense than in the past," say the conclusions to the Commission's Seventh Survey on State Aid.

Faced with the seemingly unshiftable subsidy load some governments are calling on the Commission to rethink its battle tactics, which tend to focus on individual cases rather than general levels. "It is time to initiate a broader political debate on the perverse effects of all this state aid," said one EU diplomat. What is interesting is that it is not just the usual suspects – i.e. low state-aid Britain – calling for a change of tack. The EU's poorest "cohesion" member states are also unhappy, pointing out that they cannot compete with the EU's biggest and richest spenders. Between 1995 and 1997 Germany, Italy and France accounted for 77 percent of all aid to industry. Greece, Ireland, Portugal and Spain – the four cohesion countries – accounted for 11 percent. The poor cousins argue that high spending by wealthy countries blunts the effects of the special cohesion funds, supposed to help bring their own economies up to scratch.

The Commission is gently pushing the broader debate. It has invited member states to "consider the level and appropriateness of public intervention in market activities and to fix precise objectives and a timetable for the reduction of overall aid budgets". It has also pursuing reforms that will allow the Commission to free itself of routine cases of aid and to focus on the really destructive ones. Moreover, it has elevated the status of subsidies within the competition directorate by giving its new deputy director general –Jonathan Faull – special responsibility for state aid. It will be up to Mr. Van Miert to impress upon his successor –due to take over at the end of this year – the importance of the subsidy battle. He need only remind him or her what the arrival of countries such as Poland, Hungary and the Czech Republic into the EU will do to today's already high levels of aid to demonstrate convincingly the need to get cracking on existing members now.

Mr. Horn's collection from Financial Times, 7 April 1999

GERMANY PUTS BLOCK ON BASLE BANKING REFORMS

Bank regulators have had to delay an overhaul of international bank capital adequacy rules after last-minute objections by Germany. The Basle committee of banking supervisors was scheduled to publish this Friday its proposals for sweeping reforms to its 1988 capital agreement – the world standard for how much capital banks must maintain as a cushion against loss. But William McDonough, president of the New York Federal Reserve and chairman of the Basle committee, has written to members putting off the publication indefinitely. The stakes are high. The world's 100 largest banks hold more than $830bn of capital between them, so even small changes can cost billions. Regulators confirmed the sticking point was Germany's determination to keep favorable treatment for German banks' portfolios of commercial mortgages -the issue that held up agreement on the European capital adequacy directive two years ago. The Basle rules require banks to hold a capital cushion equivalent to 8% of total assets, with half of this cushion in the form of "Tier1" capital such as pure equity. Assets are weighted according to risk, with a 100% weighting for most loans, but only 50% for residential mortgages, 20% for short-term inter-bank credits and zero for most government debt. These crude categories have led to distortions in the international credit market because loans with lower capital weighting are cheaper for a bank to hold on its books. Supervisors have been working on a more refined system. Weightings for corporate loans, however, have provoked disagreements. US officials have argued for loans to companies with an external investment grade rating to be weighted at less than 100%. But German supervisors complained this would put their domestic banks at a competitive disadvantage because only 175 German companies have external ratings.

*Mr. Horn's collection from Financial Times, 5 April 199**9***

IMF MORE SOCIALIST THAN WE ARE, SAYS RUSSIA'S ECONOMIC MINISTER

Yuri Maslyukov, Russia's most senior economics minister who once ran Gosplan, the Soviet state planning agency, makes a startling observation about the International Monetary Fund. " IMF is more socialist than we are," he chuckles. Mr. Maslyukov's comments are prompted by the IMF's insistence that the Government wring more taxes out of Russia's capitalist monopolies to increase pensions and wages of state employees. The IMF fears the Government might otherwise come under unsustainable pressure to print money, given the forecast 40% fall in the population's real incomes this year. In earlier discussions with the IMF, Mr. Maslyukov had argued for a reduction in corporate taxes to help stimulate investment in the "real economy". But he says he has since been persuaded of the justice of the IMF's arguments. " We need to increase the income part of the budget by RBs10bn ($374.5m)," Mr. Maslyukov says. "The extra burden should be placed on our natural monopolies, that is Gazprom, UES, the transport and oil companies." Only if the Government can show its seriousness about raising more taxes will the IMF conclude its agreement to provide Russia with extra funds this year. M. Camdessus, IMF managing director, this week agreed to an outline deal, but details about the size and timing of any new loans have to be hammered out by an IMF mission in Moscow next week. But the current Government, like all previous post Soviet governments, is more beholden to Russia's corporate behemoths than to the voiceless poor. The proposed new IMF program will require new tax laws and budget amendments to be adopted by the Duma, which seems in no mood to accept a western economic dictate after NATO's bombing of Yugoslavia.

Mr. Horn's collection from Financial Times, 1 April 1999

UKRAINIAN PARLIAMENT FAILS TO STOP COOPERATION WITH IMF

The Supreme Council on 25 March voted four times to renounce the 1998 memorandum on cooperation between Ukraine and the IMF but failed by a margin of 21 votes to pass an appropriate resolution. Communist leader Symonenko told the parliament that policies outlined in the memorandum amount to the Ukrainian Government's "genocide against its own people." National Bank Chairman Viktor Yushchenko argued that World Bank and IMF loans are the only means of replenishing state reserves and financing the budget deficit, other than printing money. The parliament on 26 March voted by 231 votes to 44 to adopt a compromise resolution saying that the 1998 memorandum should be revised to correspond with Ukrainian law.

ENA Cluster's collection from RFE/RL, 29 March 1999

IMF UNCERTAINTY PUTS RUBLE UNDER PRESSURE

The street value of the ruble continues to fall, despite the firming of its official rate. Muscovites, according to the "Moscow Times" on 26 March, were exchanging rubles for dollars at rates of 28 rubles per dollar--16 percent above the official rate. In other parts of Russia, the daily reported, workers are turning their ruble salaries into dollars as a matter of course. Part of the ruble's weakness, according to traders, stems from rubles being printed to pay a backlog of wages to state workers. The Central Bank has been intervening in the currency market to try to prop up the flagging ruble. Its hard currency reserves fell $200 million from 19 March to 25 March and by $1 billion from 1 January. Meanwhile, the stock market's benchmark index, RTS, rose almost 5 percent on 25 March, with oil stocks benefitting from the ruble's weakness.

ENA Cluster's collection from RFE/RL, 29 March 1999

UKRAINE WELCOMES IMF DECISION TO RESUME AID

Ukrainian officials welcomed the IMF's decision on 26 March to release the next trench of a $2.2 billion loan to the country, AP reported. Ukraine is to receive $153 million over the next few days. The IMF halted the loan in November because of Ukraine's slow pace in reforms. The Government has since raised prices on utilities and taken moves to streamline the Government by reducing ministries. It can now expect to receive World Bank loans.

ENA Cluster's collection from RFE/RL, 29 March 1999

TURKMENISTAN MOVES TO DEREGULATE HOUSING MARKET

President Saparmurat Niyazov has signed a resolution empowering the Ashgabat mayor's office to sell state-owned apartments to individuals and legal entities, including foreigners. The resolution also allows government banks to offer long-term loans to Turkmen citizens for the purpose of purchasing houses or apartments.

ENA Cluster's collection from RFE/RL, 29 March 1999

MIDDLE EAST

GOVERNMENT FINANCE IN JORDAN

A wave of international sympathy and support since the death of King Hussein may mean yet more delays to increasingly essential economic reforms. Jordan has attracted world attention since the death of King Hussein raised concerns about stability in a strategically important country. But international support will not put an end to the country's economic problems, and may even prolong them. It is ten years since Jordan signed its first structural adjustment agreement with the IMF, and the long-running relationship is to be extended still further. The new deal involves a three-year reform program, with IMF budget support of some $150m. The new Jordanian Government should approve it in early April. The selection and approval of a new cabinet led by King Abdullah's appointee, Abdel-Raouf Rawabdeh, may delay approval of the agreement slightly, but the finance minister, Michel Marto, is likely to be re-appointed. And the appointment of yet another Prime Minister will not alter the economic imperatives that underlie negotiations with the IMF. The program has a familiar air to it. Under the terms of the latest agreement, Jordanian GDP growth is to accelerate to a minimum of 4% per year. This will derive from a series of structural reforms, which will bring down the budget deficit and correct other imbalances, generating greater employment opportunities and providing an attractive environment for investment. So far, so good. But Jordan still has many crucial reforms to make, despite ten years of IMF deals -- and the Government has a serious credibility problem. Under the previous agreement, the economy was to grow at a minimum of 5% per year, and the Fund repeatedly praised the Government for exceeding the target. However, in mid-1998, having published GDP growth rates for 1996 and 1997 of 5.2% and 5% respectively, the World Bank, the IMF and the Jordanian Government were forced to acknowledge severe errors. They revised their growth figures downward to 1% and 2.5-3%. The EIU believes that the true picture is even worse. We estimate that the economy grew by less than 1% in 1996 and only slightly more in 1997; we also believe that the economy contracted in 1998 and will grow by less than 1% in 1999. The revelation that the IMF and the World Bank had accepted Jordanian national account data that overstated growth so significantly -- and had even complimented the Government on its performance -- has severely eroded the program's credibility. Under the latest deal, both the Fund and the Jordanian Government will have to provide considerably more evidence of high rates of growth before external investors will accept their data.

APM Cluster's collection from EIU Business Middle East, 1 April 1999

GLOBAL

FEARS ON PACE OF FINANCIAL SYSTEMS REFORM

Members of a new financial stability forum yesterday expressed concern that an apparent easing of the global financial crisis may be slowing efforts to reform weak financial systems. Andrew Crockett, the chairman of the forum comprising officials from central banks, finance ministries and financial regulators from the leading industrial countries, said after the group's first meeting in Washington: " There was some concern that reforms in financial systems are in some cases not proceeding sufficiently rapidly. As somebody put it, as the crisis appears to have receded, maybe the pressure to strengthen financial systems and restructure corporate and banking sectors becomes somewhat less." Mr. Crockett, general manager of the Bank for International Settlements in Basle, said the forum would set up three working groups to study three issues and report back to the next meeting of the forum in six months. One would look at highly leveraged institutions, such as hedge funds. These unregulated institutions had given rise to concern from two standpoints: as borrowers with the potential to hurt large numbers of institutions that lend to them, and as lenders they could cause instability in emerging economies. Mr. Crockett suggested direct regulation of hedge funds be not on the table. The aim would be to look at whether changes were warranted in two areas: information availability and "in the way in which the financial institutions that deal with the unregulated institutions are supervised". A second working party would look at offshore financial centers, of concern because they host transactions that escape the oversight of financial supervisors. A third would look at short-term capital flows, and at how recipient countries could make their financial systems more resilient to the flow' inherent volatility. The forum was set up after a report to a Group of Seven finance ministers' meeting in February by Hans Tietmeyer, Bundesbank president.

Mr. Horn's collection from Financial Times, 15 April 1999

Governance Systems and Institutions

LATIN AMERICA

MANAGEMENT ALERT IN ECUADOR

Fuel supplies may become irregular, again. Workers at the state oil company, Petroecuador, say they will strike this week unless officials agree to invest more in the industry and scrap planned reductions in public-sector salaries. Jorge Pareja, a former energy minister, was named president of the company, replacing Ramiro Gordillo, who was sacked in February after critical fuel shortages developed in several cities.

APM Cluster's collection from EIU Business Latin America, 5 April 1999

EUROPE

POLISH PREMIER COMPLETES GOVERNMENT RESHUFFLE

Jerzy Buzek carried out a long-awaited cabinet reshuffle on 25 March by appointing Maciej Srebro, Franciszka Cegielska, Artur Balazs, and Andrzej Zakrzewski as new ministers of telecommunications, health, agriculture, and culture. All the appointees are affiliated with Solidarity Electoral Action (AWS). Government spokesman Krzysztof Luft commented that the "reconstruction of the government" has been completed. The Freedom Union (UW), the AWS's coalition partner, said Buzek nominated Srebro and Zakrzewski without the UW's approval. Zakrzewski replaced Joanna Wnuk-Nazarowa of the UW. Andrzej Potocki of the UW commented that the coalition will survive, but "it will continue in conditions considerably more difficult than so far."

ENA Cluster's collection from RFE/RL, 29 March 1999

MOLDOVAN PARLIAMENT ALLOWS DEPUTIES TO RUN IN LOCAL ELECTIONS

The parliament on 25 March voted to allow deputies to run for mayor in the local elections scheduled for 23 May but requires them to resign from the legislature if elected, RFE/RL's Chisinau bureau reported. Christian Democratic Popular Front leader Iurie Rosca and communist deputy Vasili Ivov were denied registration by the Chisinau Electoral Council on 19 March. Five days later, the Central Electoral Commission rejected Rosca's appeal against that decision.

ENA Cluster's collection from RFE/RL, 29 March 1999

NORTH AMERICA

WORK AID PROJECT GIVES NEW HOPE

New Hope – a project in Milwaukee, Wisconsin, aimed at boosting the income and well-being of low-income families and welfare recipients –does indeed bring new hope, an independent study of the pioneering program has shown. The findings are encouraging not just for Milwaukee, but for the growing range of welfare-to-work programs around the world, which aim to re-connect the poorly qualified to labor markets and boost the position of those in low-paid work. In its first two years, the voluntary, work-based program improved employment, reduced low income and had "positive effects on children's behavior, school performance and social competence", the study by the Manpower Demonstration Research Corporation has found. The effect was most marked in boys' performance. Parents had "less stress and better parent-child relations", the study said, noting the importance of gains in such programs not merely expressed in economic terms, but involving broader improvements for society. Even on the narrower economic basis, however, New Hope helped, the study adds. It offered help with job searches, including a subsidized community job if unsubsidized work was not obtainable. An earnings top-up in addition to the federal and state-earned income tax credits was available, plus, crucially, subsidized health insurance and child care. Compared with a control group, participants not in full-time work saw their unemployment rate halved and their income rise by 13 per cent before the earnings supplement. For those already working, it allowed a reduction in overtime and second jobs, improving family relations and school performance. But it was not cheap. Costs were about $8,000 per participant over two years, a figure which fell to $7,200 once welfare savings and community work were taken into account. “Long-term benefits are not yet measured and non-financial benefits not yet quantified,” the study says. A five-year follow-up will provide that data.

APM Cluster’s collection from Financial Times, 16 April 1999

SUPREME COURT DEALS BLOW TO AFFIRMATIVE ACTION

The US Supreme Court yesterday backed a ruling that found that white men were the unfair victims of affirmative action policies designed to promote women and racial minorities. The court left standing a ruling against the Dallas Fire Department in another legal blow to the federally endorsed policy of affirmative action. Judge Ruth Ginsberg and Judge Stephen Breyer, the only two judges out of the nine-person court who voted to hear the case, argued that “in light of the many affirmative action plans in effect throughout the nation” the Dallas case should be used to resolve conflicting legal rulings. The case follows a 1988 five-year plan by Dallas city council to promote qualified blacks, Hispanics, and women ahead of white male applicants who scored higher on a Fire Department examination. Over the five years of affirmative action, the proportion of the white male lieutenants fell from 97 to 82 %, while the number of white males in total dropped by 8% points to 77%. In a separate but parallel case, the court yesterday also refused to review a lower court’s ruling against a program which gives minority-owned businesses help in winning contracts for federal highways. The Disadvantaged Business Enterprise Program requires that no less than 10% of all federally funded highway construction contracts should be awarded to “small business concerns owned and controlled by socially and economically disadvantaged individuals”. This was challenged by Cache Valley Electrical after it lost bids on two 1995 contracts to construct federally funded highways projects in Utah. Although in both instances Cache Valley submitted the lowest bids, the contracts were awarded to minority businesses. Separately, the Supreme Court yesterday agreed to hear arguments on the use of student fees used to subsidize political and ideological activities. The fees, which are collected from all state-run university students, have been criticized for violating the free speech rights of students who object to the political issues.

Mr. Horn’s collection from Financial Times, 30 March 1999

MIDDLE EAST

AVIATION REFORM IN LEBANON

Staff and pilots of Lebanon's Middle East Airlines (MEA) have threatened industrial action over plans to cut staff numbers. The staff association has asked the Central Bank, which owns the airline, to "modernize and expand" the airline, but it opposes the company's business plan. The chairman, Mohammed Hout, has repeatedly said that MEA needs to cut staff numbers by at least 1,500 from the present 4,500. He claims MEA could save more than $35m per year.

APM Cluster’s collection from EIU Business Middle East, 1 Apr 1999

GLOBAL

UPHILL TASK FOR UNDP CHIEF

Mark Malloch Brown, a senior official at the World Bank, is set to be confirmed as the new head of the UNDP this week, having promised to restore confidence in the agency's management and focus its efforts on promoting good government in poor countries. Before joining the Bank, Mr. Malloch Brown worked with politicians and governments in developing countries at the Sawyer-Miller Group, a political consultancy. He also worked for the UNHCR helping to develop strategies for working in emergency situations. Officials said that Mr. Malloch Brown had argued that the UNDP should focus on capacity building and the promotion of good governance in the 134 countries in which it is represented. He also wants to help governments exploit information technology more effectively. But whatever its strategy, donor countries have also made it clear that they want to see a turnaround in the UNDP's management.

Mr. Horn's collection from Financial Times, 20 April 1999

Civil Services & Ethics in Public Sector

AFRICA

NIGERIA SET TO CUT CIVIL SERVICE

Nigeria's military government is preparing to sack tens of thousands of civil servants, a development likely to lead to a showdown with the unions before the hand-over to the elected government next month. A senior government official said yesterday that ministries and state companies had been asked to draw up lists of "dead wood" employees to be dismissed by the end of the month. In practice, he said this could lead to the firing of up to 20 percent of the public work force, or tens of thousands of job losses. By way of an example, he said that out of 800 employees at the national planning commission, 452 were listed for the sack. The Government has no precise idea of the size of the civil service but estimates of the numbers on the federal and state payrolls reach more than 1m. Once known for its respect of procedure and for providing continuity during military shake-ups, Nigeria's civil service is now bloated, demoralized and in desperate need of reform. Civil servants can barely live on their tiny salaries, and often survive off bribes related to their functions or earnings from other jobs, or trading. Sani Abacha, the late dictator, began reducing numbers last February. But his retrenchment program was stalled when he died last June and Abdulsalami Abubakar took over. Since then, the government has been heading for a clash with the unions after not implementing a promised salary increase of 300 percent. Government officials say that only by cutting the work force severely, will any salary raise be possible. In several states, workers went on strike last week demanding payment of salary arrears and implementation of a revised minimum wage of Naira 3,000 ($32) a month. Soldiers have been drafted in to ensure continued supplies of water in some areas. Several states have threatened to cut back their workforces, most dramatically in the northern Kano State. The official intention of the Government is to resolve these disputes, and cut the workforce to a more manageable size by the time Olusegun Obassanjo, the president-elect, takes over on May 29.

Mr. Horn's collection from Financial Times, 20 April 1999

EUROPE

FRENCH EXECUTIVE IN COURT OVER WORKING HOURS

A senior executive in a leading French company yesterday appeared before a Versailles court accused of permitting staff to work overtime without proper pay. The controversial case is the first of its kind in France and highlights the issue of how companies comply with the country's complex labor laws when staff voluntarily work long hours to do their jobs properly. The prosecution has been brought by labor inspectors against Bernard Rocquemont, for allegedly allowing "clandestine work" to be carried out in 1996-97 while he was chief executive at the radar subsidiary of Thomson-CSF, the defense electronics group. Mr. Rocquemont risks a FFr200,000 ($32,900) fine and a suspended prison sentence if found guilty. The high-profile nature of Thomson-CSF, which at the time of the alleged offences was state-controlled, has given added resonance to the case. It is also being held against the backdrop of preparations for a second and more detailed law on the introduction of the Lionel Jospin Government's flagship proposal – the reduction of the working week from 39 to 35 hours. One of the thorniest aspects in the second law is precisely how qualified staff are to be treated. When he appeared in court yesterday, Mr. Rocquemont denied every one of the charges. He maintained working hours had been cleared in advance with the unions. Mr. Rocquemont, who now has another senior post within Thomson, received support from the company's senior staff and managers. In an unprecedented move the latter paid for a full-page advertisement in yesterday's Le Monde with headlines asking, "Are we really clandestine workers?" The

Company decline to comment pointing out the trial was in progress and judgment was unlikely for some three weeks. Thomson was one of several large French groups visited by labor inspectors checking overtime in 1996-97 – a process begun before the Jospin Government took office in June 1997 and pledged to introduce a 35-hour week. The Thomson inspection was sparked by a denunciation from Supper, a militant trade union. The inspections led to a new agreement with the unions at the end of 1997 that allowed qualified staff to take an extra five days holiday and be paid a bonus in lieu of overtime.

Mr. Horn's collection from Financial Times, 15 April 1999

RUSSIAN BUSINESSMEN FIGHT CORRUPTION CLAIMS

Two of Russia's most influential businessmen yesterday pledged to return to Moscow to fight accusations of corruption leveled against them, while the man who issued warrants for their arrest fought for his own survival in the wake of sexual and financial allegations. Boris Berezovsky, a Kremlin power broker currently in France, and Alexander Smolensky, the powerful head of SBS-Agro bank, who is in Austria, both claimed the cases brought against them in the last few days were politically motivated and protested their innocence. In Moscow, Yuri Skuratov, the general prosecutor who launched the investigations, said efforts "conjured" up to force him out of office were illegal, and put his fate in the hands of the Federation Council, the Russian upper house of parliament, which is due to meet today.

APM Cluster's collection from New York Times, 8 April 1999

RUSSIAN CALL TO PROTECT INVESTORS

Russia's top stock market regulator yesterday called for the introduction of tough criminal sanctions to help in his fight to clamp down on abuses against investors and to impose a fairer financial system. Dmitri Vasiliev, head of the Federal Commission for the Securities Market, called for a modification to the country's criminal code to introduce a sentence of up to five years' imprisonment for unauthorized individuals carrying out financial service activities. He also called for criminal penalties for companies, which did not disclose to the market the full financial information that is required of them or for those which illegally issued securities. The moves could help to strengthen Russia's system for protecting investors in quoted companies, who have traditionally suffered from widespread abuses including actions to ignore their voting rights and dilute their shareholdings through the issue of new shares without their consent. Mr. Vasiliev urged investors to pursue their cases more frequently through the legal system. He added that 125 court cases had been brought by his Commission over the last year, and that it had won in three-quarters of them. Prosecutions had taken place. Mr. Vasiliev stressed that Russia's recently introduced investor protection law had strengthened their hand. The legislation requires any new share issues by companies to be approved by a two-thirds majority of all shareholders, rather than simply by the board as in the past.

Mr. Horn' s collection from Financial Times, 24 February 1999

NORTH AMERICA

ISLAND DRIVE AGAINST FRAUD COMMENDED IN NEW YORK

Increased cooperation by the Jersey authorities against combating financial crime has been commended by John Moscow, deputy chief of the investigation division at the New York District Attorney's Office. "I have noticed a change in their public position of considerable magnitude and this has been matched in their private actions," he said. "They have made it clear that they want to work with other people who want to fight crime." His comments came after a visit to New York by Mike Wavell, head of Jersey's policy authority, Bob le Breton, the island's police chief, and Richard Pratt, deputy-general of Jersey's Financial Services Commission. Jersey, which has the ancient and unusual status of a bailiwick of the British Crown, is the largest of the Channel Islands between

England and France. The island has its own legislature and makes its own financial laws. Mr. Wavell and his colleagues were keen to convey the message that Jersey is willing to cooperate with other jurisdictions in the fight against money laundering and other types of financial crime; a challenge referred to in the recent Edwards investigation commissioned by the UK Government. It covered financial laws and regulations in the offshore centers of Jersey, Guernsey, and the second largest of the Channel Islands and the Isle of Man between England and Ireland. The Jersey authorities have recently dropped a requirement that an alleged fraud case must involve losses of at least 2m before they will assist another jurisdiction in an investigation, a policy that has caused Mr. Moscow concern in the past. "I am told they have waived that," he said, " and that is the way to catch the bad guys." Mr. Moscow believes that there is still room for improvement, particularly in regard to Jersey firms that set up companies for foreign clients. " I do not think there is sufficient focus on their part in knowing who their customers really are," he said. "If you are looking after money for people but don't really know how they got it that could be a problem." For Mr. Pratt, the New York trip was just one of a series of visits he is making to spread the word that Jersey is an offshore center in which other jurisdictions can have confidence. He recently went to Washington and Brussels and has plans for further trips to meet most of the major European regulators.

Mr. Horn' s collection from Financial Times, 9 April 1999

LATIN AMERICA

THE LONG LUNCHES IS LIKELY TO BECOME A HISTORY FOR MEXICAN BUREAUCRATS

This week the Federal Government introduced new rules for some of its 2.8m bureaucrats that – if they stick – could transform one of those relics of a dying age that Mexico has stubbornly preserved: the three-tequila lunch. Since Monday, shifts of government workers have been compressed from 9am to 6pm, with a strike 60-minute limit on lunch. That is down from workdays that would often start at 10am and end at 11pm, with hours spent idly waiting for the boss to return bleary-eyed from the restaurant. The reforms are aimed at shaking up Mexico's bloated and somewhat Dickensian bureaucracy, bolstering efficiency, improving working conditions and making public servants more diligent. They will also promote government austerity at a time when Mexico has to keep a tight rein on public spending because of low oil prices. In a hint of the profligacy that once prevailed, already this year the Government has banned workers from using premium-rate telephone lines, limited mobile phone use, clamped down on first class air travel and pledged to shed 14,000 jobs. All of which, it hopes, will cut 1.9bn pesos ($200m) from expenditure. Marco Provencio, a finance ministry spokesman, says the new work schedule will affect some 225,000 workers in the capital, which will create marginal cost savings. "It is not the numbers, it is the labor culture of the bureaucracy that we are after," he says. "You can't expect people who arrive at their offices at 9am and leave at 10pm to be the soul of productivity." The reforms promise tantalizing social consequences as well. Some officials are already signing up for evening courses and master's degrees, lights in ministries are going out on time and workers spill out into the streets blinking unexpectedly in the early evening light. Government officials say President Ernesto Zedillo backs the reforms. This week he urged the bulk of his staff to leave at 6pm, and a spokesman said he was keeping just a skeleton crew for emergencies. Mr. Zedillo, an economist who is fastidious about waste, has a history of breaking with bureaucratic tradition. On taking office in 1994, he announced he would spare his cabinet the tiresome extravagance of waving him off at the airport on foreign trips and saluting him on return.

APM Cluster's collection from EIU Business Latin America, 9 April 1999

BRAZIL BANKS AND JUDGES FACE PROBES

The Brazilian Senate yesterday launched an investigation into corruption in the judicial system and has announced it is setting up another inquiry into the banking sector. The inquiries, which could distract attention from much-needed economic reforms, will occupy much of the Senate's time for the next three months and could sap political energy in Brazil's capital. TheGovernment has, however, professed itself relaxed about the prospect of the probes. The investigations come as Brazil begins to pull itself out of a currency crisis, which began in January, and as investors express confidence that the Government will implement long-term fiscal reforms needed to guarantee economics stability. The inquiry into the judicial system, which has been spearheaded by Antonio Carlos Magalhaes, Senate president, will look into allegations of nepotism and corruption by judges. A number of judges have threatened to boycott the inquiry, alleging that the legislature does not have the institutional authority to investigate the judicial branch of government, raising the prospect of a constitutional crisis. However, in an attempt to calm tensions, Celso de Mello, president of the Supreme Court, said the inquiry was legitimate. " Magistrates should behave like any other citizen and not put themselves above the law," he told reporters on Wednesday. Some analysts believe the inquiry could create the political conditions for a broader reform of the judicial system, which the Government has already proposed. The banking sector inquiry could be more embarrassing for the Government, as it will look into allegations that some banks received warning about the January devaluation and that the central bank sold dollars below the market price during the crisis to two struggling Brazilian banks. The central bank is expected to respond to these allegations later this week. Although the preparations for the investigation have not been completed, observers said it was almost certain it would start next week. Political analysts forecast that the probes would not significantly affect the Government 's reform agenda. "The Senate will be partly tied up with the investigations, but the lower house will continue doing its work," said Carlos Lopes, a political analyst at Santafe Ideais in Brasilia. However, he added, the emergence of new allegations during the hearings could damage the Government. The political pressure for the inquires reflects an underlying struggle for influence within the five-party coalition. Analysts said Mr. Magalhaes was using the judicial inquiry to raise his profile with a view to a possible presidential bid in 2002. President Fernando Henrique Cardoso has so far not been drawn into the inquiries. "The game is to provoke the Government to see if it is nervous and then score points in a period of sensationalism," he said in an interview last week. "I will not get involved in this kind of maneuvering."

Mr. Horn' s collection from Financial Times, 9 April 1999

Management Innovation & Trends

AFRICA

SOUTH AFRICA FEARS LOCAL BODIES NOT SET FOR YEAR 2000

South Africa faces a "catastrophe" if its local authorities fail to prepare for the looming millennium computer bomb, Jay Naidoo, posts and telecommunications minister warned yesterday. Many older computer systems in South Africa and elsewhere abbreviate the date year to two digits instead of four, for example 99 for 1999. Unless changed, computer programs on these systems may next January mistake 00 in 2000 for 1900 – the so-called millennium bug – resulting in possible system failure or incorrect processing of date-sensitive data. He said there was little evidence that the problem had been fixed in the country's 832 local authorities. "We have had problems with disclosure of information from municipalities. One can only assume that the level of compliance is very low," Mr. Naidoo said. "The consequences of not ameliorating the problem are huge. There would be a catastrophe if municipalities don't move on these problems," he said. He also said that 50% of federal government computers had been checked and fixed to deal with the year 2000 problem and that there was a target of 70% reaching this status –big millennium compliant – by the end of the year. The Government 's Year 2000 Support Centre – which estimates the country's compliance program at $4bn- said local authorities were one of the potential weak links in the country's business supply chain. Most local authorities buy essential supplies as electricity and water from national utilities and sell units to communities and companies. Services could be interrupted if their computer systems fail because of the millennium bug, he said. Mr. Naidoo said the authorities were legally bound, under regulations gazetted last month, to be millennium compliant, failing which they could be charged with contravening local government legislation. A R21m millennium bug-busting projects has been announced to help municipalities to manage the problem. The project would be funded by the private sector, which is worried about disruptions in essential services such as electricity and water supplies.

Mr. Horn's collection from Financial Times, 24 March 1999

ASIA

JAPAN PLANS A HIGH-TECH BREED OF 'PETS' TO CARE FOR THE ELDERLY

Japan is developing a new generation of care-workers for its growing population of elderly people: robot pets. Tama, an orange cat, and Kuma, a blue bear –each the size of a large teddy – record the number of times their owners chat, pat or hug them and transmit the data to welfare agencies keeping an eye on the well-being of old people. Prototypes of the pets were demonstrated last week by Matsushita Electric's Business Incubation Unit. The Company has spent Y150m ($1.25m) developing the pets, with the Ministry of Health and Welfare contributing an additional Y70m. If they go into production. Tama and Kuma could help Japan cope with a looming demographic problem. Approximately 16.2 percent of Japan's population, or 20m people, were over 65 years of age in October 1998, according to the Ministry of Health and Welfare. The number of elderly people is forecast to rise to 18.8 percent of the population by 2003 and to 21.2 percent by 2008. However, Japan has no widespread culture of old people's homes and is not geared up to cope with the boom in numbers of elderly people. " Many old people live alone and die alone," said Kenji Mizutani, researcher at the unit. "The Government can use Tama and Kuma to monitor these people." Matsushita Electric expects to sell the pets to welfare agencies for approximately Y50, 000 each. For a nominal fee, the agencies will then rent the pets to elderly people living alone. Tama and Kuma are more than just someone to talk to. They can respond to a greeting, engage in simple conversations and even express remorse when scolded. Built-in sensors also enable the pets to wave their arms and legs when touched. Their eyes are actually a miniature computer screen, which could be used to display a digital clock or a pair of closed eyelids when the pet is "asleep". The pets will even deliver information on local weather and social events. With other countries struggling to deal with the surge in numbers of old people, the export opportunities for the pets should be excellent. But further research could be needed before Tama and Kuma can keep the rest of the world company. At the moment, the pets speak only Japanese.

APM Cluster's collection from Financial Times, 13 April 1999

DOING THE RIGHT THING IN MANAGEMENT OF DOWNSIZING

Asian economies may look to be on the mend but painful adjustments are still ahead to challenge management -- not least human resources managers. In stark contrast to pre-crisis years, one of the more unpleasant tasks over the past eighteen months has been how to manage downsizing. Even if the big axe has in many cases already been wielded, the need for incremental downsizing will be a feature of Asia for some years to come. Handling this delicate and often distressing human resource responsibility can be fraught with difficulty -- and repercussions. A wide range of options are open, from basic redundancy packages which fulfil minimum legal requirements to more generous and sensitive severance packages with the provision of outplacement services. Local companies in Asia are typically tempted by the first option, as are a few multinationals. But as the experience of UK retailer Marks & Spencer) amply demonstrates, sticking with a record of "investing in people" by handling downsizing according to international best practices might be the better choice. Marks & Spencer operates 43 stores in seven countries in the Asia-Pacific. In the half-year ending September 1998, the company saw its regional turnover drop 35.9%, recording a HK$15m (US$1.9m) loss. At the same time earnings in the UK were also deteriorating. M&S felt it had little choice but to cut costs. In Asia, in addition to freezing a feasibility study for Shanghai, the company announced lay-offs in Hong Kong. The front-line sales teams were to be left intact, to maintain quality of service to customers. But 50 employees, from middle managers to support staff, were to be made redundant, and another 40 offered relocations. To soften the blow, M&S offered generous severance packages. But just as importantly, it put a great deal of effort into handling how the employees received the news, and in assisting them during the period immediately after the lay-off. In breaking the news, M&S decided to use its own people. Company human resources staff trained and prepared line managers to carry out redundancy interviews. This personal touch scored high points from those who attended the subsequent outplacement program.

M&S tendered for outplacement counseling services, selecting Workshift Hong Kong, part of a larger international outplacement consultancy. Outplacement is not a common practice in Asia. But what makes the M&S scheme all the more unusual is that the company offered all staff -- from managers to amahs -- outplacement services. Programs of different duration were provided to staff according to their position in the company. But all were delivered to the same high quality. Programs started with group seminars, held in top hotel locations, before moving on to individual counseling. The counseling involved three steps. The first involved emotional counseling aimed at helping people who may never before have faced redundancy cope with the shock and stress, as well as the fear of losing face when having to break the news to family and friends. Participants were asked then to look rationally at their past career and their goals in life so as to help them decide which direction to take in seeking new employment. The bulk of the counseling focused on the practical aspects of finding a new job -- from how to identify potential companies and positions to writing a resume and interviewing techniques. At a time when Hong Kong's unemployment hit a record 5.8%, more than half those made redundant had found new work just three months after being laid off. Feedback from ex-employees was also very positive, with both M&S and Workshift receiving letters of thanks. Many were grateful simply to have a counselor to handle personal issues. Others were more focused on practicalities, and valued the help in creating a professional resume and learning how to perform well at job interviews. Still more were impressed by the psychometric tools used to assess personal characteristics, which helped to boost confidence. So often, downsizing creates an atmosphere of hostility and resentment, giving the lie to the corporate platitude so often seen and heard that "people are what makes our organization". Through M&S's efforts, 50 potentially shocked and disoriented people quickly found a new direction in their job transition. As a result, the company did much to reinforce its image as a good employer. This is likely to be to its advantage when it seeks to attract people of caliber in the future. Equally, those who remained at M&S were spared the trauma known as "survivor syndrome", which can have a particularly deleterious effect on morale at service companies. With service increasingly a factor in differentiating businesses in Asia, others would do well to consider the M&S experience.

APM Cluster's collection from EIU Business Asia, 5 April 1999

EUROPE

INVESTORS IN PEOPLE FACES FAMILY OBLIGATION

The UK Government is considering renegotiating the terms of the Investors in People training and staff development standard to include family-friendly employment practices in a serious push for greater flexibility for working parents. Ministers are also studying plans to use public money to fund a small number of private sector pilot schemes to demonstrate to employers imaginative but inexpensive ways to become a family-friendly company. The plans are among a range of "levers" ministers at the Department for Education and Employment are studying to persuade employers that family-friendly practices are good for business. Downing Street has ruled out any new regulations on companies as a threat to competitiveness. British men work the longest hours in the EU and about 66% of women with children of school age work. The Government has argued that while they can help with supplying more and higher quality childcare, companies have an important role to play too. "We are anxious to see how we can ensure a change of culture and attitude on family-friendly practices. We know more flexible working hours make for more stable families and help lower truancy rates and higher educational achievement for children, but the challenge is to convince employers there is a business case for doing it." It is not about money. It is about renegotiating time at work, " one minister said. Investors in People, who sets national standards for training and improving company performance through staff development, could be a powerful weapon in convincing companies to adopt more flexible working practices for working parents. Employers are eager to achieve the standard, which allows them to use the IIP logo on advertising and marketing material. More than 13,000 organizations are recognized as Investors in People with 22,000 working towards the standard.

APM Cluster's collection from Financial Times, 8 April 1999

GLOBAL

DEVELOPING COUNTRIES STILL BEHIND IN Y2K READINESS

Gaps between leaders and laggards in the race to ensure computer systems can cope with the year 2000-date change are widening considerably, according to a report published yesterday. "The companies and governments furthest ahead significantly increased the speed of compliance effort, and extended the gap between themselves and the ones further behind," said US-based Gartner Group, an information technology consultancy. Among the best-prepared countries are Australia, Belgium, Bermuda, Canada, Denmark, Holland, Ireland, Israel, Switzerland, Sweden, the UK and the US. The bulk of least prepared countries are developing nations, but they also include China and Russia. The report said: "Efforts to get less-developed countries and lagging industries moving more quickly have met with minimal success by international groups and associations." Governments and government agencies lag behind the private sector in preparing for the so-called Y2K bomb. Even among the most advanced countries, Gartner estimated there was a moderate risk of serious disruption to government services. In lagging countries, Gartner said there was a moderate risk of severe power supply interruptions, telephone problems, disruptions to air-transport, and interruptions to government services and to imports and exports. In the least prepared, there was a risk of "bank interruptions and panics". The Gartner analysts said the US Government had extended its lead in year 2000 compliance. However, the report also noted that several other countries and industries had made particular progress since October 1998. These included Mexican and Hong Kong banks, the largest Japanese companies, large companies in France, most large companies in industrialized countries and US Federal Government agencies, infrastructure utilities and banks. The furthest behind included airports, shipping and railroads, healthcare, agriculture, construction and education. Last year, Gartner estimated 15 to 30% of IT budgets was spent on year 2000 compliance, up from 5% in 1997. The analysts forecast this figure would rise to between 20% and 40% this year. In addition, large companies were spending more on non-IT related year 2000 projects, particularly on risk management and contingency planning. Large companies in the countries furthest ahead have completed work on between 50 and 100 percent of these systems. Gartner warned that since year 2000 system failures would become more common in the second half of 1999, little time remained to conduct risk assessments and develop contingency strategies. It urged that those organizations that were not fully prepared for year 2000 "must begin to define and implement contingency plans immediately. "

Mr. Horn's collection from Financial Times, 23 March 1999

Public Finance

AFRICA

FINANCIAL SERVICES IN UGANDA

The Bank of Uganda has closed Greenland Bank because of financial irregularities including heavy lending to its own staff. When the central bank took over management of Greenland last December it insisted that there was no danger of collapse. Last month, however, Greenland was closed after it was found that "insider lending" to executives, staff and directors accounted for more than half of the bank's lending portfolio, and that the loan book was 26 times the legal limit. Greenland is the second financial institution to be shut down by the central bank in the past six months.

APM Cluster's collection from EIU Africa Business 16 April, 1999

ZIMBABWE'S FINANCIAL SECTOR IN FLUX

The planned takeover of DCZ Holdings by Kingdom Securities Holdings constitutes a major step forward for the country's black-owned banks. Kingdom, which operates a discount house, merchant bank, and a stockbroking/ asset-management company, now owns 51% of DCZ, one of Zimbabwe's leading discount houses. If the merger goes through as planned, Kingdom will merge its discount business with DCZ under the latter's brand name, while its other financial operations will continue as at present. For Kingdom, the big prize is DCZ's listing on the Zimbabwean stock exchange and its access to the local capital market. However, a second indigenous finance group, Transnational Holdings, has been less successful in its bid to take control of the state-owned Zimbabwe Financial Holdings group: the Government has rejected its bid for the shares held by the state-run National Social Security Agency, saying that they are not for sale. Nevertheless, Transnational, which also has discount market and insurance interests, remains keen to obtain control of a commercial bank while at the same time securing the greater prize of a stock exchange listing.

APM Cluster's collection from EIU Business Africa, 16 Apr 1999

ASIA

DELIVERING REFORM IN AUSTRALIA

The Liberal/National coalition Government won a second term in office on October 3rd 1998. Although it lost some seats, it retained a comfortable working majority in the lower house. A key election issue was tax reform and, in particular, proposals to replace the existing system of indirect taxes with a goods and services tax and to reduce personal income tax rates. The Federal Government plans to replace Australia's wholesale tax system (which only applies to goods) with a 10% goods and services tax (GST) and to reduce personal income tax rates. The Labor opposition does not support the GST, and will vote against it. The Government must therefore rely on support from either the Australian Democrats or independent senators in order to push its legislation through the upper house, where it does not have a majority. Although the Democrats and independents support the GST in principle, they are opposed to it being applied to basic foodstuffs, and may force amendments. The business community expects the Government to deliver on tax reform. Major organizations representing business support tax reform and wish to see a GST introduced with as few exemptions as possible. Possible changes to business taxation, however, are likely to be met with less universal support from the business community. An independent review of business taxation has recommended a lowering of the corporate tax rate from 36% to 30%, to be funded by withdrawing a range of business tax concessions such as accelerated depreciation -- the Government has indicated that any changes to business taxation must be revenue neutral. The impact of the changes proposed would vary widely across business sectors.

APM Cluster's collection from EIU Business Asia, 22 March 1999

CLAMPDOWN BY CHINA ON TAX EVASION

China plans to launch a nationwide campaign this month to catch a multitude of cheats who evade taxes by using fake invoices and falsifying receipts, contributing to a strain on central government finances that ranks as one of the country's most pressing economic problems. Zhang Wei, director of the general office at the State Bureau of Taxation, said in an interview, that the measure was part of a four-pronged attack to boost tax revenues this year and allow the Government more latitude to pursue a fiscal stimulus policy that is supposed to be the main engine of economic growth. Beijing has forecast a budget deficit of RMB150bn($18bn) this year, up 56% from 1998, and also plans a relatively mild tax collection regime to avoid squeezing companies and individuals as the wider economy slows. Total tax revenues are forecast to climb 4.8% this year to RMB953.3bn, Mr. Zhang said. But the laxity in tax policy does not mean that China feels able to be slack in tax collection. Indeed, with central government revenues at just 12% of gross domestic product last year – one of the lowest levels in the world – Beijing realizes its ability to conduct macroeconomic policy is compromised by its poor tax receipts. With this in mind, the Government is about to take aim at selected categories of fraudsters. "There will be a big investigation of receipts," said Mr. Zhang. "The government loses a lot of money every year in this." Receipt fraud in China ranges from trifling but virtually ubiquitous problem of businessmen over-claiming expenses with fake receipts, to an elaborate ruse through which companies doctor invoices to reduce their eligibility for value added tax, which contributes about 30% of all Chinese tax revenues. Value added tax in China is different from in the west. It is charged on the difference between the cost of inputs into a factory and the value of products produced. Companies that can convince the taxman their product is worth less than the raw materials used to make it –which is objectively the case in many inefficient state enterprises –can therefore avoid paying any value added tax. This has given rise to a thriving market in fake invoices which companies buy and then fill out with inflated figures to overstate the value of their factory inputs bought, Mr. Zhang said. Both the companies using fake invoices as well as the makers and sellers of the fakes are to be targeted. This, Mr. Zhang said, is a crackdown on tax evasion among street vendors, chasing up tax arrears and increasing revenues from personal income tax.

Mr. Horn's collection from Financial Times, 22 March 1999

ASEAN CALL FOR MORE OPEN AND BETTER REGULATED FINANCIAL SYSTEM

Finance ministers from the 9 members of the Association of South East Asian Nations (ASEAN) ended two days of talks in Hanoi on the weekend with a call for greater openness and improved regulation of the international financial system in the aftermath of the Asian economic crisis. The ministers called in particular for "greater transparency" in the operations of international ratings agencies, and for "closer and more coordinated monitoring of short-term capital flows". Their final statement also called for tighter regulation of big market participants, arguing that "highly leveraged institutions which have systemic significance should be subject to regular and timely transparency and disclosure requirements". Thailand's deputy finance minister, Pisit Leeahtam, and Singapore's finance minister, Richard Hu, both stressed that the proposals did not represent support for increased restraints on market activity. The final statement left out more interventionist proposals from Malaysia. However, Malaysia's second finance minister, Mustapa Mohamed, welcomed it. The ministers also moved ahead with plans proposed last year to set up a system for monitoring the economies of its members, which is supposed to provide early warning of a possible repeat of the market collapses of 1997. The ASEAN surveillance process will now be run out of the group's Jakarta secretariat, under the current head of the Asian Development Bank's regional economic monitoring unit in Manila, Pradamuna Rama. The ASEAN ministers expressed guarded optimism about the prospects for economic recovery in the region this year. But their statement also expressed concern about threats including rising protectionism, continued weakness in the Japanese economy and currency fluctuations.

Mr. Horn's collection from Financial Times, 22 March 1999

EUROPE

A TAXING TASK

The British Government has started to wrestle with a question that confronts all industrial countries: how to tax energy without harming big exporters. In his Budget earlier this months, Gordon Brown announced that as a step towards meeting the carbon emission targets agreed in Kyoto in 1997, industry would pay an extra 1.75bn of energy taxes from 2001-02 on wards. The chancellor also promised to try to find ways to mitigate the impact on high-energy users. However, present ideas for achieving this pose dangers to the integrity of the tax system and are not likely to be economically efficient. At their first meeting yesterday with industrial representatives since the Budget, ministers learned the scale of the problem. One energy-intensive sector estimated that the expected tax increase would be the equivalent of 40% of present capital expenditure; another that it would cut pre-tax profits by half. The Government has indicated that it will return the proceeds of the carbon tax to industry by cutting payroll taxes. But energy intensive industries say that this rebate would amount to between 3 and 10% of what they would pay in extra energy taxes. In response, the Government is seeking ways to give tax rebates to such sectors in exchange for promises to economize on energy. But, this violates the fundamental principle of a liberal tax regime that taxes should be non-discriminatory and transparent. If ministers could set different tax rates for different industries, the potential for corruption in government and backsliding by industry would be huge.

Mr. Horn's collection from Financial Times, 30 March 1999

EU TAXATION

Turmoil in Brussels may have taken some momentum out of controversial European Union plans for a withholding tax on investment income, but the issue has not gone away. That is a pity, for the scheme is ill-conceived, posing a threat to the financial industries of London and Luxembourg without compensating gains. A draft Commission directive, supported by 13 of the 15 EU states and the European parliament, would impose a tax on the interest paid to individuals in EU states from other members. Institutions would be exempt. The aim is laudable – to clamp down on tax evasion by retail investors –but the directive could seriously damage the huge international bond market which London captured from the US in the 1960s – ironically after Washington imposed a tax on overseas investors. If the tax were applied to existing bonds it could trigger market turmoil, since most issues contain clauses allowing redemption at par if new taxes are imposed. With many bonds trading above par, thanks to declining interest rates, investors would suffer large losses. Even if limited to new bonds, the directive would encourage issuers to quit London for friendlier markets, such as Zurich and New York. So too would an alternative proposal under which an interest-paying bank would disclose the name of recipients to the tax authorities in their countries. This would be costly and bureaucratic. The directive's supporters say London's fears are grossly exaggerated, since EU retail investors only account for about 10% of bond issuance. But this ignores the fact that, in a world of electronic trading and fierce competition between financial centers, capital is highly mobile and sensitive to regulatory change. And since London is Europe's main capital-raising center, its loss would be the EU's. While it is impossible to judge the precise impact of the directive, it risks wrecking a well-functioning market for the sake of a policy which is bound to fail: investors determined to avoid tax will simply find new instruments in more accommodating offshore centers. Britain and the EU have been discussing a compromise to exempt eurobonds from the tax. But this is a second-best solution, involving the underlying issue of tax avoidance. Better to scrap the directive and tackle the problem at source, by reforming bank secrecy laws in countries most concerned about evasion, notably Germany. But that, of course, would require real political courage.

Mr. Horn's collection from Financial Times, 24 March 1999

EU FINANCE WATCHDOGS SHOULD COOPERATE BETTER

Howard Davies, the UK's financial services regulator, has called for greater cooperation between Europe's financial services watchdogs to deal effectively with a rapidly changing industry. As head of the Financial Services Authority, which regulates a wide range of City of London activities, from banking to insurance, Mr. Davies hopes to convince the European Commission to urge greater cooperation between regulators for different industry sectors as well as different countries. He opposes the creation of a pan-European banking supervisor. Instead he believes consolidation across Europe favors the creation of national regulators to supervise a range of industries. In a speech last week, he said: "As cross-sectoral mergers develop, it would be wrong to recreate at EU level the combined central bank/supervisor model which is increasingly being abandoned in member states." The mooted tie-ups between three French financial services groups –BNP, SG and Paribas –have indicated the extent of changes in Europe's financial services industries, with large multi-disciplinary groups being formed. The question of how to regulate such huge financial services groups has taxed politicians and academics alike. Mr. Davies stopped short of advocating the UK model, which combines regulation of most City activities, for all member states. The European Commission is drawing up a "framework for action" on financial services. Mr. Davies called on the Commission to create a flexible system and a coherent policy.

Mr. Horn's collection from Financial Times, 19 April 1999

SWEDEN LEAVES ROOM FOR TAX CUTS

The Swedish Government left the door open for future tax cuts when it presented its spring budget yesterday, but admitted it would struggle to meet its target of cutting "open unemployment" to 4 percent by the end of 2000. Describing the budget as one in which jobs were the most important theme, Bosse Ringholm, finance minister, presented government forecasts that showed "open unemployment" well above its own target, at 5.6 percent in 2000. Total unemployment, which includes those on government schemes, is significantly higher. On the back of buoyant public finances and under pressure from a Social Democratic party weary of almost five years of financial austerity, most analysts expect cuts along the lines of $1.8bn-$2.4bn. The budget did include extensions of previously announced minor tax cuts for low and middle income earners but there were also moves to increase prescription medicine costs.

Mr. Horn's collection from Financial Times, 15 April 1999

MIDDLE EAST

LEBANESE BUSINESS COMMUNITY WELCOMES BUDGET

Lebanon's state budget, proposing a wide range of taxes and other fees and charges, and a lower budget deficit, was well received yesterday by the country's business community. The General Workers Confederation, representing Lebanon's 350,000 strong labor force, immediately rejected a proposed increase in the cost of petrol and threatened to stage demonstrations to oppose it. But politicians expected the draft budget to be passed in parliament without significant amendment. "The markets have been waiting for a budget that will raise revenues, tackle the public debt and budget deficit," said Henry Azzam, chief economist and managing director of Middle East Capital Group. The budget draft should have been put forward late last year but was delayed by the resignation of the government of Rafiq al-Hariri, the prime minister. The Government has set itself a target of reducing the budget deficit from 43.3 percent in 1998, according to official figures, to 40.2 per cent. The deficit is one of the highest in the world on a per capita basis and a large contributor to a public debt estimated at $17bn last year. The new budget predicts a 5.4 per cent increase in public spending, from $5.544bn. Revenues are projected to rise from $3bn last year to $3.33bn . The expenditure target also includes an increase of $464m in servicing the public debt, $282m to cover a retroactive public sector wage increase and $204m more for investments. Analysts believe that spending may be well within the target set while the new fees and charges may generate more revenue than predicted. Marwan Barakat, head of the economic research unit at Banque Audi, a leading Lebanese bank, said the government had included all relevant data in the budget, which he praised for its transparency. Economists said investors were also eagerly awaiting details on the government's new five-year fiscal reform plan. The plan is now with the government. The program called for corporatization of public utilities, restructuring of public debt and a new tax system.

Mr. Horn's collection from Financial Times, 1 April 1999

NORTH AMERICA

GOVERNMENT AGENCIES SLIP UP ON ACCOUNTING

The financial statements of the US Government continue to fall short of professional accounting standards leading to mismanagement of millions of dollars of assets, a House committee heard yesterday. The General Accounting Office, the investigative arm of Congress, revealed the lapses in its second ever audit of the financial performance of US government agencies and departments. 24 agencies were investigated by the GAO in the fiscal year 1998. 13 were expected to receive an unqualified audit, compared with 11 agencies in 1997. The GAO's report said action was "underway across the government to address the pervasive, generally, long-standing problems." Recent reviews of 1998 audits of the Internal Revenue Service, Federal Aviation Administration, Department of Justice, and the Administration found serious flaws in fiscal accountability in each of the agencies , which has cost taxpayers billions of dollars in misdirected funds each year.

Mr. Horn's collection from Financial Times, 1 April 1999

US REJECTS PLAN FOR WORLD ACCOUNTING BODY

The Financial Accounting Standards Board of the US has formally rejected a blueprint for a body that would set a single reporting code for multi-national companies wanting to list on the world's leading stock markets. Ed Jenkins, Chairman, said proposals by the International Accounting Standards Committee did not go far enough "in creating a high-quality, independent standard setter that would be acceptable worldwide". The board's statement implies that if a series of improvements to the plan, which would make it closely resemble the FASB, are not agreed, then it might set up a rival body that it would hope to see become a world accounting standards board. The FASB's response raises the spectra of a dual system in world financial reporting. The EC is a strong supporter of the IASC, as are several major economies. But the FASB believes some could be tempted to back a rival. Supporters of the IASC will see move as a gambit. They hope that pressure from the G7 countries for rapid progress towards a single global financial reporting system to safeguard investors will bring the two sides together. The International Organization of Securities Commissions, the club of world stock market regulators, is reviewing core standards produced by the IASC for use on leading stock markets. But the debate on the structure of the IASC has overshadowed its work. Sir Bryan Carsberg, secretary-general of the IASC, said the FASB's view was not "unanimous in the US" and underestimated the fine balance that had been drawn up in the proposals to reform the IASC. "We have got to do a lot of talking to narrow the gaps," he said. Sir Bryan, a former UK director-general of fair trading, added that the FASB's response raised the possibility that the EU might require US companies to follow IASC rules when listing on European stock markets. The IASC has won the specific encouragement of the G7's finance ministers.

Mr. Horn's collection from Financial Times, 15 April 1999

GLOBAL

COMPROMISE PROPOSED ON GLOBAL ACCOUNTING

The Accounting Standards Board will today propose a compromise aimed at bridging the gap between international regulators and US over the future shape of a body to set global financial reporting rules. The ASB hopes its proposals will meet US fears that global standards could be subject to political horse-trading and might rely on votes from delegates who have a poor grasp of complex market-orientated financial reporting. The Financial Accounting Standards Board of the US has already rejected one blueprint for the body –which it is hoped would set a single reporting code for multinational companies wanting to list on the world's stock markets. The proposals were put forward by the International Accounting Standards Committee and are seen as a vital component of efforts to win backing this year from IOSCO – the club of world stock market regulators. The US rejection prompted fears that two rival sets of standards could emerge on world markets. The FASB has speculated that a new, rival, world accounting standards board, could be formed on US lines. The ASB's 17-page response praises the IASC for attempting to reinvent itself with the new strategy. But the paper adds: "In two major respects we believe it will fall short." The IASC proposes that standards would be set by a new body –with a maximum of 11 seats – which will be dominated by leading standard-setters like the US. But the IASC's much larger board could still veto standards. The US wants the standard-setting body to be independent. The IASC, and many European members, want the board to have a role in the process to satisfy the professional bodies that support it in more than 130 countries. "We believe that the IASC board should be more of an advisory body with powers of delay not rejection," said the ASB. It proposes that membership of the standard setting body could rise to 16 – although this could be lowered later. The ASB added that it wanted to continue to have the ability to set standards for UK companies that were not necessarily in step with IASC. The European Commission's preferred policy is to insist on the IASC code for the EU. The UK has jealously guarded various opt-outs from the IASC code and several standards it believes are tougher. It would oppose any strategy, which assumed the IASC's code would be automatically imposed on domestic companies.

Mr. Horn's collection from Financial Times, 23 April 1999

WORLD BANK SETS OUT PLANS FOR GLOBAL CODE FOR SOCIAL POLICY

Proposals for an international code of conduct for social policy will be discussed by finance and development ministers in Washington next week, amid fears among developing countries that it will be used to impose further conditions on them when they borrow from international financial institutions. The World Bank has prepared a draft set of "principles of good practice social policy", which draws on its own experience of social development as well as action plans and declarations drawn up by other bodies. In particular, it incorporates conclusions from the declaration of the World Summit for Social Development held in Copenhagen in 1995. The principles document will be discussed by the ministerial "development committee" next week. Officials said that drafting the reference to the social code in the development committee communiqué was likely to prove controversial, especially any reference to how the bank and fund should apply the principles in their own relations with borrowing nations. "General principles for social policy should have as their goal the promotion of the social development of all the world's peoples – to increase their capacity to improve their lives and influence the decisions which affect them" the document argues. It identifies four general principles: 1) Achieving universal and equitable access to basic social services, including access to basic education and health care, reproductive health, sanitation and safe drinking water; 2) Enabling all men and women to attain secure and sustainable livelihoods, and decent working conditions. Objectives include full employment and the protection of core labor standards, including the elimination of forced labor, harmful child labor and discrimination; 3) Promoting systems of social protection, to safeguard people from adverse economic shocks. Cost effective social safety nets are important to support vulnerable groups in normal times and to meet additional needs during crises. Policies should be sensitive to the role of informal support mechanisms, working through families and local communities; 4) Fostering social inclusion, which means promoting safe societies, respect for diversity, tolerance and human rights and enhancing the participation of the poor, vulnerable and disadvantaged in economies and societies. The bank notes that these objectives are difficult to achieve in all countries and that in crisis situations "priority should be given to promoting equity and social cohesion."

Mr. Horn's collection from Financial Times, 22 April 1999

Private Sector Development

AFRICA

PRIVATIZATION IN KENYA

The Government's public offering of 30m of its shares in Housing Finance Commercial Kenya (HFCK), the country's largest mortgage company, has been only partially successful. The offer through the Nairobi Stock Exchange was 88% subscribed, apparently reflecting the public's lack of enthusiasm for financial sector investment in the wake of the disappointing results announced by two privatized Kenyan banks. Following the issue the UK's Commonwealth Development Corporation will be HFCK's largest shareholder, with a 30% stake; the Government has retained a 7.3% share.

APM Cluster's collection from EIU Business Africa, 16 Apr 1999

PRIVATIZATION IN NIGERIA

Twenty firms are bidding for the state-run Nigerian National Petroleum Corporation (NNPC)'s oil- and gas-production subsidiaries. NNPC is selling its 60% stakes in oil-prospecting operation Nigerian Petroleum Development Company, which produces about 20,000 barrels/day of oil, and the Nigerian Gas Company, whose gas output is sold in the domestic market and West Africa as a whole. Potential buyers are said to include multinationals Royal/Dutch Shell, Mobil, Chevron, Conoco and Elf Aquitaine, along with a number of indigenous Nigerian energy companies. However, because the sale of the two subsidiaries was not included in the transitional military government's original list of parastatals to be privatized, the sales are unlikely to go through until the new civilian administration takes office at the end of May.

APM Cluster's collection from EIU Business Africa, 1 Apr 1999

ASIA

TELECOMS PRIVATIZATION MOVES AHEAD IN INDIA

India's new telecoms policy, announced in late March, opens new opportunities for private participation in the sector. The domestic long-distance services market will be opened to competition on January 1st 2000, while multiple operators will be allowed in fixed services in areas where no licenses have been awarded. The policy also specifies that the Department of Telecommunications -- at present policy-maker, licenser and service provider -- will have its functions separated and subsequently be corporatized by 2001. India and Sri Lanka finalize free trade accord. The two countries are nearing an agreement on the details of a free trade pact signed last year. In an effort to overcome remaining hurdles, India has said it will allow a limited amount of duty-free tea to cross its borders. It had originally said it would fully liberalize that sector for Sri Lanka but had to back down following protests from its own tea industry.

APM Cluster's collection from EIU Business Asia, 5 April 1999

EUROPE

ITALY SET TO LAUNCH DRIVE TO FINANCE PUBLIC WORKS

The Italian parliament today starts debating a bill that could launch a large program of privately financed public works. Initial projects, which should be agreed by January next year, include proposals for the private sector to build and operate two motorways, one of them a 400km stretch between Salerno and Reggio Calabria in the south. A rolling program of bids for privately funded public works will also be drawn up by local authorities and government departments amid calculations by the Government that $67bn of infrastructure works is needed in the south of Italy alone over the next decade. Key projects are likely to include roads, bridges, port developments and sewerage works. "Italy has been very slow in accepting private money for public works and we need to catch up," Fernando Carpentieri, the director in the Italian treasury in charge of public/private finance, told a conference organized in Rome last week by the journal Project Finance International. The motorways, already approved, are seen as the pilots for a much more ambitious program, he added, using project finance either on its own or supplemented by public money. Given Italy's public debt and the borrowing limitations set by joining European monetary union, politicians, bankers and treasury officials say Italy has no choice but to use private money for public infrastructure on the lines of the UK Government's private finance initiative and Portuguese and Spanish use of similar program for toll roads and bridges. The bill before parliament today aims "to eliminate legal and regulatory obstacles" to public/private partnerships, Dr. Carpentieri said, including allowing creation of special purpose vehicles to fund and run the projects.

Mr. Horn's collection from Financial Times, 15 April 1999

BIG RETAIL BANK UP FOR SALE IN CZECH REPUBLIC

The Czech Government put on sale its 45 percent stake in Ceska Sportelna, the country's biggest retail bank. The move comes as final bids are about to arrive for the state's 66 per cent stake in Ceskoslovenska Obchodni Banka, the country's fourth biggest bank, and demonstrates the new urgency in the Social Democrat Government's bank privatization program. The invitation for expressions of interest in Ceska Sporitelna is expected to lead to preliminary bids by the end of July, final bids in October and the sale of the bank by the end of the year. In order to prepare the troubled bank for privatization the Government has already taken over $297m of the bank's bad loans and subscribed to a Kč5.5bn subordinated debt issue. The Government is also committed to taking part in an up to Kč7.6bn doubling of equity and will decide next month on further restructuring of the loan portfolio following an independent audit by Arthur Andersen.

Mr. Horn's collection from Financial Times, 23 April 1999

LITHUANIA'S RULING CONSERVATIVES REJECT PRESIDENTIAL AMENDMENTS

The ruling Conservatives, meeting late on 25 March, rejected amendments to the law on privatization submitted to the parliament by President Valdas Adamkus, ELTA reported the next day, citing "Lietuvos Rytas." Under those amendments, the Government's right to decide on the distribution of money from the Privatization Fund would be transferred to the parliament. The Christian Democrats, who form the ruling alliance with the

Conservatives, have said they will support the amendments, as have other factions in the parliament. The news agency noted that in previous controversies between the president and the ruling Conservatives, the Christian Democrats supported the presidential candidate to the post of State Controller and voted in favor of the presidential amendments to the competition law.

ENA Cluster's collection from RFE/RL, 29 March 1999

PRIVATIZATION DEVELOPMENT IN ALBANIA

After state-owned mobile phone monopoly AMC is privatized in April, it will face competition in a liberalized market. Eager to shore up its market now, AMC will invest $3m to expand capacity and boost penetration. AMC bought an 8,000- number system from the German unit of Alcatel (France) in 1996. The Albanian firm has invited bids from GSM suppliers to upgrade the current system.

APM Cluster's collection from www.eiu.com Crossborder Monitor, 17 March 1999

NEW RATING AGENCY FOR SMEs

The German state of Hesse plans to launch a credit rating agency for small and medium-sized enterprises (SMEs), at first those in Germany and Austria, and later expanding to other European countries. Ratings will be similar to Standard & Poor's, with AAA as the highest. While primarily intended to help SMEs raise loans and equity capital, the ratings could also enable large firms to determine the viability of their actual or would-be suppliers and customers. Scheduled to start in Frankfurt by mid-year, the scheme will be operated by the Deutsche Ausgleichbank (DtA), a government-owned financial development agency for businesses that will be a 50% partner. Initially it will evaluate only the quality of the SMEs' debt, especially loans and commercial paper. Only 10-12 firms are expected to be evaluated by year- end. Next year, the ratings system will also include net worth. A rating will cost a firm from $18,000 to $28,000 compared with over $60,000 by commercial agencies, and will use international credit-risk standards, including evaluating management and product quality, company strategy, R&D and future expectations.

APM Cluster's collection from EIU Business Europe, 24 March 1999

MIDDLE EAST

PRIVATIZATION IN MOROCCO

US energy group Enron and its Azurix subsidiary are setting up a joint-venture group with local firms SNCE and SEPROB to make privatization bids for electricity-distribution, water and sewerage service companies. In February Morocco called for pre-qualification tenders for the management of electricity, drinking water and waste services for the northern city of Tangiers. A number of US and European companies have already said that they will bid for the $1bn concessions.

APM Cluster's collection from www.eiu Business Africa, 1 Apr 1999

REFORM OF THE INSURANCE SECTOR IN EGYPT

Reform of the insurance sector in Egypt is progressing typically slowly. But foreign companies are showing increased interest. It is nearly a year since parliament passed an insurance law opening the sector to greenfield investors. Despite a political decision to liberalize and expand the industry through privatization and competition from international insurance companies, progress has been slow. This is unsurprising. Strong vested interests in the industry have been fighting to keep their cozy monopolies intact. "It is an entrenched, structured, and government-dominated market", according to the director of one international insurance firm. The major challenge remains privatization of the "big four" public-sector insurance companies. The Government has yet to decide on a method of sale. But the massive task of evaluating the four companies has begun. The minister of economy expects an international evaluation and rating agency, A M Best, to issue a preliminary report soon. Two international investment banks, Merrill Lynch and Morgan Stanley, are valuing the local companies. Merrill Lynch will examine Misr Insurance and National Insurance, and Morgan Stanley will look at Egypt Reinsurance and Al Sharq. The Government has hired HSBC Investment Banking to advise it and to evaluate the proposals. The process is expected to be completed by end-1999. The minister of economy, Youssef Boutros-Ghali, also wants to make Egypt Reinsurance "the regional reinsurer". He is talking to two major European reinsurers Munich Re and Swiss Re about buying it. But the requirement to place 30% of reinsurance with Egypt Reinsurance has not proved a popular bargaining tool -- "they would much rather compete." A major international insurer explains that "you get all the business, but at a predetermined rate -- you take 30% of absolutely everything: the good, the bad, and the indifferent, and at rates you don't set". The major international insurers already have a presence in the region, and are loath to take on the management problems and risk profile of a major public-sector company for a base they do not need. They are more interested in the public-sector insurers. Although these are overstaffed, they have the advantages of large branch networks, market share, and large real-estate holdings (although these may be hived off prior to a sale). Egypt also offers the attractive prospect of an underdeveloped insurance market crying out for new products, management skills, and technology. Market sources say the UK's largest insurer, Royal Sun Alliance, is seriously looking at National Insurance, the smallest public-sector company, and the one that most assume will be privatized first. Mr. Boutros-Ghali says foreign companies will be allowed to enter the market in 1999. But the time it is taking for American International Group (AIG) to get a provisional license -- for a joint venture with the local Orascom, in which its new Egypt office will be the regional center office for the Middle East and Africa -- has brought suspicions that the government is allowing local companies time to adjust to the prospect of international competition for general insurance. Liberalization appears to be progressing faster in the life business. American Life Insurance Company (Alico) gained approval from the notoriously bureaucratic Egyptian Insurance Supervisory Authority (EISA) to increase its stake in its joint venture with the local Pharaonic Insurance from 49% to 75%. Industry sources say the process was accomplished relatively smoothly in 4-6 weeks. Legal & General Australia also has a preliminary license for a joint venture with the local Commercial International Bank (CIB) although the process has run into difficulties because of EISA's lack of technical expertise. This will prove a major challenge to insurance reform. Many within the industry argue that the sector needs to bring in a talented Egyptian expatriate with extensive international experience -- probably borrowed from a major global insurer. It worked for the stock exchange, and would be a useful insurance policy for a changing business. There are 12 insurance firms in Egypt -- the four dominant public- sector companies: Misr Insurance, Al Sharq Insurance, National Insurance, and Egypt Reinsurance; six private companies; and two joint ventures which operate only in Egypt's free zones. The three public-sector insurers account for 93% of life and 89% of non-life markets, with the largest, Misr Insurance, controlling 50% of both businesses.

APM Cluster's collection from www.eiu.com, 1 April, 1999

NORTH AMERICA

US TRIES TO FREE POWER MARKET

The US administration yesterday announced its second attempt to open the $200bn electricity market to competition. The deregulation plan, which would allow consumers to choose their own supplier by 2003, met with a mixed reaction from industry because it does not require the recovery of uneconomic investment costs and grants new powers to regulatory bodies. The previous bill failed to make it through Congress, but Bill Richardson, energy secretary, yesterday pointed to cross-party support: “I feel that we have the makings of a good coalition.” Mr. Richardson estimates the measures will save $20bn in annual power costs, or $232 for an average family of four. The industry welcomed the fact that states and unregulated utilities can opt out if they find consumers would be better served by an alternative policy. Some 20 states are already deregulating their markets. However, the

Comprehensive Electricity Competition Plan also leaves it to states to resolve stranded costs: the extent to which utilities can pass on to consumer's past investments – especially in nuclear power – made when the market was regulated, but now less competitive. The industry wants similar rules for everyone. The plan states at least 7.5 per cent of electricity sales must be generated from non-hydroelectric renewable sources – against 5.5 in last year's bill.

Mr. Horn's collection from Financial Times, 15 April 1999