INTERNATIONAL LINKAGES AND MULTILATERAL LENDING IN THE POST-COMMUNIST REGION

BY

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DISSEETATION

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ABSTRACT

The focus of the dissertation is the influence of international linkages on the lending decisions from the International Monetary Fund (IMF), International Bank for Reconstruction and Development (World Bank) and European Bank for Reconstruction and Development (EBRD) to the post-communist states between 1992 and 2007. The central question is to analyze the role of international linkages in aid allocation. Most cross-national studies do not make a clear distinction between aid to developing countries and aid to the post-communist states – states that are considerably more developed than the standard aid recipient but states that also face distinctive challenges of political and economic transition from a command economy and a one-party authoritarian regime. Moreover, the newly emergent post-communist states, and particularly Russia as the Soviet successor state, represent a novel geopolitical challenge. The geopolitical considerations attached to post-communist stability by the United States and Western Europe is an additional factor that may affect aid allocation. Thus it should not be assumed without empirical investigation that these distinctive cases present the lending institutions with the same considerations in aid allocation that would apply to the developing world. While the IMF and World Bank have been extensively studied, the EBRD – a regional bank explicitly established as a “transition bank” rather than a “development bank” – has not. Thus a primary concern of this study is how EBRD aid allocation may differ from that of the IMF and World Bank in the post-communist region.

Using a multi-method research design, I employ a regression analysis along with qualitative case studies. I start with a regression analysis in which I use the log transformations of the outcome variable lending from the IMF, World Bank and EBRD and the continuous explanatory variables to identify explanatory variables hypothesized to predict aid levels. The explanatory variables are: economic need, western connections, past relations with the Bretton Woods institutions, European Union or Commonwealth of Independent States membership, level of democracy, government stability and ethnic conflict. I find that international linkages, particularly as measured by trade ties, are influential in aid allocation from the IMF, World Bank and EBRD in the post-communist region. In addition, I chose Poland, Turkmenistan and Russia as the three case studies to understand the temporal dynamics of aid allocation and the role of international linkages in the relationship between domestic policy-makers and the international
financial institutions. I chose Poland and Russia as high-level aid recipients while Turkmenistan is a low-level aid recipient. The three case studies also have varying degree of integration with the international community with Poland as a high level integration case, Turkmenistan as a low level integration case and Russia in an intermediate position. Within the case study analysis, I found that government stability and policy continuity are important determinants of Polish, Turkmen and Russian relations with the international financial institutions.
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CHAPTER 1
INTRODUCTION

The intention of this study is to understand the role international linkages play in the distribution of aid from the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (the World Bank) and the European Bank for Reconstruction and Development (EBRD) to the post-communist states between 1992 and 2007. Not only do I want to understand the role of international linkages in aid distribution but also I want to analyze how the lending of the international financial organizations interacts with the domestic political environment. I use a multi-method research design for analysis of the role of international linkages. I first use a regression analysis to understand the correlations between my outcome variable of lending from the international financial organizations before analyzing the interaction of the international financial organizations in my three case studies of Poland, Turkmenistan and Russia.

Generally speaking, the cross-national literature on international financial institutions aid allocation and effectiveness tends, in its inclusiveness, to blend together the patterns of disparate regions and circumstances. Grigore Pop-Eleches recently noted that, “Somewhat surprisingly, the more recent literature dealing with IMF programs and the neo-liberal reforms of the last twenty-five years has largely ignored the role of changing temporal dynamics due to systemic transformations. Similarly, despite the ongoing theoretical debates about the importance of regions for political science…regional differences have generally been ignored.” (Pop-Eleches 2009: 7) The post-communist states under study here represent both a systemic transformation at the national and international level, and a distinctive regional configuration of chronologically synchronous economic and political regime transitions from communism. Michel Camdessus, Managing Director of the IMF from 1987 to 1999, said, “Helping these countries to reorient their economies toward market-based systems and to integrate themselves into the global market economy has been one of the Fund's greatest challenges in its 50-year history.” (Camdessus 1994)

The logic of stabilization and development aid thus takes on an additional component of transition aid, and there is reason to be cautious about assuming that international financial institution allocation decisions in these cases will be driven by precisely the same factors that
may shape those decisions elsewhere. Indeed, the EBRD styles itself not as a development bank but as “the world’s only transition bank.” (EBRD “Our History”)

A second distinctive feature is that post-communist regime change in itself represented a major geopolitical shift. Ngaire Wood argued, in fact, that the World Bank and the IMF became leading actors in the management of economic transformation and consequent political consolidation precisely because of the geopolitical stakes:

“The US desire for the IMF and World Bank to lead was based on several factors. It was clear to the United States government that vital security interests were at stake. Yet purely bilateral assistance from the United States would be costly and require politically difficult agreement from Congress. The IMF and World Bank, by contrast, provided a much less controversial and less expensive route, yet one which the United States could carefully guide…Furthermore, the United States recognized early on that the IMF and World Bank would be less likely to evoke concerns about infringement of sovereignty.” (Wood 2006: 107-108)

Regime transition became part of the geopolitical realignment in which international actors such as the European Union became active agents in defining new boundaries and tempering older ones. The post-communist region is therefore one that operated domestically in an internationally intrusive environment, and where we might expect international forces to play a significant role.

Finally, international financial institution lending policies to the former communist states were deeply entangled in political regime change. The mission statements of the IMF and the World Bank do not incorporate regime type into their lending policies, although good governance became an increasing emphasis. The EBRD is a different story. Alan Ruosso, current EBRD Corporate Director and former Senior Political Counselor for Russia, Belarus, Moldova and Ukraine, confirmed that EBRD lending is based on this notion that higher levels of economic development lead to political stability. (Rousso 2005) The EBRD’s historical mission statement emphasizes this logic: “Differing from other development banks, the EBRD operates under a mandate that has political aspects, in that it seeks to assist only those countries that are committed to and applying the principles of multi-party democracy [and] pluralism.” (EBRD Article 1)

Yet despite the distinctiveness of the post-communist region, variation among the states within the region does exist. The post-communist region includes the sub-regions of Eastern Europe and the former Soviet republics. The states within these sub-regions were communist for
different lengths of time and entered communism from different stages of economic and political development as well as different geopolitical orientations. In addition, Lucan Way and Steven Levitsky (2007) argued, and the standard democratization measures confirm, that the sub-regions have experienced different levels of regime change with more liberal democracies found in Eastern Europe and more autocratic governments established in the former Soviet republics. Thus while one can speak of a distinct region, the variations within the region may provide the leverage needed to explain disparate outcomes of economic transition among the different states of the post-communist region.

As has been demonstrated in the literature on democratic consolidation, democratic survival is most likely to occur at higher levels of economic development. (Przeworski, Limongi, Alvarez et al, 1999) Therefore, the Western industrialized states provided, through the multilateral international organizations, economic aid to increase the ability of the post-communist states to stabilize market economies that would in turn produce the foundation for democratic consolidation. (Pravda, 2001) Additionally, there has been recent attention to the role that connections with the West have on both democratic consolidation and on post-communist economic reforms (Levitsky and Way 2005; 2007; Kopstein and Reilly 1999; 2000). Thus, aid flows from the IMF, World Bank and EBRD are important linkages that can shape the type and extent of economic reform.

While there is also an established literature exploring the basis on which the multilateral lending institutions provide aid, few deal with the influence of the international context. I, therefore, propose to explore the question of how international linkages influence aid distribution from the multilateral institutions to the post-communist states. Philippe Schmitter defined international factors as “unilateral processes…in which one actor intentionally or unintentionally affects another…or a multilateral process that involves several…sources of influence or power and typically works through international organizations…” (Schmitter 2001: 29) However, more recently, the influence of the international context has been based on the international linkages and leverage (Levitsky and Way 2005) that purposive international actors exert on states that are undertaking democratic transitions and that can, presumably, be applied to economic transitions. Hence, more specifically to my study, international linkages include connections to the United States and the European Union, whether a state is a prospective member of the European Union or in the Commonwealth of Independent States, or has historical connections with the IMF and
World Bank. I intend to explore in this study the extent to which international linkages account for the variation in lending to the post-communist states from the IMF, the World Bank and the EBRD and whether certain international linkages influence the international organizations differently.

Most studies of multilateral aid during regime change in the post-communist states focused on trying to assess its impact. However, my study is not concerned with isolating the effect of economic development on democratic reforms but with understanding the positive and negative influences of international linkages on aid flows. Hence I want to understand what factors are significant in determining the amount of aid that is disbursed to post-communist states. Since the post-communist states are starting from a broadly similar position – i.e. command communist economies – it might seem reasonable that the countries need similar proportions and types of aid for economic reform.

To summarize, while a significant amount of the literature on international assistance is devoted to determining how effective the aid is in correcting the economic problems within the post-communist countries (as well as other regions that receive large amounts of assistance), a prior and equally significant question is whether the process of aid is in fact intended to be effective – that is, what factors are affecting the amount of this aid and how those factors, particularly external ties, interact with post-communist domestic politics of economic reform.

**The International Actors of the Study**

I more thoroughly consider the three international financial institutions that provide major lending to the post-communist states in Chapter 2, but I briefly discuss them below. I chose to focus on the IMF, the World Bank and EBRD because these multilateral institutions have been at the forefront of aid dispersal to the post-communist region. Because of their missions, the three institutions have worked with the 27 post-communist successor states and have had an important role in the economic restructuring occurring there. Their missions to the post-communist region were summed up by Alex Pravda, “[They] share a common if loose set of stated objectives: to help promote democracy and marketization as well as stability and security.” (Pravda 2001: 9) As the three largest investors in the region, the lending tendencies of the IMF, the World Bank and the EBRD provide us with a better understanding of how and why lending is distributed to the post-communist region. Although the institutions focus on different aspects of
economic reform, analysts have pointed out that the IMF and the World Bank increasingly overlap in structural adjustment programs. In addition, the EBRD coordinated with the World Bank to ensure its lending was not duplicative or counterproductive to World Bank programs. Furthermore, the three institutions are more likely to have similar standards for dispersing aid than are individual countries and non-governmental organizations. Nevertheless, this is not to say that aid allocation from these institutions follows identical logic, or that it is not politicized, a point I will address.

The IMF, World Bank and EBRD have different missions and mandates for their lending practices. First, the IMF and World Bank are older institutions that serve all regions of the world, not just the post-communist region in Eastern Europe and the former Soviet Union. The newly established EBRD strictly lends to the post-communist region although its membership is much larger than just the European countries, extending across the former Soviet Union to Central Asia. Secondly, the institutions have different mandates. The IMF mandate is to ensure global macroeconomic stability while the World Bank facilitates development so that countries are able to survive in the global market place. The EBRD describes itself not as a development bank but as a transition bank that pursues lending to private and public sectors of the post-communist countries to increase the ability of these states to move to a market economy from the communist-era command economies.

The missions of the World Bank and EBRD are more similar to each other than to the IMF. They both provide loans for projects that countries develop that “promote environmentally sound and sustainable development.” (EBRD Statement) The World Bank has several affiliated organizations that work with different subsets of countries to provide loans for macroeconomic stability. The World Bank provides structural adjustment loans and sector adjustment loans once
a country provides a detailed project to the Bank. It is particularly interested in privatization and infrastructure development in the post-communist region.

The EBRD is a comparatively young institution designed specifically to facilitate the transition from the communist command economy to a market economy. It is mandated to work with only those states that are committed to democratic processes in the post-communist region though it has found ways to continue assisting countries who have violated democratic norms. Its loans are specifically designed to have a transition impact on the economy. It provides loans at market rates and to the public as well as the private sector. Unlike the IMF and World Bank, its operations have not been widely studied; the focused attention devoted to its operations in this analysis will thus contribute to a greater understanding of its function as a “transition bank.”

Organization of Study

I begin in Chapter 1 with a literature review of the international factors perspective of regime change and how this literature influenced the way in which I have undertaken this study. In Chapter 2, I present background information on the international financial institutions and explain their different missions and mandates and how this may affect the way aid is distributed to the post-communist states. Chapter 3 discusses in more detail my methodology and presents the results of the statistical analysis. Chapters 4 through 6 are the case study chapters. I conclude the study in Chapter 7.
CHAPTER 2
THE ROLE OF INTERNATIONAL FACTORS AND AID ALLOCATION

My goal is to analyze the influence of international factors on aid allocation to the post-communist states. To develop the framework for the project, I draw both on the aid allocation literature, and on a less obvious source of reference for aid allocation studies, the democratization literature in which international factors are conceptualized as an influence on regime change. In the post-communist cases, this is an appropriate literature to draw upon because the transformations of the post-communist states involve the intertwining of political and economic reform. What has become an important aspect of this literature is that there is an interaction between domestic and international factors in regime transition. Studies of the international dimensions of political and economic regime change have focused on the political regime – the democratization process (and the impact of democracy promotion efforts) and economic development (and the impact of bilateral and multilateral aid). While the process of democratization per se is not the intent of this study, basing the foundation of this study on understanding how international linkages influence regime change provides a starting point for an acknowledgement that domestic and international factors interact on economic reform in transition states. Accordingly, I will start by extracting the lessons from the democratization theory, and then turn to the more conventional aid allocation literature.

International Factors and Political Change

Although domestic factors were once a dominant explanatory framework for regime change and democratic consolidation in the third wave of democratization, international factors have become more prominent in the theoretical literature. In the early conceptual framing of the third wave, this was not the case. “The comparative literature on democratic transitions has tended to conclude that international factors have been essentially secondary in importance, for regime change is primarily a dynamic process which is internally motivated.” (Pridham, Herring and Sanford 1994: 9) This conclusion was driven by dominant cases in the third wave – the transitions in Southern Europe and South America.1 “The international dimension has been more

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1 Opinion changed somewhat in retrospect. According to Laurence Whitehead, of the 61 democratic states in January 1990 prior to the extent of the regime changes in the post-communist region, only three states could contribute their democracies solely to internal processes and factors. (Whitehead 1996: 3)
implicit than explicit in the literature so far published, apart from special work on aspects like the role of the EC [European Community].”  (Pridham, Herring and Sanford 1994: 3)

It was precisely the process of regime change in the post-communist region that generated more intensive study of how the international context and international actors affect political regime change as well as economic change. The influence of the Soviet Union in the opening for regime change and the embeddedness of the subsequent democratization and marketization process in the European integration project revealed to scholars the possibility that international factors may play a more persuasive role in states on the road to democracy than previously accepted. Thus, the major trend toward exploring the international dimension of democratization began with the transitions in Eastern Europe that had several different characteristics from the previous transitions in Southern Europe and South America. For example, Southern European and South American democratization occurred in peacetime, were transitions from rightist authoritarian regimes, were states that already had a liberal (European) tradition, where the economies were either developing or were newly industrialized but were not in need of a complete structural transition, and shared a geopolitical position within or tied closely to the Western industrialized states. (Whitehead 1986: 4) However, the regimes in Eastern Europe had different characteristics. While these transitions occurred during peacetime, the regimes were changing from a leftist (communist) government, these regimes had a Soviet connection rather than a Western connection, and these states were simultaneously undertaking political regime change with economic reform unlike the Southern European and South American transitions that overlapped but were not necessarily simultaneous. Thus it seems appropriate to base the theoretical foundation of the study on the international dimension\(^2\) of the democratization literature which the post-communist region so prominently figured into.

Yet as Philippe Schmitter observed “…the international context is a notoriously difficult variable to pin down. On the one hand, it is almost by definition omnipresent… However, its causal impact is often indirect, working in mysterious and unintended ways through ostensibly national agents.” (Schmitter 2001: 28) Nonetheless, in the post-communist cases, the salience of the international context has been quite overt. In the context of the finding that democratic survival is most likely to occur at higher levels of economic development (Przeworski, Limongi,

\(^{2}\) Two of the most prominent scholars of the international perspective are Laurence Whitehead and Geoffrey Pridham who based many of their conclusions about the extent of international influence on the cases of Southern Europe.
Alvarez et al. 1999), Western industrialized states provided, through the multilateral international organizations, economic aid that was expected not only to build capacity in new market economies but also to stabilize the nascent democratic projects. (Zielonka and Pravda 2001)

Hence, I have identified three mechanisms – linkages, purposive actors and conditionality – as international factors derived from the democratization literature that will contribute to conceptualization of my variables and the framework for the case studies.

Theoretical Foundation of International Influence

An underlying problem that decreased the effectiveness of the international perspective is that the measurement for international factors is neither easily determined nor easily quantifiable. Let me begin with a review of the three main mechanisms – linkages, purposive actors and conditionality – that I identified as most important for conceptualizing and analyzing the influence of the international factors that will be used as a conceptualization tool in the quantitative analysis. When studying the international context of regime change, scholars approached their research through the external linkages that may exert influence on political and economic reform. They studied the influence of purposive actors such as the United States and Western Europe on individual cases at the regional level. And, they have studied how conditionality, both political and economic, has been exerted by individual members of the international community and the multilateral organizations to influence reform.

Linkages in the International Dimensions Perspective

An important aspect of the international perspective is the connections transitioning states have with international actors and how this might affect aid allocation from the international financial institutions. Levitsky and Way (2005) introduced the concepts of linkage and leverage into the theoretical lexicon but scholars were using a less sophisticated classification scheme of linkage prior to the Levitsky and Way conceptualization. When classifying the importance of international influences, Pridham (1994) specified several international dimensions beyond the actions of the advanced industrialized states including market forces, trade barriers, ethnic groups with cross national allegiances, entrepreneurs, international organizations and national
governments. Borrowing from the international relations literature on linkage politics, these different dimensions can be conceptualized as either inner-directed linkages or outer-directed linkages. Inner-directed linkages is defined as “the impact of the international system on the domestic structures,” while outer-directed linkages captures the impact of the domestic system on the international system. (Pridham 1991: 2) Another conceptualization of linkage in the literature is Andrew Hurrell’s 2001 classification: direct external political involvement, indirect external political environment, international political system influences and involvement in the world economy. With direct external political involvement, close ties developed between external actors and major domestic political players. Although Hurrell agreed that this category of international factors was ineffectual for his own case of Brazil, in many cases effective linkage does occur between external actors and domestic actors. Germany’s political party organizations are an example of external actors exerting pressure on domestic political parties and dissident groups may also play an important role with outside intergovernmental organizations to advocate for regime change. In addition, the international organizations in this study – the IMF, Word Bank and EBRD – interacted with domestic actors in the cabinets in negotiating lending packages.

Whitehead (1996) argued that international factors may not have any influence without the consent of domestic actors who must allow the democratization process to proceed. This may be even truer for economic reform in that reform policies favored by the international financial organizations can only be enacted by domestic policy-makers. We will see the importance of

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3 Another avenue of international influence that led some countries to democratize was war, especially defeat. Robert Dahl (1971) found that one path to polyarchy was defeat in war and the imposition of democracy by the conquering forces such as happened in Germany and Japan after World War II. (Dahl 1971: 42). Also, defeat in war led by a military government can lead to the removal of an authoritarian regime as was the case in Portugal, Greece and Argentina. (Schmitter 2001: 35).

4 As an example of an inner-directed linkage, Pridham said that the EU set monetary policies for Greece when its economic situation threatened to sabotage the EU’s Single Market in 1990. An outer-directed linkage according to Pridham was the use of NATO to internationalize the militaries in Southern Europe. “Governments in these new democracies took the views that one effective way of keeping the military out of domestic politics was to reinforce their external orientation.” (Pridham 1995: 196)

5 Hurrell’s classification was developed to demonstrate the connection between international actors and the democratization process in Brazil.

6 Another category of influence is the indirect external political involvement which occurs when external actors try to influence political activities of civil society rather than the government itself. Several scholars studied the influence of international human rights groups working with domestic human rights groups to protest authoritarian regime abuses (Sikkink 2001; Hurrell 2001). Likewise, Huntington argued that the Catholic Church after its Second Vatican Council provided resources to local churches to denounce authoritarian repression. In addition, for many African states, non-governmental organizations have provided local civil society organizations with the ability to continue to operate outside of repressive governments by providing aid (Aili Mari Tripp 2000; Julie Hearn and Mark
consent in the Turkmenistan case. Thus, the influence of international actors may be less direct and more difficult to isolate in a quantitative analysis unless careful measurements are developed.

Another category that linked the domestic actors with the international community is the ability of the international political system to influence domestic political outcomes. Once other authoritarian regimes start to liberalize or are forced to withdraw, other authoritarian regimes are more likely to follow suit if the international political system is unwilling to tolerate non-democratic entities. In the case of the post-communist region, the international community embraced states moving toward democracy and market economies thus providing a suitable environment for political and economic change. This is particularly important for the Eastern European states as Hurrell contended that the main difference between the international system’s effects in Brazil (or other South American states) as against the effect it had in Southern Europe is the presence of the EU. No organization on the level with the EU is available to the regimes of South America to encourage democratization or further economic reform. As Hurrell said, “[T]he economic benefits of membership of the European Community are substantial enough to make a real difference to the behavior of domestic political groups.” (Hurrell 2001: 162)

The final influence international actors may have is through the world economy. Unlike dependency theorists, Hurrell asserted that “[T]he international economic environment has played a major role, not directly in stacking the cards either for or against democracy but rather in helping to shape the character of the process of democratization and the range of political and economic options available to policy-makers.” (Hurrell 2001: 163) International economic constraints limit the available options that then influence the pattern of liberalization and the timetable for a transition. Economic constraints may also affect the consolidation of a democracy. It can thus be theorized that the more a post-communist state is connected to the global economy, the more likely a successful economic change will occur.

The influence of the international environment may not determine the success or failure of a political or economic change but it may shape the options available to a state. Domestic regime change may be influenced by the context and environment of the politics, norms and

Robinson 2000). However, because of the repressive nature of the regimes, many these organizations are dependent on the international aid thus decreasing their legitimacy as many citizens see them simply as pawns of an outside force trying to undermine the state.
values within the world system. Thus, a major problem of studying international factors was “[t]his contrast between the overall importance of the international context and the relative absence of specific linkages highlights the general difficulties of conceptualizing the relationship between the international system and national political systems.” (Hurrell 2001: 146)

However, in 2005, Levitsky and Way developed a more specific definition of the ways in which the international community exerted influence on regimes – through leverage and linkages. They defined leverage “as authoritarian governments’ vulnerability to external democratizing pressure” which could be exerted by “political conditionality and punitive sanctions, diplomatic pressure, and military intervention.” (Levitsky and Way 2005: 21). But they argued that the success of leverage on regime change may be dependent on the extent of linkages a state has with the West. Levitsky and Way define linkage “by the density of [a regime’s] ties to the United States, the EU, and Western-dominated multilateral institutions.” (Levitsky and Way 2005: 22) They argued that there are five dimensions of linkage – economic, geopolitical, social, communication and transnational civil society. But they argue that geographical proximity to the United States and the EU is probably the most important linkage a state can have and that Eastern Europe, along with Central and South America, has greater linkage with the West than other regions including the former Soviet republics. In a follow-up article, Way and Levitsky (2007) argue that within the post-communist region, the divide between democratic Eastern European states and autocratic former Soviet republics is correlated to the linkage between these states and the West. This argument may well have a broader application to all forms of attempted external influence on domestic regime change. If leverage and linkage are truly indicative of anticipated leverages, then measures of linkage such as economic and associational links to the West such as trade volume and associational memberships should be predictive of the variation in aid to the post-communist states from the multilateral lending institutions.

Jeffrey Kopstein and David A. Reilly (1999), building on an earlier study, found that geographical proximity to the West increased the extent of economic reform in a given country.

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Another way of describing linkage among states through international influences is Whitehead’s (2001) contagion or Huntington’s (1991) snowball effects. The theorizing with these ideas is that as other states proceed through a transformation, particularly toward democracy, other states within a certain region (as Whitehead argues for contagion) or during a certain time period (Huntington’s snowball effects) will follow. While this may provide logical reasoning for studying regional transitions, such as the transition from communism to market economics in Eastern Europe and the former Soviet republics, it does not provide much leverage in conceptualizing measurable variables for a quantitative analysis or even for a qualitative study since the mechanisms are not well specified.
because of diffusion mechanisms. If the neighboring countries had high levels of economic reform then it also helped explain the presence of higher economic reform scores. They argued that diffusion of ideas is best disbursed through cultural ties and economic interaction which occurs more readily with neighboring countries than with countries farther away geographically. Consequently, they argued that the reason that post-communist countries closest to Western Europe have experienced higher levels of economic reform than countries farther east is because of the diffusion of policies emphasizing economic reform. As they stated in their article:

It may be the case that spatial factors not only affect the reform process but that they also are instrumental in the choices that leaders make historically. In other words, we may find not only that geography influences the process of reform but also that it helps to account for the developmental paths and critical junctures themselves. (Kopstein and Reilly 1999: 12)

The process of diffusion has been better amplified through the political economy literature as Simmons and Elkins argue that “governments are sensitive to external signals to liberalize and to restrict their monetary and financial policies.” (Simmons and Elkins 2004: 186) They argue that changing payoffs within the competitive globalized market system pressures states into a liberalized economic policy arena to ensure its economic position globally. Governments take cues particularly from the high growth states when understanding economic policy positions. In addition, the ways in which the IMF, the World Bank and the EBRD approve projects helps to formalize the normal set of economic policies expected of a reforming state.

Therefore, I attempt in this study to understand the role of international linkages with the domestic political environment and how that interaction takes place by conceptualizing ways in which connections between the Western industrialized states occur with the post-communist states.

*The Role of Purposive Actors in Regime Change*

Another important approach to conceptualizing the international dimensions literature is the focus on external purposive actors. In a cross-case analysis of the international dimensions literature by region, it is apparent that Southern Europe and Eastern Europe have felt the effects of international influences more fully in their democratization processes than Latin America, Asia or Africa because of the differential resources of the international actors that are most engaged on a regional basis, notably Western European countries and the United States.
However, this impact on regions could be an artifact of the Western literature placing primary focus on states of more interest to the West than one of actual theorizing within the literature.

The primary regions at the forefront of the international dimensions literature are Southern and Eastern Europe. These regions are a focal point because of the stature of membership in the European Community/Union for democratic states in Southern and Eastern Europe as well as the acquiescence of the Soviet Union in the political and economic liberalization and then the regime change of the East European communist governments. However, this is not meant to suggest that international factors had no impact in Latin America, Asia or Africa but rather that the impact of international factors is more obvious in Southern and Eastern Europe. As stated earlier, international factors were not part of the theoretical stream until the Eastern European states became a part of the theorizing on political and economic transition.

Purposive international actors such as the United States or the Soviet Union, rather than broader dynamic processes, have been a central focus of the international dimensions literature because the influence exerted through their policies is more easily isolated and measured. The Soviet Union may seem to be the most obvious international actor because of its influence in permitting the Eastern European democratization process, but the actions of the United States as well as the actions of the Western European states have also gained scholarly attention. However, the impact of the United States in the process of regime change has neither been as easily determined nor as strongly influential in its impact as that of the Soviet Union or for that matter the Western European states. Thus, as I attempt to pinpoint the influence of international actors, I base my conceptualizations on the ways in which scholars have studied the impact of the United States and Western Europe on democratization to uncover measurable variables.

Whitehead argued a specific external actor (or actors) may have some control of the regime change process; he characterized the democratization sequence after World War II (Germany, Austria and Italy) as “set by the presence of U.S. forces.” (Whitehead 1996: 10) Likewise, with the decolonization of the British, French, Portuguese and Belgian empires and the collapse of the Soviet Union, the timing of democratization was controlled by an external actor. Yet what is most important is that these actors have specific instruments for influencing regime change. While the Soviet Union was an important influence at the initial transition stage, post-
communist Russia’s residual influence as a purposive actor through the Commonwealth of Independent States is less resonant.

The United States as a hegemonic democratic power is a special case. Graham Allison and Robert P. Beschel (1992) argued that the United States has been successful at promoting democracy and can be so in the future. Yet the larger scholarly consensus is that U.S. efforts at promoting democracy have experienced limited success. Some focus on capacity and effective strategy. American democracy promotion efforts have been exhaustively critiqued, for example, by the Carnegie Endowment’s Thomas Carothers for faulty paradigms and inappropriate engagement tactics.

The United States lacks a powerful regional organization like the European Union to serve as a magnet for political and economic change. Whitehead argued in 1986 that the United States had a lesser impact on democratization in Latin America because it did not operate within a regional institutional framework to promote democracy as did Western Europe in regard to Southern Europe, nor could it offer the incentives that the EU represented. Levitsky and Way echoed this sentiment that the Organization of American States was not comparable to the EU. However, they argued that the United States was still able to exert influence within this region because of the “economic, social, communication and technocratic linkages.” (Levitsky and Way 2005: 28) However, regardless of its position on democracy promotion within any given state, the United States has not strayed from its commitment to market economics. It has used its position within the international financial organizations to pursue open economic systems in states with significant ties to the United States.

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8 Whitehead (2001) argued that the United States had three main tools for democratic promotion – incorporation, invasion and intimidation. However, these categories are not useful in developing a framework for US influence in the post-communist states. Incorporation became a useless tool since the United States is unlikely, and the international community unwilling, to allow the United States to incorporate an independent country into its territory as it did with Puerto Rico. Invasion was somewhat success in Grenada, Panama and, to a much lesser degree, in Haiti. Intimidation was mostly applied to Cuba without many positive results. If these categories are extended to other regions, US influence may have a better track record as Germany and Japan are the two most positive cases of imposed democracy as well as economic reform through invasion. Current research has begun to examine the outcomes in Afghanistan and Iraq as these two cases may increase the scholarly understanding of US influence outside of the Latin American region.

9 Carothers’ extensive analysis of these issues fills multiple volumes: Confronting the Weakest Link: Aiding Political Parties in New Democracies (Carnegie, 2006); Promoting the Rule of Law Abroad: In Search of Knowledge (Carnegie, 2006); Unchartered Journey: Promoting Democracy in the Middle East, co-edited with Marina Ottaway (Carnegie, 2005); Critical Mission: Essays on Democracy Promotion (Carnegie, 2004); Funding Virtue: Civil Society Aid and Democracy Promotion, co-edited with Marina Ottaway (Carnegie, 2000); Aiding Democracy Abroad: The Learning Curve (Carnegie, 1999); Assessing Democracy Assistance: The Case of Romania (Carnegie, 1996).
Unfortunately, still other scholars conclude the problem lies in the fact that democracy promotion may be against U.S. interests in stability. United States policy toward democratizing Latin American states was also more variable because American interests in the region varied by country. While the United States valued democracy promotion, it often valued stability more; supporting authoritarian rule tended to trump democratization if democratization proved destabilizing to the region. Therefore the ability to directly measure US influence has been hampered because of the lack of a consistent commitment to promoting democracy.

The problem that Whitehead found with US influence was that the United States did not work through an international organization to promote democracy as Western Europe did with the EC. Instead the United States relied on direct pressure and individual aid packages negotiated separately with each state to promote the democratization process. However, the pressure exerted and aid packages provided were more dependent on what interest the United States had in an individual state than on the progress of democratization. This not only watered down the influence of the United States vis-à-vis Western Europe but also made it more difficult to measure the influence the United States had in Latin America. This is again a salient issue in the Russian case as the United States used its influence at the IMF, particularly during the 1996 re-election campaign for Yeltsin, to continue lending to Russia even though the reform program was stalled.10

The predominance of interest-based policy, repeatedly documented in U.S. relations with Latin America also guided responses to the communist and post-communist region. Eric Herring (1994) contended that the United States, as well as the rest of the West, limited its aid to the Eastern European states in the 1980s at the time when aid was necessary to restructure the communist systems politically and economically. Herring cites the delayed action on Poland’s IMF application in the early 1980s and the refusal to accept Soviet membership under Gorbachev as cases in which domestic priorities trumped interest in communist liberalization.

Overall, the United States has operated in a piecemeal fashion and often through intermediaries in promoting economic and political regime change in the post-communist region.

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10 The EU was not the only multilateral organization Western Europe used to promote democracy and marketization. Adrian G.V. Hyde-Price (1994) considered the Council on Security and Cooperation and the Council of Europe important institutions for the transitions in Eastern Europe as these institutions helped to consolidate human rights, rule of law and governmental structure in the democratization and marketization process. In addition, debate about NATO’s influence surfaced in the literature as most scholars argued it was not influential. However, Pridham (1994) argued that NATO was influential in the Southern European consolidations because membership reoriented the militaries in Portugal, Spain and Greece toward external missions rather than internal security.
through NGOs, sub-contracting and multilateral institutions like the IMF, World Bank and to a lesser extent the EBRD. As important as we will see U.S. influence in dealings with Russia, we will also see that such influence has been episodic and incoherent with stability as powerful as transformation in guiding policy. Therefore it could be argued that the United States itself may not have a systematic positive influence on individual governments as other actors despite its general support for regime change.

What may be more fruitful in trying to understand US influence is how aid is allocated through the multilateral institutions, mainly the IMF, the World Bank, and in the post-communist region, the EBRD. The United States plays a leading role in these institutions as it provides a large amount of the resources used to provide loans as well as its position within the leadership of these organizations. The United States is able to influence IMF lending through both its veto bloc of voting shares but more commonly through informal consultations, as will be apparent in the Russian case. The United States also, by custom, holds the presidency of the World Bank. It is also a founding member of the EBRD with a ten percent capital share. Therefore, by understanding the determinants of aid allocation, it may be possible to capture some of United States influence on economic reform in the post-communist region.

However, Western European influence on democratization is less debated. Whitehead found that Western European influence was more successful in the democratizing Southern European region than the United States was in Latin America because of the European Community. Geoffrey Pridham (1995) further argued that EC membership was a crucial factor in the consolidation phase of democracy for Portugal, Greece and Spain because of its requirement for democratic governments for its members. This also has been a highly salient requirement for the transitional Eastern European states – all of whom aspired to become members of the European Union and thus a critical reason to include a membership variable in the quantitative analysis.

Whitehead (1986) compared the United States’ regional efforts in Latin American democratization with Western Europe’s regional efforts in Southern European democratization. He concluded that because Western Europe could use European Community membership as a carrot for Southern European states to consolidate democracy, Western Europe was more successful at influencing the democratization process in Portugal, Spain and Greece than the
United States was in influencing Latin American democratization. For the EU, political and economic conditionality was an important aspect of its influence.

*Conditionality*

Global economic involvement is the focus of the many studies that revolve around the political and economic conditionality that countries face when trying to gain membership in selective international organizations such as the EU or try to obtain financing from the multilateral financial organizations. Philippe Schmitter set the terms of much of the conditionality literature to follow by broadening its application from the IMF – which he terms the *locus classicus* – to mean more generally “the deliberate use of coercion – by attaching specific conditions to the distribution of benefits to recipient countries – on part of multilateral institutions.” (Schmitter 1996: 30) Schmitter’s prime examples of conditionality in international organizations are the International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD).

The huge cottage industry of European Union studies began to champion political conditionality as superior in effectiveness to other incentives utilized in democracy promotion (Whitehead 1986; Pridham 1994; Ethier 2003). Political conditionality became more important as the norm of democracy became the accepted worldwide system of governance. The EU is the most important organization under the conditionality context for Schmitter. “More than any other international commitment, full EU membership has served to stabilize both political and economic expectations. It does not directly guarantee the consolidation of democracy; it indirectly makes it easier for national actors to agree within a narrower range of rules and practices.” (Schmitter 1996: 44). Although Pridham does not engage in a cross-regional analysis, building on Whitehead (1986), he emphasized the importance of regional organizations that require democracy as a condition for membership. The idea of regional associational membership conditioned on a democratic state became more important for the Eastern European states than any other set of countries undergoing political and economic regime change. Because of the importance of democracy, newly democratizing states are more likely to join regional organizations that restrict membership to democratic states, responding to one of the most popular political conditionalities available to international actors. (Pevehouse 2002)
This influence can be felt most fully by the Eastern European states that want membership in the EU and have a reasonable prospect of obtaining it. This is one of the reasons that international factors are more obviously influential in the European region. Smith (2001) argued that political conditionality became a powerful instrument for Western European states and the United States in encouraging democratization because of the perceived benefits of membership, politically and economically, in restricted organizations such as the EU. But the EU not only emphasized democracy but also economic reform as the ability of states to participate fully within the EU requires domestic policy-makers to enact economic reforms that both remove the overly state-centric economic systems and produce conformity with the regulatory acquis communautaire. As Heather Grabbe argued, “As a consequence of accession conditionality, mitigating the impact of EU policies is more difficult for applicant countries than for member-states.” (Grabbe 2001: 2)

The EU has become the classical example of the ability of a regional organization to improve the chances of newly democratizing members to move toward consolidated democracy with an open economic system. One of the first policy priorities after the collapse of communism for most of the Eastern European countries was to establish readiness for EU membership through Association Agreements and subsequent membership negotiations. Because of the EU’s stringent criteria of political democracy and market economics, the Eastern European countries were compelled to continue often unpopular reforms toward consolidated democracy and market economies or risk losing their opportunity for EU membership – an important aspect in the Polish case. “The imperative of meeting EU requirements provides politicians with a powerful rationale for pushing through economic reforms that, at least in the short-term, have negative repercussions for substantial portions of the electorate.” (Vachudova 2001: 10)

Because of the favorable experience of Southern European countries, the Eastern European countries saw EU membership as a golden opportunity to secure their democratic stability as well as open economic systems. And, as Jon Pevehouse (2002) argued, although political conditionality may be a harsh reality of regional membership, democratizing countries are willing to comply with the conditions because joining a regional organization with a high membership level of democratic states improves the chances that a democratizing country will
consolidate its democratic regime.\textsuperscript{11} The economic conditionality imposed on applicants may be even tougher. But the economic conditionality forced administration officials to continue with unpopular economic reforms they might have wished to pursue in any case without bearing the full blame for the hardships. As Przeworski and Vreeland argue:

Yet governments may enter into agreement not necessarily for a loan…but because they want conditions to be imposed. Suppose that a government wants to restructure public finances but faces tough opposition….Tying the government’s budget proposal to the conditions of an IMF agreement raises the costs for the domestic constituencies of rejecting the proposal. Turning down the policy is no longer a rejection of the government, but a rejection of the IMF, which is costly because it sends a negative signal to creditors and investors. Even though the government risks that the opposition will accuse it of “selling out” to the Fund and thus faces political – “sovereignty” – costs, the IMF agreement may enable the government to push through policies that otherwise would have been rejected. (Przeworski and Vreeland 2000: 391)

Additionally, Iver Neumann (2001) argued that countries were more likely to become fully democratic if they joined a regional organization that encouraged the democratic potential of its members such as the EU, although the EBRD could also be considered in this appeal as it is mandated to work with states using democratic processes. He specifically argued that countries that joined the Commonwealth of Independent States (CIS) were relegated to a regional organization where democracy was not a prerequisite and Russia dominated the decision making process, therefore calling into doubt both the democratic and economic benefits of membership. By contrast, he argued that smaller regional organizations like the Visegrad Group or the Baltic Council were better preparing their members for democracy because the organizations were established through voluntary membership and operated under democratic procedures used within the organization. In addition, such organizations provided the opportunity for EU member countries to remain connected to those that were not granted immediate EU membership as well as increase the chances of the initially excluded countries to eventually gain EU membership themselves. This argument provides a basis of support for the linkage theory that states with deeper connections to the West will continue to reform politically and economically to ensure continued support. The perception of this potentially positive effect of linkage should influence international lenders. As such I intend to test the proposition that EU membership (including

\textsuperscript{11} Pevehouse (2002) is not arguing that such regional organizations be internally democratic themselves in order to promote democratic consolidation; thus, the democratic deficit so frequently discussed in regard to the EU should not be an issue for Eastern European consolidation according to Pevehouse’s research.
membership candidacy and application for candidacy) would encourage the multilateral institutions to provide more aid than membership in the CIS in the quantitative analysis of my study.

In addition, the EBRD also placed political conditionality on its lending because of its mandate to work only with states using democratic processes. However, although conditionality is an important aspect of how international actors influence transitions and reforms, these actors also work around the conditionality. This happens in the EBRD through the use of private sector loans instead of public sector loans or when the United States uses its influence with the IMF or World Bank to continue lending to certain states that may be missing the conditions set forth in their agreements.

**Review of the Role of International Factors**

The initial theoretical foundation of using international linkage as explanatory variables is based on the role of international factors in the post-communist region found in the democratization literature as international factors have gained increasing recognition from scholars. Three broad categories of the international factors literature – linkage, purposive actors and conditionality – provide a starting point for analyzing the influence of the international arena on the post-communist region. Regime change will never be totally governed by international influences but most cases will have some international dimension. Therefore, scholars continue to strive for better theories that conceptualize the impact of international influences on regime change. With the post-communist regime changes, it became obvious that it was no longer appropriate “to regard international factors as simply secondary to domestic ones.” (Pridham 1995: 202) Rather international factors may be complementary to the domestic political environment.

For the post-communist region, three sets of international factors played an important role in political and economic reform. The first factor was the connections the post-communist region made with the international community. The second factor was the purposive actors that influenced the post-communist policy such as the European Union; EU membership was regarded as the most important international linkage an Eastern European state could develop. Finally, the third factor was the international financial organizations providing assistance to the economic reform effort. In laying out these factors, I have generated the following testable
hypotheses of aid allocation in the post-communist region: measures of linkage such as economic and associational links to the West measured through trade volume and associational memberships should be predictive of the variation in aid to the post-communist states from the multilateral lending institutions. Now I turn to a discussion of the aid allocation literature.

**Effectiveness of Multilateral Aid and Determinants of Aid Allocation**

While membership in regional organizations is positive for democratizing countries, it is less clear that multilateral aid is effective. Generally for all regions, there are numerous avenues from which states undergoing regime change receive aid and assistance. Peter Burnell is explicit as to what he considers aid and what can be defined as assistance, which can make a difference in studies that are trying to determine the effectiveness of multilateral lending. He says that democracy assistance “[is] focused directly on democracy’s political variables, to the exclusion of democracy’s supporting conditions.” (Burnell 2000: 12, emphasis in original) Instead, the aid that comes from the multilateral lending institutions is concerned with the economic variable that ties into the stability of democracy. Therefore, determining the effectiveness for aid on democratic consolidation is more difficult because of its indirect facilitation of political stability and thus why the focus of this study is not on the democratization process. My study is an attempt to discover the political variables that determine aid allocation that may be used in subsequent studies to understand the effectiveness of aid but not to actively test the effectiveness of the aid.

A major problem with studies trying to determine effectiveness is methodological. For many studies, and not just those focused on the post-communist region, a major concern is the number of cases may be too small, too regionally limited and too constrained in timeframe to adequately establish effectiveness, an issue that Randall Stone (2002) argues leads to the mixed results found in econometric studies of lending effectiveness. For example, Richard Feinberg (1992) and Kristen Howell (1998) studied Poland, Hungary, Czechoslovakia and Romania respectively, single country studies. In addition, their timeframe was narrowly constrained to the first few years of the transition. But larger studies that provide more diverse states over a longer timeframe also provided ambiguous results. An example of this is the Przeworski and Vreeland study (2000) that examines the effectiveness of IMF programs on economic growth between
1951 and 1990 for a variety of states. While they show that IMF programs reduce growth, they do not provide an in-depth discussion of why this occurs in any particular country.

Secondly, it is difficult to determine whether a state’s economy would have changed with or without a program. As Stone (2002) rightly points out, a natural experiment with one state undertaking an IMF program and another state with similar economic problems not using an IMF program is not feasible. As Przeworski and Vreeland argue:

“The standard difficulty in evaluating effects of any policy or program is nonrandom selection (Heckman 1988). What we observe in the real world are not experiments, which would match the “treatment” and the “control” groups, thus permitting direct inferences about the experimental effects. Indeed, one would hope that governments do not enter into the IMF programs as an experiment. These treatments are costly; at least in the short run, they limit national sovereignty and inflict economic pain. In fact, governments often claim that they are “going under” only because the situation is dire and no choice is left but to “swallow the bitter pill,” “undergo radical surgery,” “take a horse treatment”; the lexicon is medical and the operation delicate. Going to the IMF is an act of courage, a demonstration of “political will”

But if countries enter and remain under agreements only when government recognize that the situation so demands and have the courage to swallow the consequences, the conditions of countries participating in IMF programs are not the same as of those which abstain.” (Przeworski and Vreeland 2000: 387)

Therefore, isolating the effect of a program is difficult. Third, there is the issue of what constitutes effectiveness and what time period is necessary to gauge effectiveness of the aid. Furthermore, as other scholars like Stone point out, econometric studies have used various economic indicators such as balance of payments, current accounts, real exchange rates, long term growth and domestic investments (Stone 2002: 40-45) to understand the effectiveness of international financial lending without conclusive results thus calling into question the accumulation of knowledge on the effectiveness of aid. For example in post-communist studies of aid effectiveness, M. Steven Fish (1998) used external assistance and investment as an independent variable while Howell (1998) used Real GNP per capita while different avenues of lending were the dependent variables. In addition Feinberg’s 1992 study focused on a wide-range of lending from the international financial institutions to the bilateral lending from individual countries in a qualitative study of effectiveness providing an extreme case of variation among different donors within the post-communist region.
Several studies have tried to determine whether assistance from the lending institutions contributed to favorable outcomes in the post-communist transitions. These studies have fallen into the trap of the international organizations literature that Lisa L. Martin and Beth A. Simmons considers “the demand that scholars respond to a realist agenda: to prove that institutions have a significant effect on state behavior” (Martin and Simmons 1998: 742), and thus, many studies have generally been problematic because of the failure to adequately explain why aid outcomes have not propelled states into economic growth or stable democracy. Richard Feinberg (1992) was one of the earliest scholars to study the effectiveness of economic assistance in the Eastern European transition. Feinberg criticized the extent of economic assistance as inadequate to the challenges of reform in Poland, Hungary and Czechoslovakia. However, his study was limited geographically to the three early transition states, which are, in addition, high performers, and temporally to the first two years after the communist collapse before the extent of the reform need was understood and the aid was distributed.

M. Steven Fish (1998) included external assistance and investment as an independent variable in his model to discover the determinants of economic reform. His dependent variable in the study was the extent of economic reform undertaken by the end of 1995 for 26 post-communist countries (excluding war-torn Bosnia-Herzegovina) as estimated by using a composite score of liberalization and privatization from the World Bank. To develop the external assistance and investment variable, he used another composite score. First he measured external assistance as the “total, cumulative lending by the World Bank Group…from 1990 to 1995 and divided by GDP in 1990.” Then he measured foreign direct investment as the “total, cumulative inflows during 1989 to 1995 and divided by 1990 GDP for each state.” (Fish 1998: 36) Fish argued that the variable was insignificant because of the small amount of lending from the World Bank. However, I believe the variable was insignificant for two reasons. First, it is insignificant because of the way that he conceptualized and measured external assistance and investment. The problem with investment is that it can be highly erratic depending on the internal conditions of the states. Foreign investment is likely to be high in states where economic growth is rising, governments are stable and the investment environment is conducive to high returns. Therefore, Fish may have inadvertently measured internal problems rather than external decisions. Secondly, the variable may be insignificant because external assistance and foreign direct investment are attracted by a state differently. The variable should not have been a composite of
the two types of foreign support but individual variables that tested different aspects of international influence.

Kristen Howell (1998) found that IMF lending was significant but had a negative effect on economic growth in the three countries she studied – Hungary, Poland and Romania – which she attributed to the conditionality attached to the IMF funds and the possibility that the two-year lag variable was not sufficient to reflect positive growth. World Bank lending in Howell’s model was more mixed in its results on economic growth as it was significantly positive for economic growth in Hungary and Romania but negative in Poland; in the Polish case, she argued that since disbursements of IMF and World Bank credits only began in 1990, the impact may not have been felt. However, her findings may be limited by her timeframe of 1980 to 1993 that captures only four early years of post-communist reforms and earlier bouts of debt limit later ability to secure more aid. She did find that bilateral lending, either between two governments or through aid agencies, such as the OECD, had a more positive effect on economic growth.

On the other hand, Janine Wedel’s book, Collision and Collusion: The Strange Case of Western Aid to Eastern Europe (1998) was highly critical of Western assistance mainly because of how the aid was expended. She found that assistance from the international institutions could have negative effects in post-communist countries since the majority of the assistance ended up in the pockets of the Western experts rather than with the Eastern Europeans. In addition, many Western “experts” were unfamiliar with the countries they were advising and with the problems of transforming communist structures into market economic institutions. The “experts” wanted to apply typical “Washington Consensus” approaches to economic development that were untested in transforming a command economy to a market economy. This disillusioned the Eastern Europeans who became disenchanted with the assistance process.

In addition, the problems of USAID encountered in Russia even encouraged the development of anti-American feelings. Stephen Cohen in Failed Crusade: America and the Tragedy of Post-Communist Russia also emphasized the problems with Western experts in Russia as he discussed how not only American experts but also political leaders failed to connect the reality of the economic problems occurring in Russia to the theories they advocated. As Cohen stated:

Russian economists and politicians across the spectrum are…desperately trying to formulate alternative economic policies that might save their nation – ones more akin to Franklin Delano Roosevelt’s New Deal than to the neoliberal monetarist orthodoxies of
the State and Treasury departments, the IMF, the World Bank, and legions of Western
advisers…” (Cohen 2001: 170)

Yet the most important limitations of these studies are that they only include a selected
sample of the post-communist countries or the very early years of political and economic change.

An important study that tried to correct the imperfections of previous research was
published by Randall Stone in *Lending Credibility: The International Monetary Fund and the
Post-Communist Transitions*. He concluded that studies that use the volume of IMF lending as
the dependent variable were bound to be inconclusive because they failed to take into account
the extent of aid suspensions and punishments. He based his study on the number of suspensions
and the length of punishments to determine whether IMF lending was effective in keeping
countries honest and responsive to the conditions of their aid. In the quantitative part of his
study, Stone found that IMF lending had more impact on government policies if the IMF’s
credibility in suspending aid was high. In turn, its credibility was high if the country in question
was not strategically and economically important to the United States. Aid suspension and length
of punishment was directly correlated to the degree of importance the United States attached to
the post-communist country and as Stone stated, “the autonomy of the IMF staff varies in inverse
proportion to the international significance of the case at hand”. (12). In addition, in those states
where the United States limited the IMF’s ability to punish a state ended up with worse
economic outcomes.

Another study that found preferential treatment had an impact on IMF lending was
completed by Grigore Pop-Eleches (2009). In a cross-regional study of economic crises in Latin
America in the 1980s and the post-communist transitions in the 1990s, Pop-Eleches found that
preferential treatment occurred for large Latin American debtor states as well as Eastern
European states who were large importers from the EU. He concluded that when external
economic crises occurred in Latin America, the IMF was quicker to initiate loan in a timelier
manner and for larger amounts to avert defaults from the largest debtors. While in Eastern
Europe, large importers of EU products gained easier access to IMF lending when their
economic problems were primarily reversing low foreign reserve levels. Thus, while economic
variables have been inconsistent in determining the level of aid allocation, international linkages
provide some leverage in explaining aid allocation.
Given Stone’s conclusions, it is important to isolate and understand the factors that determine how aid is allocated. The search for effectiveness may not in fact be the central factor driving aid allocation. Rather than simply determining if aid is effective by looking at economic data, future studies should emphasize other factors, whether economic or political, that play a role in aid allocation. Since studies that try to determine the effectiveness of aid have provided mixed results, we should try to better understand the factors that determine how aid is allocated.

Aid allocation studies focus both on the bilateral level and the multilateral level. At the bilateral level, most studies find an array of reasons for determining aid. Eric Neumayer (2003) provided a review of findings on bilateral aid allocation. He said that states with colonial ties receive larger amounts of aid from their former colonial masters, that corruption is a more important factor for Scandinavian donors than other states, and that the nature of the political regime – whether democratic or not – is not a determinant. In the literature on determinants of aid allocation, most of the studies start with economic variables – mostly as part of the null hypothesis. Such variables include per capita income, declines in export earnings, decreases in GDP, and debt service ratios. Even when studies include multilateral organizations that are committed to humanitarian need, such as several United Nations agencies that Neumayer (2003) included in his study, economic need is not always a determinant as less populous states receive higher levels of aid regardless of development level. As a study on aid allocation to the Middle East from the IMF and World Bank indicated, “the determinants of lending often do not reflect recipient economic need.” (Harrigan, Wang and El-Said 2005: 253).

What most studies find, therefore, is that the economic variables do not provide an adequate explanation for allocation. Therefore, attention has focused on political variables and in particular the influence of the United States as a determinant of aid allocation. In several studies based on IMF lending that started with Thacker (1999), the proximity of a state’s interest to that of the United States, as measured by the UN General Assembly vote in many of these studies, indicates that those states that are aligned with United States interests or vote in line with the United States in the General Assembly are more likely to receive IMF loans when needed (Andersen, Harr and Tarp 2006). Fleck and Kilby (2006) also found this to be true for World Bank aid allocation. But General Assembly votes are not the only way in which scholars have measured closeness to US interests. In an article on the determinants of aid allocation in the Middle East, Harrigan, Wang and El-Said (2005) argued that Middle Eastern states that sign a
peace treaty with Israel are more likely to receive an IMF program. In addition, according to Oatley and Yackee (2004) countries in which American banks have a great deal of exposure and which are aligned with United States’ foreign policy agenda are more likely to receive IMF loans and at greater magnitudes. What most of these studies have in common is they rely on econometric models to determine aid allocation without presenting in-depth analysis as to whether or not the models accurately predict aid allocation in real world environments. In my quantitative analysis, I will assess western ties concretely by incorporating a measure of economic relations – trade data. As an article by Lundsgaarde, Breunig and Prakash (2010) found, states with trade ties and other private resource flows are more likely to be recipients of aid.

Once the factors of aid allocation are isolated, then we can build better models that factor in aid allocation variables when determining whether aid is effective. Thus, I hope to isolate those factors that determine aid allocation. Using the aid provision literature provides an understanding of what other studies have produced as to what had led to or hindered effectiveness. Previous studies on aid allocation provide me with an understanding of what has been utilized and what has not been when determining what variables I want to test. Although my study does not directly test effectiveness of aid, it does explore the relationship between the international financial organizations and government officials as to whether there is a positive or negative influence on economic reform policy.
CHAPTER 3
INTERNATIONAL LENDING INSTITUTIONS – RESPONSES TO THE TRANSITION IN THE POST-COMMUNIST REGION

In the effort to understand how international linkages influence the variation in aid to the post-communist states, I have chosen to focus on the aid provided by the IMF, the World Bank and the EBRD because these multilateral institutions have been at the forefront of aid dispersion to the post-communist region. Because of their missions, the three institutions have been working with all 27 post-communist states and have a leading role in the economic restructuring occurring throughout the region. Their mission to the post-communist region has been summed up by Alex Pravda, “[They] share a common if loose set of stated objectives: to help promote democracy and marketization as well as stability and security.” (Pravda 2001: 9) As the three most prominent aid providers in the region, the lending tendencies of the IMF, the World Bank and the EBRD provide us with a better understanding of how and why lending is distributed to the post-communist region and how international linkages influence this distribution. In addition, the three institutions are more likely to have similar standards for dispersing aid than are individual states and non-governmental organizations.

Yet the international organizations do differ in their missions and mandates. These variations may differentiate the ways in which the organizations interact and lend to the post-communist states. So while the lending institutions have similar goals in the region, as their missions differ so, too, do their approaches to lending and it is in the lending approaches that different explanations for the variation in aid may arise. But how do the institutions differ? In the following sections, I explain the histories of the institutions and what type of lending each provides, compare the organizations’ missions as well as the staffing and culture of the institutions, and hypothesize how various factors may contribute to lending variation in the post-communist states.

The IMF and the World Bank
The IMF and the World Bank are sister institutions designed at the Bretton Woods Conference held in July 1944 as World War II came to a close. They became leading institutions in the transition of the post-communist region soon after the collapse of the communist regimes.
Although the two international organizations are sisters, they are not identical as the primary mission of the IMF is “to promote international monetary cooperation” (IMF At a Glance) while the World Bank’s primary mission is to finance economic development and reduce poverty through loans given to member states. “In the 1990s, [the Eastern European states and then the constituent republics of the former Soviet Union] became a major area of operation for both the IMF and the World Bank, which posed anew the issue of collaboration between the two institutions.” (Polak 1994: 7)

The leading states of the early 1940s formed the two international organizations because of the problems that developed prior to World War II in the global economy. The IMF was to regulate currency convertibility and balance of payments so that the world would be less likely to suffer through another depression like the one that preceded World War II. With transparent trading and easily defined exchange rates, the world leaders hoped to avoid the destructive consequences of the depression of the 1930s. After 1989, the IMF provided the same focus for the post-communist states, to make their currency convertibility more viable on the world market and provide funds to ease balance of payment problems. The World Bank was established to help with the post-war reconstruction and development of the infrastructure of the war-torn European states and Japan.12 With the reconstruction of Western Europe completed, the World Bank turned its attention to economic development in the poorer states and then became instrumental in providing assistance and lending to the post-communist region. As Graham Bird succinctly put it, “The Fund’s orientation was towards the short run: the balance of payments, the demand side, the monetary sector and program support. The Bank’s was towards the long run: economic development, the supply side, the real sector and project support.” (Bird 1995: 48)

In the early part of their histories, the IMF and the World Bank did not cooperate with one another and, at times, worked at cross-purposes. While the IMF was concerned with balance of payments problems, it dealt very little with the problem of underdevelopment in a state’s infrastructure, industry or agriculture that may contribute to a balance of payments problem. Likewise, the World Bank was concerned with the development of a state’s economic situation but it ignored the problem of balance of payments that could cause the underdevelopment of infrastructure, industry and agriculture.

12 The World Bank’s position in the reconstruction of Europe was overtaken by the United States when it introduced its Marshall Plan. While the Marshall Plan distributed $41.3 billion, the World Bank only contributed $497 million to the reconstruction of Europe and Japan.
Because of the difficulties encountered in the world economy during the 1970s, both institutions became focused on structural adjustment lending. The structural adjustment loans from the IMF and the World Bank have been important to the post-communist states as they have made the transition from a command to a market-based economy and as Graham Bird pointed out, “the overlap will take on a wider geographic connotation with continuing economic reform in Eastern Europe.” (Bird 1995: 50) Both institutions realized that without sound economic sectors, the assistance available from either institution to member states could treat the symptoms of underdevelopment and balance of payments problems. However, a full-fledged economic cure was more difficult to design without cooperation between the IMF and the World Bank even at the expense of some overlap and duplication. Therefore, IMF and World Bank cooperation has become essential to fulfill both of the institutions’ missions. To this end, the World Bank has been investing in projects that are intended to reform broad aspects of the economy instead of projects aimed at individual sectors. Conditions attached to the new loans are “not just about the particular projects it finances but about fiscal and monetary policy, trade policy, exchange rate policy, etc.” (Crook 1991: 17) Meanwhile IMF lending began to aim toward economic growth rather than just fixing monetary and fiscal policy. The IMF began to give technical assistance to a state in the area of implementing sound fiscal and monetary policies.

Although the majority of states globally are now members of the IMF and the World Bank, most post-communist states only had fleeting membership in either organization before the collapse of their communist regimes. Once a state becomes a member of either institution, it may resign its membership at any time. Indeed, the first state to voluntarily depart from both organizations was Poland, which was an original member of both institutions that withdrew its membership in the 1950s because of profound incompatibilities between its communist system and the agenda of the IMF and the World Bank. The IMF and the World Bank may also suspend the privileges of a member state if that member state fails to repay loans or other problems develop that are inconsistent with the missions of the two organizations. Czechoslovakia was required to withdraw from both organizations in 1954 for failure to pay its full World Bank subscription and then for its failure to provide accurate data to the IMF. As of 1992, all 27 states in the post-communist region had become members of the IMF and World Bank and almost all
have used the resources of the two institutions in their challenge to transform their previous command economies into competitive market economies.13

A Brief History of the Soviet Bloc and the Bretton Woods Institutions

While the Soviet Union was involved in the initial talks that established the IMF and the World Bank, the bloc primarily remained outside the Bretton Woods institutions between the 1950s to the 1990s. A few of the communist states initially joined or joined during the communist period but the Soviet Union remained hostile to the institutions.

Soviet officials were mostly concerned with the ideological tension between the openness required to be a Bretton Woods member and the closed systems under the communist regimes. First, the Soviets feared external control by the IMF and the World Bank would do. They did not want to provide the transparency of economic data that was required by the IMF and the World Bank. In addition, they saw the IMF and World Bank as agents of the United States thus pushing the capitalist ideology on the communist states. “In the Soviet view, the IMF constitutes an ‘instrument of imperialism and neocolonialism.’” (Schröder 1982: 87)

Thus the Soviet leadership, even after being distributed a quota to buy into the IMF and thus be eligible for World Bank membership as well, refused to sign a membership agreement. Yet two eventual Soviet bloc states initially did join – Poland and Czechoslovakia. However, their memberships were not long-lasting. Poland, forced by the Soviets, withdrew in 1950, describing the IMF as “a submissive instrument of the Government of the United States.” (Boughton 2001: 964) Czechoslovakia retained its memberships until 1954 when it was forced to withdraw when it refused to provide economic data necessary to provide exchange rate monitoring. Among the communist states, only Yugoslavia was a member of the IMF and World Bank throughout the Cold War era but having been expelled from the Soviet bloc, it was not influenced by Stalin’s hostility to the Bretton Woods system. Because of its ties to the Bretton Woods system, Yugoslavia had more trade ties with the West than the other communist states.

By the 1970s and 1980s, several communist states in Eastern Europe applied for membership with the IMF and World Bank. Romania was the first in 1972. Then Hungary and Poland each applied in 1981, although Hungary’s membership became official in 1982 while

13 This study does not include Kosovo. Turkmenistan is the only post-communist state not to have used IMF funding during the 1992 to 2007 time period examined in this study.
Poland’s official membership began in 1986. While both Hungary and Poland were interested in developing closer ties to the West, when they applied for membership in the Bretton Woods institutions they did under different economic circumstances. Hungary was experiencing a stable economic environment while Poland was experiencing economic instability as well as political instability.

Poland’s application for membership in the IMF was related to the economic reforms it undertook during the 1970s and the foreign debt problems that came about because of its decision to forge closer ties to the West. As Grzegorz Kolodko, Poland’s Finance Minister from 1994 to 1997, said, “…it was already obvious after the crisis of 1979-82 that Poland would not be able to pay off all the debt the country owed to foreign governments and commercial banks.” (Kolodko 2000: 26) He goes on to explain that because of the debt problems, Poland saw it as a necessity to join the IMF and the World Bank particularly since most of its debt was owed to the West. However, Poland’s application was delayed as the many of the Western countries were concerned that Poland would not be able to fulfill the institutions’ obligations. Finally, by 1986, the IMF approved membership. Poland would be the last communist state to join before the communist collapse.

The remaining Eastern European states and the former republics of the Soviet Union became members of the IMF and the World Bank after the collapse of communism during the early 1990s. Unlike the problems that hampered communist involvement in the 1940s, not one state in the post-communist era resisted membership. However, that does not mean that each state took advantage of its membership as the case of Turkmenistan will show.

**The Membership and Mission of the IMF**

Membership in the IMF is open to all states “that subscribe to its Articles of Agreement” (Riggs and Plano 1988: 294) and the IMF has 187 member states as of 2011. IMF membership is therefore nearly universal (United Nations membership as of 2011 is 192). The obligations of a state under the Articles includes providing information on its complete gold production and holdings as well as holdings of foreign exchange; the amount of exports and imports of merchandise; its international balance of payments; international investment position; national income; price indices; foreign exchange rates; exchange controls and debt. (Assetto 1988: 61-62)
Each state must provide a contribution as sort of a membership fee called a quota. At the start of the IMF, 25 percent of the quota was to be paid in gold while the remaining 75 percent of the quota was to be paid in the state’s currency. However, the 25 percent of the quota that was to be paid in gold may now be paid in a special type of monetary instrument created by the IMF called Special Drawing Rights (SDR) as gold became less important in international currency convertibility. Seventy-five percent of the quota must still be in a state’s currency.

Quotas are important in the IMF for three reasons. The first reason is that the quota gives the IMF money to lend to members with balance of payments problems. A state with a shortage of reserves may borrow foreign reserves from the IMF until the shortfall is corrected. “The IMF was, after all, originally designed to provide a revolving pool of credit to member countries rather than as a permanent source of long-term credit.” (Bird 1995: 71) The second reason is that quotas determine how much a member can borrow from the IMF when problems arise. Finally, the amount of a state’s quota determines its voting power in the IMF.

The IMF has three areas of activity: surveillance, financial assistance and technical assistance. Surveillance, which includes yearly consultations, is the activity that the IMF uses to determine whether the economic situation and the government’s policies are conducive to an acceptable exchange rate and currency convertibility. “As a result of normally holding annual intensive consultations with all its member countries and other contacts, its staff is generally quite familiar with the financial situation in a country that makes a request for a standby agreement.” (Polak 1994: 22-23) Financial assistance comes in the form of loans and credits extended by the IMF to member states who are having balance of payments problems. Financial assistance can be made through standby agreements or through special facilities established by the IMF for unique reasons. As late as 1977, Western industrialized states were making large withdrawals but by the 1980s, “Fund lending was exclusively to developing countries, with the economies of Central Europe and the former Soviet Union becoming important users of Fund finance at the beginning of the 1990s.” (Bird 1995: 98) Technical assistance is given by the IMF to help states design the economic infrastructure that increases the ability of a government to

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14 While the United States has 17.4 percent of the total IMF votes based on its quota, the US does not contribute its share for political reasons. The U.S. Congress has been especially hostile to the IMF, as well as other international organizations, because many Senators and Representatives feel that contributions to the IMF are a waste of taxpayers’ money. And even when Congress does authorize money for the IMF, conditions are attached “to U.S. legislation that would finance the IMF” such as when the House banned “funding organizations that support the right to an abortion overseas.” (Kapur 1998: 127)
maintain economic stability; this has been an important facet of IMF assistance to the post-communist region. As Michel Camdessus, the former Director of the IMF acknowledged in 1994, “Helping [the post-communist] countries to reorient their economies toward market based systems and to integrate themselves into the global market economy has been one of the Fund’s greatest challenges in its 50-year history.” (Camdessus 1994) Figure 3.1 demonstrates the level of lending to the post-communist region between 1992 and 2007. Because of the inexperience of the IMF with dealing with an economic transition from command to capitalist economy, officials were unsure if their orthodox policies would help or hinder the transition.

**Figure 3.1: Yearly IMF Lending to the Post-Communist States**

Although IMF lending is available to all of its members, lending seems to be limited to the poorest states or states in crisis; more developed states avoid the Fund if other lending and investment is available once economic growth and development have occurred, such as the Czech Republic did in repaying its loans early. However, Turkmenistan introduced its new currency without IMF lending and against IMF advice. In addition, states that have had prior adverse balance of payments performances are more likely to ask for loans and only states under the most adverse conditions are likely to ask for assistance since many states want to avoid acknowledging economic problems. (Graham 1995: 122-123) As Stanley Fischer, former First Deputy Managing Director of the IMF, said, “Countries try to avoid going to the Fund; policy makers whose countries end up in trouble generally do not survive politically.” (Fischer 1998: 35)
In the fifteen-year period included in this study, post-communist borrowing from the IMF follows a rough bell curve form with most lending occurring in 1995 and 1996 with dips in 1997 and 1998\textsuperscript{15} then sharply diminishing after 2002.

The IMF is largely concerned with a state’s balance of payments, in short with its economic interactions with other states. (Driscoll 1996) Thus it would seem likely that international linkages, particularly a close relationship with the West, would predict higher levels of IMF lending. The mission of the IMF has changed over the years as the international economy changed. As Peter Kenen said, “The basic obligation of the Bretton Woods bargain was transformed by the migration of a single word; the commitment to a system of stable exchange rates became instead a commitment to a stable system of exchange rates.” (Kenen 1989: 72) In other words, the system changed from one in which exchange rates remained largely fixed to one in which the system remained stable as exchange rates moved up and down. During the first part of its history, the IMF was charged with overseeing the convertibility of currencies that were tied to the value of gold and the U.S. dollar. Each state was to keep its currency at par value with the established exchange rate. When difficulties arose, the IMF provided short-term financing in foreign currency with certain conditions attached that would keep the state’s currency from falling from its par value. However after 1971, the fixed exchange rates system fell apart as states had difficulty with inflation and revaluations became common. This caused the IMF “to find a new raison d’être.” (Feldstein 1998: 20) The IMF was charged with more supervisory control over exchange rates when the leading states moved to a floating exchange rate system as well as making sure that each member state was able to convert its currency to cover its balance of payments. With the end of the par value system, the IMF became more concerned with the kinds of economic policies a state employs to ensure its economic stability.

Any member state that has a balance of payments problem is allowed to receive short and medium-term financial assistance, based on the amount of its quota. Loans from the IMF are called standby agreements (SBAs), an “agreement a member can borrow hard currencies – in IMF jargon, purchase them, – should the need arise,” (Crook 1991: 9) and are usually divided into tranches. “The IMF at an early stage introduced the practice of disbursing credit in tranches, under standby agreements, to ensure that agreed policies were indeed being followed.” (Polak

\textsuperscript{15} With the Russian financial collapse in 1998, it would seem that 1998 would have been a large lending year. While the IMF approved $11.2 billion in late July 1998, no tranche was disbursed prior to the August collapse. The IMF then reopened negotiations on the agreement in September that resulted in disbursement in 1999.
1994: 2) The conditionality of assistance has been a controversial issue for the IMF\textsuperscript{16}. Under the terms of conditionality, the IMF is allowed to determine if assistance is needed and how the state intends to correct the problems before dispersing the money. “Conditionality is a term of art (or perhaps less generously, a bit of jargon) that refers to the conditions of economic policy a lender stipulates as a basis for concluding a loan and for allowing subsequent drawings under an arrangement.” (Polak 1995: 14)

The origins of conditionality in the IMF appeared at the Atlantic City Debate in 1944. At this conference, several members wanted to make loans conditional so as to ensure that the IMF would not go bankrupt. Therefore, it was agreed that “a member’s representation” of its need to borrow from the IMF to correct a balance of payments problem “could be challenged by the IMF for good reasons.” (Dell 1981: 4) Conditions are attached to SBAs so that a state is not throwing money at symptoms without trying to find a cure although the conditions may be construed as development issues that were supposed to be dealt with by the World Bank rather than the IMF. “Linked to the capacity to repay, of course, is the need for the country concerned to adopt policies and measures that will help to restore and maintain balance-of-payments equilibrium.” (Dell 1981: 10)\textsuperscript{17}

Under the tranche program, each subsequent tranche has higher conditions attached. The first level tranche usually comes without conditions. But as a state needs more tranches, tougher conditions are attached to each subsequent level so that the IMF can monitor the progress of a state toward greater economic stability. “In its pure form, IMF conditionality stipulates a limited number (rarely more than ten) of monitorable indicators of performance.\textsuperscript{18} If at the end of a specified period (typically a quarter) all performance criteria are met, the member’s access to the next tranche is ensured; if only a single performance criterion is not met, drawings are automatically interrupted.” (Polak 1994: 14-15) When a state slips into arrears the IMF is supposed to cut off further lending. However, cutting off funding to a state may increase the financial difficulties; therefore, the IMF is more likely to re-negotiate conditions rather than cut off funding automatically. In addition, states with important connections may escape lending suspensions (as Russia did during the 1990s) if one of the major states, like the United States,

\textsuperscript{16} The World Bank did not begin applying conditions to loans until the 1970s.
\textsuperscript{17} However, during the mid-1990s, the IMF received a great deal of criticism for its handling of the Asian financial crisis for acting on the basis of unreliable economic information received.
\textsuperscript{18} The post-communist states faced up to 15 structural conditions in their agreements after 1995. (Pop-Eleches, 2009: 14)
To ensure stability, whether economic or political, the IMF deems funding necessary. Since the IMF finances are based on member subscriptions, the IMF has a strict rule “not to lend to countries that are in arrears on earlier IMF credit.” (Crook 1991: 18) This gives the IMF some flexibility in its ability to ensure loan conditionality reflects political and economic realities.

Along with the standby agreement, the IMF created other facilities to assist states with specific problems. In 1974 the IMF established an extended fund facility (EFF) which is basically “a standby with a five to ten year repayment period instead of three to five years.” (Crook 1991: 9) The IMF also created a structural adjustment facility (SAF) in 1986 and then an enhanced structural adjustment facility (ESAF) in 1987 that was enlarged and extended in 1994. These two facilities are designed for the poorest states. Unlike other facilities, these are loans rather than purchases of other members’ currency and they carry a small interest rate of 0.5 percent “with a five year grace period and a 10 year maturity.” (IMF At a Glance) The ESAF was established when the SAF resources dried up. The ESAF was funded through wealthy state contributions rather than the repayments to the trust fund established in the 1970s. More money was available through the ESAF but conditions were stricter. For the most part, IMF assistance to the post-communist region has come through standby agreements of 12 to 18 months, extended agreements and through special facilities designed to accommodate the economic system transformations within the post-communist region, compensation for export shortfall (OSAF, CCFF) and systemic transformation facility (STF).

The financial assistance given to any state is to be repaid when the balance of payments situation improves, typically three to five years, although ten year arrangements can be made. The longer period has been a source of criticism since the IMF was primarily a short-term lender. “The main concern of the IMF has been to protect the revolving character of its resources and it was this consideration that prompted the adoption of the three-to-five year limit for repayment of drawings.” (Dell 1981: 10)

Even the leaders of states that are in severe crises have attacked the IMF for the bitter politically implacable prescriptions that the IMF ties to assistance, such as budget cuts aimed at social services. In addition many states disliked currency devaluations which were frequently imposed as conditions in the 1980s. (Bird 1995: 116) Another criticism of the IMF centered on

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19 Other facilities included a special oil facility in 1974 to help states deal with the oil shocks. While the facilities are important for all states, the majority of the facilities benefit African states.
its intrusive measures that are conditions of assistance to the crisis states. “Basic conditionalities of the IMF-World Bank include drastic cuts in social expenditures, especially in health and education.” (Danaher 1994: 20-21) Yet without the conditions attached to lending, states would be free to continue to take assistance to reduce the symptoms of a financial crisis without seeking to find a cure. But many argue that conditionality does not improve situations in which Fund lending is needed and even discourages states from obtaining Fund lending. In addition, Fund lending seems only to improve conditions within states that have borderline creditworthiness whereas worse-off states are unlikely to get much help. (Bird 1995: 123) As one commentator says, “[The IMF’s] basic role is inherently controversial. It has to demand that borrowers accept fiscal and monetary austerity to regain investor confidence, but runs the risk that fiscal restraint might coincide with a private sector debt crisis.” (Hale 1998: 11)

Overall, however, since the establishment of the IMF as the protector of the international monetary system, there has not been an economic crisis like the Great Depression of the 1930s. As one proponent of the IMF stated, “If the IMF did not exist, governments would be frantically debating today whether to establish such an organization.” (Hale 1998: 13) Likewise Poland’s former Finance Minister Kolodko said, “Because of the significant involvement of the IMF and the World Bank, the systematic transition has made more overall progress and sustainable development has become more likely.” (Kolodko 2000: 278)

As such, for the post-communist region, the IMF, as well as the World Bank, has been a supportive institution in making the unique transition from command economies to market economies. In fact, the United States, and the G-7 generally, thrust the IMF into the lead in responding to the economic transition in the post-communist region. “Thus, the G-7 decided to use an already existing international institution, [the IMF], to do the ‘administrative work’ of disbursing the aid.” (Lichetenstein 1994: 1944) The IMF itself was less than enthusiastic. Former IMF Managing Director Camdessus, in a discussion on the role of the IMF in Russia, said that, “it was clear that the IMF was not the appropriate organization to come to Russia’s aid in the 1990s, or at least not to take the ‘lead’ role.” (Gilman 2010: 16) He also wrote, “In a sense, the IMF became the main focus of external efforts to assist Russia in its transformation more or less by default.” (Gilman 2010: x) Martin Gilman, a senior IMF representative in Russia between 1993 and 2002 further added, “But the World Bank did not take up the gauntlet, nor did others.” (Gilman 2010: 16)
With the coordinating task imposed upon it, the IMF improvised. The systemic transformation facility (STF) mentioned above was designed specifically for the post-communist states – a clear indication that the IMF saw post-communist economic challenges as distinctive. It was introduced in April 1993 to assist states undergoing transitions from command to market economies that faced balance of payment difficulties in the early stages of transition when trade and payment arrangements were disrupted. The STF was intended as a one-year “stepping stone” to standard IMF arrangements, but ultimately functioned through 1995, during which period the international financial institutions scrambled for appropriate tools. As Markus Rodlauer of the IMF Warsaw office said, the STF “reflects the recognition that many of the transition economies had only a limited capacity in the short term to implement fully elaborated adjustment programs and that meanwhile a somewhat different conditionality might be appropriate.” (Rodlauer 1995: 109)

**The World Bank Activities**

Membership in the World Bank is conditioned on prior membership in the IMF for several reasons. Although World Bank members are designated a buy-in share for membership, it was still felt that to receive the benefits of Bank membership a state must also be obligated to the IMF. The second reason is that “stable monetary conditions were essential to the success of the World Bank’s lending and the precondition of membership in the IMF was thus seen as enhancing the quality of the World Bank’s loans.” (Polak 1995: 1) Currently 185 states are members of the World Bank. Members of the World Bank have equity shares in the Bank. Voting power in the World Bank is based on the number of bank shares a state holds. The World Bank was meant to be a bank of the last resort for loans. If other means of funding for a project are available, then the World Bank will not help secure funding through its channels of investment banks.

Because the World Bank does not rely solely on quotas from members to help finance the World Bank’s operations, it has other sources of funding. The primary source for money lent is the selling of bonds in the international capital market. These bonds carry an AAA rating, the highest rating for bonds, because there is a guarantee that the bonds will be repaid since the World Bank requires “its loans to be backed by a guarantee from the borrowing country government.” (Crook 1991: 10) This guarantee also helps to ensure that the loans provided to a
state remain low interest. “Borrowers pay what the Bank calls a market rate of interest – in effect, the IBRD’s cost of funds plus a margin for expenses.” (Crook 1991: 9) In addition to its own money, the World Bank works with other lending institutions to put together funding for states once projects are approved. “On average, World Bank loans…financed only 25 percent of the cost of projects with other investors often joining the Bank to provide the balance.” (Riggs and Plano 1988: 337)

While a member state of the IMF is allowed to receive assistance when problems arise in its balance of payments regardless of its development level, the World Bank and its affiliates lend to the “creditworthy” developing states that are the neediest of low interest loans. “The World Bank appraised a country’s creditworthiness by taking into account both external conditions and the country’s policies; if it found the country’s creditworthiness insufficient, it refused to lend for even the best projects.” (Polak 1995: 4) Even though a state may be poor as long as its creditworthiness is acceptable, it will receive better terms on loans from the World Bank than it could on the open market and thus states with a per capita gross national product (GNP) that exceeds $1,305 may borrow from the World Bank. (Driscoll 1995) Poorer states that have a GNI of less than $1,165 are eligible to receive loans from the International Development Agency (or credits as they known in the IDA).

While the World Bank started out at Bretton Woods as a single bank devoted to reconstruction and development, it evolved in the 1950s to include a group of affiliates that would help it meet its goal of growth and poverty reduction for developing states. The first affiliate was established in 1956 as the International Finance Corporation (IFC) and it currently has 187 members. Its primary mission is to promote “the flow of capital from world money markets, stimulate the formation of investment capital within member countries and encourage private enterprise and private investment opportunities.” (Riggs and Plano 1988: 338) The IFC provides financial help “through non-guaranteed loans and equity investments” as well as other sources. (Crook 1991: 10)

The second major affiliate is the International Development Agency (IDA), established in 1960, which lends and provides grants to the poorest states. Although the IDA is a legally separate entity from the World Bank, it shares the same management and staff with the World Bank.

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20 Although this is usually a good rate, there may be lower rates on the market but that are not available to developing states because of the risks involved.
Bank. The eligibility criteria for IDA lending is the relative poverty as defined by GNI per capita\textsuperscript{21} which is currently $1,165 and for states that “lack …creditworthiness to borrow on market terms, a need for concessional resources to finance the country’s development program [along with] good policy performance, defined as the implementation of economic and social policies that promote growth and poverty reduction.”\textsuperscript{22}

IDA loans are basically interest free with only a small service fee applied to them rather than an interest rate. The loans do not have to be paid back until ten years after the request and repayment is over a longer period than an IBRD loan. The resources for IDA loans “are raised not by borrowing but through subscriptions from rich member countries, gathered in periodic replenishments.” (Crook 1991: 10) Currently there are 79 states that are eligible to borrow from the IDA of which eight are post-communist states included in this study.\textsuperscript{23} Most of the post-communist economies are too developed for this program.

While the World Bank initially lent to the advanced industrial states after World War II, once the war-ravaged states rebuilt their economies, the World Bank focused its attention on the most underdeveloped states. Following the collapse of the communist regimes, the World Bank became an important actor in Eastern Europe and the former Soviet republics. “Once the World Bank…phased out its lending to industrial countries, the IMF and the World Bank have quite divergent lists of client countries.” (Polak 1995: 13) The World Bank only lends to states who have submitted a detailed development project for which the loan would provide financing. World Bank “lending was overwhelmingly to governments, government agencies and state-owned enterprises and gives particular attention to projects that can directly benefit the poorest people.” (Driscoll 1996) These types of projects are aimed at agriculture and rural development where the poorest people in a state tend to live, as well as urban development through infrastructure projects that deal with health care, water works, education and housing. For the post-communist countries, projects were aimed at “…promoting sustainable economic growth.

\textsuperscript{21} Per capita GNI is a measure of the wealth of a country that is obtained by dividing the value of goods and services produced in a country during a year by the number of people in the country.
\textsuperscript{23} Armenia, Azerbaijan, Bosnia-Herzegovina, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan remain eligible for loans from the IDA. Albania (2008), Macedonia (2002), Serbia (2007) and Montenegro (2008) graduated from IDA lending in the year in parenthesis. Kosovo is also eligible for lending from the IDA but not included in this study. Information on IDA eligible states is available at http://web.worldbank.org/WEBSITE/ EXTERNAL/EXTPAGE/EXTABOUTUS/IDA/0,.contentMDK:20054572~menuPK:3414210~pagePK:51236175~piPK:437394 ~theSitePK:73154,00.html. (December 19, 2010).
based on the development of a strong private sector…encouraging needed macroeconomic adjustments, including scaling down the budgetary needs of the state, and by helping develop the economic, regulatory, and physical infrastructure that supports greater efficiency in production.” (Wallich 1996: 61) It would seem that economic variables would be highly predictive of World Bank lending, but much of the aid allocation literature has found that this is not true.

The idea was for the World Bank to loan money to states for specific projects that would contribute to economic development and because of this mission, “…strategy and support differs from country to country, based on individual needs, the stage of transition and the state of the economy.” (Wallich 1996: 59) However, as Clive Crook (1991) pointed out, during the 1970s, the projects funded by the World Bank were frequently failing even before the debt and default problems of the 1980s appeared particularly in Latin America. The problem was that while the projects were well designed – the World Bank is extremely meticulous about the design of a project before approval is given – the impact of the rest of the economy was undermining the good intentions underlying the projects. Groups that criticize the World Bank include the developing states that are not happy with World Bank projects that fall short of expectations, nongovernmental organizations and environmental groups that criticize the World Bank for implementing projects that hurt the poor and destroy the environment in the name of development. Russia under Vladimir Putin became disenchanted with the World Bank in that the projects were not staffed nor managed by Russian officials.

In response to some of its critics, the World Bank became more sensitive to macroeconomic policy and the problems it created for individual projects. Therefore, the World Bank developed structural adjustment loans (SALs) and sector adjustment loans (SECALs) to work out the problems of macroeconomic policy and these have been essential for the post-communist transitions. “Although the World Bank subsequently acknowledged that it failed to assess the possible negative social impact of [SALs], they nevertheless grew to a quarter of its portfolio by the mid-1980s and have remained near that level ever since.” (Rich 1994: 11) Yet these loans put the World Bank into the area of assistance offered by the IMF.

The World Bank only recently began attaching conditions to the loans it approves. One area that has become extremely important as a condition for a loan is the privatizing of industry and businesses, an extremely important aspect of the post-communist economic strategy in transforming command economies to market economies. “The proportion of World Bank
structural adjustment loans made conditional on specific privatization targets has risen from only 13 percent in 1986 to 59 percent in 1992.” (Avery 1994: 95) Note that this period coincides with the onset of lending to the post-communist states. During the administrations of James Wolfensohn (1995-2005) and Paul Wolfowitz (2005-2007) corruption and good governance became important official lending approval criteria but was not actually a consideration for the staff as they were less likely to consider political factors. In the case studies presented in this study, while good governance and corruption were discussed, it did not seem to constrain World Bank lending within the region.

The EBRD: Eastern Europe’s Transition Bank

Unlike the IMF and the World Bank, the EBRD is a young institution that had a rough start following its establishment in 1991 after the first communist regimes collapsed. All states within the post-communist region are members.24 It is explicitly designed to support the transition from command economies to market economies, and its membership is thus restricted to the post-communist region.25

As mentioned earlier, it styles itself “the world’s only transition bank” and thus differentiates its mission explicitly from the other regional banks. It extensive list of “transition indicators” have been widely used by scholars as well as in-house analysts as benchmarks of economic transition. Indeed, the EBRD is not a traditional development bank.26 It more resembles a commercial bank that is mandated to loan money to the private and public sectors of the post-communist region to facilitate transition from a command economy to a market economy. At the same time the EBRD is mandated to work with only those states that are committed to democratic processes. In addition to the exhaustive economic assessment, each

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24 Kosovo is not yet a member. It applied for membership on April 17, 2010. Its application was endorsed by the European Commission. However, 22 member states of the EBRD do not recognize Kosovo as an independent state. Therefore, to be confirmed as a member, at least one of those 22 states must approve Kosovo’s application for it to meet the two-thirds requirement for membership. Czech Republic graduated from being an EBRD borrower in 2007 to an EBRD donor. Further “graduates” were expected by 2010 but the global recession intervened.

25 In the wake of the political transitions in Egypt and Tunisia, EU leaders have suggested that the EBRD extend the Bank’s activities to Northern Africa, in particular Egypt which is a founding shareholder in the EBRD. Egypt has formally requested EBRD lending. (Reuters 2011).

26 The Central Asian states of Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan are also members of the Asian Development Bank. However, the ADB is not a competitor of the EBRD in the period of this study as most of the post-communist states did not join the ADB until the 2000s. Only Kazakhstan, Kyrgyz Republic and Uzbekistan joined by the mid-1990s. Georgia was the last to join in 2007. The ADB’s mission is mostly poverty relief and focuses mostly on private-sector lending.
country strategy document addresses the country’s compliance with Article One (the democracy mandate) of the EBRD charter until the EBRD is satisfied that democratic practices are firmly established. It works under the premise that stable economic development will lead to stable political development as argued by Przeworski et al (Ruoso 2005). “The key Western players discovered that they also shared a set of ideas about broad goals to be sought in [the post-communist region]. One of these goals was the intertwining of democracy and other political reforms with market economies to ‘produce’ states that could prosper democratically and live with each other comfortably (or at least peacefully).” (Weber 1994: 13) This would suggest that international variables would be predictive of the aid allocation from the EBRD as well as level of democracy as measured by Polity IV scores.

EBRD investment is a source of last resort investing similar to IMF and World Bank aid when other financing is not available. As such its loan terms are based on market rates and risk assessment since it must meet sound banking requirements and does not require state guarantees for private sector loans. Unlike the IMF and World Bank, it does not grant undermarket terms. However, the EBRD is usually willing to take on more risk than regular banks and its terms of agreement may be for five to seven years.

The EBRD does not provide grants or soft loans although it does facilitate blended financing if warranted. While the EBRD is primarily interested in providing private sector loans, it also provides loans to the public sector for infrastructure or other public sector projects that support initiatives in the private sector. As Charles Vuylsteke, EBRD senior advisor of privatization and restructuring wrote, “Targets of the EBRD’s financing include, inter alia, private companies or state-owned enterprises undergoing privatization and the creation of new companies including joint ventures with international strategic investors.” (Vuylsteke 1995: 129) By 2005, the EBRD loan portfolio between private and public sectors was an 85 to 15 percent ratio, well exceeding the mandated ratio of 60 percent private to 40 percent public.27

The EBRD was sponsored by the French and ultimately became an important institution for transition through its reputation for due diligence and strict oversight. As Adam Bronstone argued, the EBRD was “easily established because the European states and the United States agreed to the ideas behind the EBRD and so 18 months was adequate to start the organization.”

27 According to the EBRD 2010 Annual Report, the percent of lending to the private sector dropped to 74 percent in 2010 after being at 83 percent in 2009 in the wake of the economic problems in Europe. (EBRD 2011: 9)
As Germany rushed to provide investments in Poland and other Eastern European states, the French felt a new organization under their leadership would reduce German influence, particularly after it became apparent that G-24 aid and private financing were not sufficient for the reforms needed in Eastern Europe (even before the Soviet Union collapsed).

The United States position was different. While the United States was interested in a European organization to help consolidate the dismantling of Soviet power in Eastern Europe as well as decrease the European Community’s isolationism, the United States questioned the need for the EBRD given the existing international financial institutions in which the U.S. had considerable influence, notably the World Bank. U.S. officials felt that the World Bank was adequate in initiating multilateral aid and “…could use this opportunity to expand on the moderate improvements it has already made in financing private-sector projects.” (Weber 1994: 16)

The major disagreement between the founding states was the role of the state within the economy. One of the contentious points in negotiating the EBRD’s charter was the private to public lending ratio. The French, who are friendlier to government involvement, favored public-sector lending while the United States preferred only private sector lending, primarily focused on small and medium-sized enterprises as a way to avoid interfering in World Bank operations. A compromise of these opposing perspectives eventually led to the 60-40 ratio. (Weber 1994: 19)

In its first few years, critics complained about the low level of lending in the post-communist states and the opulence of the headquarters building in London under the leadership of President Jacques Attali. Despite its youth and this rough start, its reputation among the post-communist states is impeccable. “The CEE states from the beginning saw EBRD as a major institutional link between themselves and Europe.” (Weber 1994: 28)

Post-communist states do not want to risk a bad assessment from the EBRD so they are willing to do what it takes – improve the rule of law, decrease corruption, etc. – to keep from receiving poor ratings.

Although the EBRD is a transition bank, it is not really a political mechanism for democratization even though it is mandated to work with post-communist states that are committed to democratic processes and pluralism. However, when states fall into non-compliance on democratic principles there are a few mechanisms the EBRD can use to punish those states. The Board of Directors, having read political assessments from the political counselors, decides whether to recommend to the Board of Governors that a state has fallen into non-compliance. Under U.S. insistence, the Board of Directors “…have a powerful voice in the
day-to-day functions of the Bank as a way of assuring that the compromises would be implemented as the EBRD did business.” (Weber 1994: 19) The Board of Governors can then decide to expel a member from the EBRD, although this has never occurred.

The failure to expel non-democratic member states does not mean that national-level characteristics matter less for EBRD lending patterns. Rather, national-level characteristics, such as democracy, may determine the overall lending levels and the public to private lending ratio. A case in point is Belarus where the EBRD does not lend to the public sector at all because of the authoritarian nature of the Belarusian regime. Thus, the EBRD takes action by refusing to work directly with a state that is non-compliant – such as withholding public sector loans but continuing to provide private sector loans when the principles of pluralism are violated by a state. The result of this has been the ability of the EBRD to continue working in such states as Belarus, Turkmenistan and Uzbekistan. Post-communist states want to remain in good standing with the EBRD as it has become one of the largest multilateral investors in the region and because the EBRD will work with large foreign corporations to invest; therefore, its assessments are vital to healthy economic development. Negative assessments from the EBRD seem to have more effect in Belarus than in the Central Asian states as Belarus would prefer to be included in European markets whereas other states are not as concerned with their standing in Europe. Turkmenistan, for example, prefers a position of neutrality between the West and Russia.

The EBRD tries to be more flexible and business-friendly and less bureaucratic than the other lending institutions. Accordingly, EBRD bankers are located in every post-communist state and develop deals based on the merits of the project in facilitating transition. Each transaction has a transition rating and loans that fail to rate high on transition impact may be redesigned to facilitate transition – adjustments such as additional transparency or international auditing. The EBRD has a capital endowment of $20 billion from its 60 member states and the EU. Larger capitalization was rejected which encouraged the EBRD to set sound banking practices to recoup loans so to be able to make new ones. The United States is the bank’s single largest shareholder, although the EU itself and the individual EU members, in consonance with the terms of the EBRD charter, hold 60 percent of bank shares. The EU states, however, do not act as a voting bloc even though they could. All loans are approved by the Board of Directors and its repayment rate is quite high especially in its Small and Medium Enterprise (SME) portfolio. Its greatest repayment problems come from corporations rather than governments. When pressed, the EBRD
does sue for repayment from corporations. As with most other institutions, Russia’s 1998 crisis hurt the EBRD and it posted a net loss of ECU 261.2 million in the wake of financial collapse. (*Europolitics* 2011) This caused a reassessment of how risk is calculated and strengthened its due diligence of other states. After its reorganization under the second president, Jacques De Larosiere, the EBRD required sound banking requirements in all its projects along with the transition impact (Bronstone 1999: 131) meaning that the EBRD had to balance an appropriate rate of return on its investments along with determining how important the loan would be for furthering the transition to a market economy regardless of the risk. Thus as Charles Vuylsteke, an EBRD Senior Advisor in Privatization and Restructuring, said, “The EBRD operates at the frontier of the too cautious and the too risky.” (Vuylsteke 1995: 133).

The EBRD does coordinate with the IMF and the World Bank on certain matters. The EBRD does not want to work as a counterbalance to conditions set by the IMF or the World Bank although at times this does occur. If a state runs afoul of IMF/World Bank conditions then it could also run afoul of the EBRD or vice versa. The EBRD believes that “…even ‘good’ investment projects would likely fail in ‘bad’ or distorted macroeconomic environments…and concessionary lending to public-sector enterprises insulated from competition would not contribute to sustained economic growth.” (Weber 1994: 24) Secondly the EBRD may work against the World Bank’s IFC as they may compete for private sector loans. However the EBRD charter tried to “set it apart…in practice if not in principle” from the other multilateral financial institutions. (Weber 1994: 24) The EBRD sets fewer conditions on its loans than the IMF or the World Bank and its conditions are based on market conditions rather than political conditions – once the democratic processes requirement is met. However, while the EBRD emphasizes economic conditions, this does not mean that politics are not an issue for the EBRD. Political assessments are especially important to determine the risk environment in a state to determine loan conditions.

**Comparison of IFI Missions**

As the previous sections discuss, the IMF, the World Bank and the EBRD have different reasons for their establishment. As such these missions and mandates may indicate different reasons for distributing aid although it might suggest that similar variables would be predictive.
As the World Bank and EBRD have missions that provide for project lending it would be logical to assume that the same variables would influence their distribution of aid.

The IMF is primarily concerned with currency convertibility and balance-of-payment problems – short-term economic issues rather than the longer-term issues of development the World Bank and EBRD deal with. While its mission has broadened in the years since its founding, it has the mandate to protect the international monetary system. Therefore, IMF lending would be more predicted by international linkages like previous relations with the IMF and World Bank and Western connections through trade volume.

Until the IMF shifted its mission to the maintenance of a stable exchange rates regime, its mission was distinct from the World Bank. But criticism during the 1980s of the IMF focused on the merger of its mission with that of the World Bank. Since the IMF’s main reason for existence, the maintenance of a fixed monetary rate system disappeared with the use of floating exchange rates, critics have suggested that the IMF be dissolved or merged with the World Bank especially the IMF’s balance of payment management. As Polak asked, “Why should there be two very similar international organizations providing balance of payments credits under similar macroeconomic conditionality to the same developing countries?” (Polak 1995: 49) Since the World Bank offers structural adjustment loans that creep into the area of IMF assistance, it has been thought that the IMF should merge with the World Bank to create one large monetary institution without having to fund two separate institutions. But since this has not occurred, and is unlikely to, the IMF continues to focus on short-term economic problems that may threaten the global monetary system.

Since the IMF focuses more on short-term lending, economic variables may not be able to accurately predict when lending would occur. But the IMF does use conditionality in its lending that focuses on economic policy-making, therefore, political variables may be slightly more predictive of lending than economic variables. Yet because of its supervisory mandate, it works with all regime types thus democracy rankings might be less predictive than other domestic political variables like ethnic conflict or cabinet stability.

In contrast to the IMF, the World Bank and the EBRD are more similar in their missions. Both provide loans for the longer-term goal of economic development but only as a last resort for states unable to secure funding on the commercial market. The World Bank tries to maintain an apolitical approach to its lending although it does require a government guarantee for its loans. It
provided loans based on economic sectors but more recently has made projects more broad-based for general economic development. And, only recently has the World Bank taken an interest in the corruption level of a state and placed a priority on good governance during the loan approval process. Similarly, the EBRD provides loans for transition projects so it concentrates its loans based on economic sectors like banking and natural resources. In contrast, however, it lends to both the private and public sector thus it relies less on political conditionality in its loans. Yet it does have a mandate to only work with governments committed to democratic processes. Nevertheless, the EBRD is able to continue to work in non-democratic states by concentrating its loans in the private sector. Therefore, I theorize that domestic variables are less likely to predict lending of either the World Bank or the EBRD based on the missions of each organization. Economic variables would seem to be the most likely predictor of lending yet as the aid allocation literature has shown, there is wide variation in the significance of economic variables. Consequently, international linkages may be more predictive of lending for both the World Bank and the EBRD.

Therefore, to summarize, international linkages would be more predictive of IMF, World Bank and EBRD lending since the organizations’ missions focus on protecting the global economic system and the development of market economics in the post-communist states that are integrated into the global economy. In addition, the IMF might be more sensitive to the associational memberships in predicting higher levels of aid given the signal membership may construe about a state’s ideational orientation. Economic need may also predict higher levels of lending from the three multilateral lending institutions as economic reform in the post-communist region is a primary goal of the aid and all states within this region are in need of that type of aid. The EBRD may be more sensitive to the level of democracy given its democratic mandate than the Bretton Wood institutions but political variables are less likely to predict levels of aid allocation from the international financial institutions.

Staffing and Culture in the International Financial Institutions

Do the staff and the cultural organization of the institutions play a role in the way the international financial institutions allocate aid to the post-communist states? Staffing issues at the IMF and the World Bank have gained some attention from scholars for ways in which reforming
the staff could improve the effectiveness of the organizations. EBRD staffing issues have not been a scholarly emphasis.

The IMF and the World Bank staffs are similar in that most of the staffers are economists. The IMF prefers macroeconomists right out of graduate school who have not had practical experience in the field. (Momani 2007) The World Bank’s staff is also dominated by economists with the non-economists being marginalized. (Weaver 2007) As Catherine Weaver argued, the World Bank staff has autonomy over how programs are implemented because the Board of Directors lacks the power to oversee the day-to-day operations of the Bank; thus staff experience and education is consequential.

The organizations have a similar hierarchical structure and rigid standard operating procedures. The World Bank staff has been very resistant to changes in the standard operating procedures. It was especially reluctant to embrace the emphasis on good governance and corruption during the latter part of the 1990s. Weaver argued that because the World Bank was originally created as an apolitical institution that did not interfere in the political affairs of its members, the staff has clung to the notion that its programs should remain apolitical, thus ignoring the good governance and anti-corruption emphasis of the presidents James Wolfensohn and Paul Wolfowitz. This reluctance to interfere in political affairs can also be explained by the large number of economists on staff that in many respects has “little interest in how the state affects development.” (Weaver 2007: 112-113).

But in what ways does the staff affect the allocation process? Given the staff emphasis on economic issues, it would seem logical that economic variables would predict the amount of lending from the IMF and the World Bank. Yet the aid allocation literature shows that these variables are not always predictive of lending. To begin with, the level of expertise in the organizations may have an effect on what types of loans are approved. For example, in the World Bank and the IMF, the fact that staffers are mostly economists without practical experience may make them more willing to rely on theoretical economic models based on economic data rather than the political environment of a loan recipient state. For instance, in the Russian case, Martin Gilman, the senior IMF representative in Russia between 1993 and 2002, said that the staff “had a difficult task in understanding the local conditions, history, institutions, laws, and so forth. No doubt like many outsiders, we succumbed to an obvious stereotype about the Soviet Union, which was its reputedly highly centralized control.” (Gilman 2010: 25) However, because of the
IMF’s surveillance mission, its staff must conduct yearly reviews of the economic conditions within the member states so the staff would have more familiarity with the political and economic environment of a certain state before lending is approved. Thus for the IMF, the possibility exists that the Fund will suggest a state seek IMF lending before a financial situation worsens. Therefore, World Bank and IMF loans may be approved on theoretically-sound economic reasons, but in the World Bank they may not be designed to reflect the political realities within those states. This may be one reason there was a great amount of criticism about the Washington Consensus, particularly in Russia and Poland, that the prescriptions were not applicable to the communist transition to a market economy. Thus political variables would be unlikely to predict World Bank lending but may have some predictive power for IMF lending.

The EBRD staff, on the other hand, has more practical experiences in the banking sector. I developed biographical data on all EBRD staff members listed in the 2010 directory for whom data was available. I found that 67 percent of the staff had a background in the private banking sector before joining the EBRD. This accords with the EBRD emphasis on the privatization as well as the capitalization of the banking sector in the post-communist states. The majority of its initial loans to the individual states were targeted to the banking sector. The majority of directors have also worked in the banking or other private business sectors with around 12 percent having served in government agencies – mostly in finance ministries. Because this is a new institution, it is logical that the EBRD would rely in part on staffing recruited from experienced international financial institutions. This has not been the predominant hiring strategy, however. Only about 11 percent have World Bank, IMF or other international organization experience. As summarized in the 2007 EBRD Annual Report, “As in previous years, the Bank recruited mostly from the private sector, but also from other international financial institutions, the academic world and other industries. This ensured a diversity of skills, experiences and perspectives within the organization.” (EBRD 2007: 76)

The EBRD also placed more staff members out in the countries it is serving – an easier practice since it works with only 29 countries rather than the large number of countries for the IMF and World Bank. As an important part of the mission of the EBRD to work within its member states, it includes information about the rotation of its staff in its annual reports. For example, the 2009 Annual Report stated that 352 of the 1492 staff members were in the field and that 32 of 40 staff members transitioned out to the field or from one field office to another. This
was particularly true after President Larosiere reorganized the institution during the mid-1990s. The majority of the current directors came to the EBRD after he put more staffers in the field and placed more emphasis on the client states. In an interview, EBRD Director of Power and Energy Utilities Team Nandita Parshad, an 18-year EBRD veteran and a former World Bank staffer, stated, “Things have changed hugely but even today...young people can come and get much more frontline experience than they can get anywhere else.” (Financial Times 2010) As David Phillips argued in general about the regional banks but is applicable to the EBRD, “[The regional banks’] client countries are more homogeneous and the regional nature of their staffing and their business means that country focus is better…” (Phillips 2009: 23) Accordingly, the issues that arise from the economic and political realities within the post-communist states are taken into consideration by the EBRD bankers before projects are accepted. Therefore, with an emphasis on connecting with the client states and the majority of staff with a banking or private sector background, economic need would likely predict lending from the EBRD since the staffers would be more in tune with the economic needs within the states.

Organizational culture may also play a role in the distribution of aid. The IMF, World Bank and EBRD have different cultural styles that may foster or hinder their lending ability. The World Bank culture is very hierarchical and in many instances promotions seemed based on how well one works within the management structure set forth by the president and board of directors. While the organization itself tries to be as apolitical as possible in distributing loans, the management style of the president and board of directors makes it difficult for the staff to have much say in how the organization is run. While the staff can ignore management directives, as many did with the corruption/good governance directive under Wolfowitz, the staff must learn to work under the strictures of the management system. This includes the set up of specialist pools and rotating missions to member countries.

The culture of the World Bank emphasizes three areas, approving loans quickly, billable tasks that do not include research, and using a specialist pool to develop projects. Therefore, the ability of the World Bank staff to understand the specific political and economic environment of any one client country is low. IMF Managing Director Camdessus observed that “most of the World Bank staff members were geared to traditional development issues,” rather than the transitional issues Russia and the post-communist region faced. Andrei Bugrov, Russia’s executive director for the World Bank between 1993 and 2002 observed that the post-communist
region did not fit into the World Bank’s conceptual framework of eradicating poverty. (Gilman 2010: 51-52) Accordingly, a reason that the aid allocation literature finds a lack of economic need as an explanation for disbursing aid could be found within the organizational culture of the World Bank that would not be easily captured in econometric analyses. Thus, understanding the culture of the Bank may lead one to hypothesize that international linkage, such as closer connections to the West or transnational association membership, would be more predictive of aid distribution. However, a counterargument to this is that international linkages may not necessarily lead to a positive improvement in World Bank lending but might actually lead to a lesser likelihood of a state receiving aid. This may occur because many client countries complain about the inconsistency in staffing to their states. This may be particularly true for the post-communist states that can turn to the EBRD for lending. With the EBRD staff more likely to understand the particular political and economic environment of a member state because of the country offices, state officials may feel more connected to the EBRD than to the World Bank. For example, in the Russian case, Vladimir Putin criticized the World Bank for its lack of Russian management of projects but he expressed more respect for the EBRD as a result of his personal experience working with EBRD officials while he served in the Leningrad government. Therefore, while linkages based on trade ties may predict World Bank lending, transnational association membership may not be predictive at all. Hence, past relations with the Bretton Woods institutions may be less predictive of World Bank lending than the other international financial institutions.

Conclusion

In review, while the three lending institutions have different missions and mandates when working with the post-communist region, they also share a common goal of stable market economies within these states; thus it would seem logical that the factors that determine the amount of lending to a state would converge in some respects and diverge in others. Since previous scholarship have shown that economic need is not a strong predictor of IMF or World Bank lending, I hypothesize that economic need would not be a good predictor of the amount of lending from the IMF, World Bank or even the EBRD to the post-communist states as well. However, there are some indications, suggested above, that international financial institutions may show variable responsiveness to economic need.
Given that the EBRD is focused more on the private sector and has less conditionality based on political conditions, I would hypothesize that EBRD lending is predicted more by the influence of international linkages and that the EBRD lending would be less responsive to political factors, although it might be more sensitive to democratic rankings since it is forced to deal with only those states committed to democratic processes.

Conversely, I would expect World Bank lending to be predicated on domestic factors since it requires government guarantees to back its loans than economic or international factors. The more democratic and more stable the government as well as the less likelihood to engage in ethnic conflict, the more likely the World Bank will support lending within a state. However, with its original apolitical foundation and its staff appreciation for not interfering in the political affairs of the lending states, the political factors should not be a large predictor of lending though more than for the IMF or the EBRD.

Finally, I hypothesize that the IMF with its international monetary mission would distribute more aid based on international factors, similar to the EBRD. Therefore, given the missions and mandates of the different international organizations, I hypothesize that connections to the West, as measured by trade volume, previous relations with the IMF and World Bank as a means of signaling the state philosophy of joining the globalized economy, and whether a state is oriented toward the EU or the CIS would be more predictive of IMF and EBRD lending than World Bank lending.
CHAPTER 4
INTERNATIONAL LINKAGES AND AID ALLOCATION – METHODOLOGY AND STATISTICAL ANALYSIS

I employ a multi-method research design using statistical regression analysis with three case studies. The purpose of using a mixed method design is to understand by statistical analysis the variables that are predictive of aid allocation as well as to elaborate within the case studies how interactions between states and international financial institutions shape aid allocation. The statistical analysis is designed to determine whether international linkages have predictive power in assessing the level of lending from the IMF, World Bank and EBRD. The case studies are designed to understand more thoroughly how domestic politics determines aid allocation and how the multilateral organizations react to the domestic political situation. The purpose of the case studies will be to see in operation how aid is correlated with the influence of international linkages. In contrast with the more static statistical analysis, the cases can also capture temporal dynamics and change in relationships over time.

In the statistical analysis, the outcome variable is aid disbursement from the IMF, World Bank and EBRD over the fifteen-year period 1992 to 2007. Most of the states in this region were not members of the Bretton Woods institutions before the collapse of communism nor were the individual Soviet Republics independent states eligible for membership. Additionally, the EBRD was formally established in 1992 after the collapse of communism to help with the restructuring and privatizing of the economies in the region. I, thus, use 1992 as the start date since that is the year that the Soviet Republics became independent states and the EBRD began to distribute loans.28 I conclude the analysis in 2007 before the recent economic problems led to a new round of lending from the international financial organizations. Arguably, the problems generated by the global recession are not transitions problems per se and closing the analysis in 2007 avoids mixing the different contexts of transition and economic crisis. The goal of the statistical analysis is to understand what factors influence the variation in aid among the post-communist states. The explanatory variables are economic need, level of democracy, political stability, ethnic conflict,

28 Prior to 1992, many of the Eastern European states signed project agreements with the World Bank and began lending from the IMF. Hungary and Romania first gained access to IMF lending in 1984. Poland’s first IMF agreement was signed at the end of 1989.
Western connections, past relations with the Bretton Woods institutions and EU or CIS membership. I describe in more detail the variables below.

I use linear regression as a preliminary way to gauge the predictive power of the proposed explanatory factors for the outcome factor. The statistical analysis includes all of the former Soviet republics as well as all of the Eastern European countries for a total of 27 countries— all of the cases in which the command economies of the Soviet era have undergone greater or lesser economic transformation in the wake of regime change.

**Statistical Analysis**

As part of the multi-method research, I begin with a linear regression analysis of the outcome variable of lending from the IMF, World Bank and EBRD. The outcome variable is the amount of lending from the three international financial organizations and I have constructed measurements for each donor institution separately between 1992 and 2007. Not only do I want to test the predictive power of the explanatory variables for the amount of lending but I also want to ascertain whether the same explanatory variables matter from donor to donor or alternatively if the different donors are motivated by different factors. I do this to show that international linkages influence lending patterns of the IMF, World Bank and the EBRD. Since the econometric analyses have not been able to consistently find that economic measures predict lending, another important aspect of distributing aid could be based on the international connections of a state. This might be even truer for the post-communist region that is reintegrating into the global economic system.

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<th>Table 4.1: Explanatory Variables</th>
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29 In this period, Serbia and Montenegro were still a joint state and Kosovo was not independent.
The explanatory variables are a set of different factors that might plausibly predict the level of lending by the international financial institutions based on prior research and the specific context of the post-communist transition. The explanatory variables are grouped into three categories – economic, international and political. The Table 4.1 summarizes the variables as well as the measurements used to quantify them.

Considering that the transition in the post-communist states from a command economy to some form of a market economy entailed substantial assistance, I test the possibility that economic need would be the leading variable in predicting levels of lending. This is also an important hypothesis in the aid allocation literature although it has not been validated across cases. In addition, given the mission and mandates of the IMF, World Bank and EBRD, economic need seems likely to be the leading indicator for the amount of lending. Thus, the hypothesis is that economic lending is given according to economic need and that the poorest countries will receive the highest levels of lending.30 To measure this, I have collected each state’s GDP per capita based on the World Bank World Governance Indicators as an indicator of the level of economic need within a state.

Even if economic need predicts lending levels, there are additional variables that may have additional predictive power. These include: western connections, past relations with the Bretton Woods institutions, EU or CIS membership, level of democracy, government stability of the post-communist states, and propensity to ethnic conflict. Since I am concerned with understanding the influence of international linkages on lending to post-communist states, the first set of variables try to measure the influence of international linkages on lending levels. As I hypothesized in Chapter 3, given the missions and mandates of the IMF, World Bank and EBRD to develop stable market economies that are integrated into the global economic system, it seems likely that higher lending levels would be predicted by greater international linkages with the advanced industrialized states. Thus, the first set of variables under consideration – the international factors – centered on external interactions with the individual states. I focused on purposive actors as discussed in the introductory chapter as my basis for quantifying international factors. Aid allocation is a purposive decision, and while diffusion and snowballing

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30 Nunnenkamp and Thiele state, “important donors such as the World Bank claim that the allocation of aid has already become better targeted to the poor and deserving in recent years.” (Nunnenkamp and Thiele 2006: 1177) However, they conclude from their study that “the targeting of aid to low-income countries has not become stronger in recent years.” (Nunnenkamp and Thiele 2006: 1199)
may be mechanisms of international influence, quantifying them is more difficult. In addition while some scholars use geographical distance from the west as a quantifiable proxy for such effects, I do not do so because distance measures may capture other effects besides diffusion. In addition, as I try to understand the interaction between international pressure and the domestic political environment, the explanatory variables in this part of the study need to be ones over which the actors have some control and that can be more easily examined in the case studies.  

The second set of variables are the political factors that a government may have control over and that the international lending organizations may view as favorable or unfavorable for investment purposes. In particular, as the World Bank and the EBRD use their lending as a means to generate profits that can then be used to lend to other states, a stable investment environment would seemingly predict a higher level of lending. In addition, the EBRD undertakes political assessments of member states to analyze the risk environment of lending within that state. Thus these variables may provide the necessary impetus to additional lending regardless of the international environment or as a complement to the international environment. Below I discuss each independent variable.

**Western Connections**

The first international variable is the connections of the post-communist countries to the United States and Western Europe. I hypothesize that post-communist countries with greater economic ties to the Western industrialized states are more likely to receive higher levels of aid. To measure the connections factor, I use export data from the post-communist states to the advanced industrialized states as reported in the IMF Direction of Trade Statistics Yearbooks. This variable indicates the degree of state commitment to increasing their connections to the West (not just to the EU or the United States but all industrialized states including Canada, Japan, Australia and New Zealand) are likely to receive more aid. Why use this type of measurement? In diffusion models, “flows represent the movement of information and resources between countries.” (Kopstein and Reilly 1999: 113) thus exports from the post-communist states to the advanced industrialized states measures the connection between the West and the

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31 According to Ahmed and Sil, a limitation of the multi-method approach combining statistical analysis and case studies is that “in moving from large-N statistical analysis to case study analysis, the case study will by its nature introduce variables not present in the statistical analysis.” (Ahmed and Sil 2009: 3) Thus, it is important to try to structure the statistical variables in a way that can also be examined in the case study.
post-communist states. Therefore, while geography is seen as an important determinant in economic reform scores to the post-communist states, according to Kopstein and Reilly, a better measurement of economic connections to the West is trade volume as an effective economic measure for flows of resources between states. In each regression model, this was a significant variable in predicting higher levels of lending as will be discussed below.

Past Relations with the Bretton Woods Institutions

The second variable is the past relations of the post-communist countries with the Bretton Woods institutions. I hypothesize that post-communist countries that had relations with the Bretton Woods institutions before the collapse of the communist regimes receive higher levels of aid than the countries that only developed relations with the institutions after the communist collapse. States with earlier ties may have a better understanding for the project development as well as previous credibility for repaying loans regardless of their initial reasons for membership. In addition, some states initially joined after World War II before Stalin forced their withdrawal; this may telegraph an orientation toward the West and to the Bretton Woods institutions and philosophy despite its truncation by the imposition of communism. However, in some cases, notably Romania, membership may not signal an orientation to the West, but rather a strategic policy to avoid economic reforms in the communist system. While this variable is intended to capture the ideational orientation of the post-communist states, there may not be a clear way to differentiate the reasons the communist states joined the Bretton Woods institutions. To measure this variable, I determined if a country was a founding member of the Bretton Woods institutions after World War II and if a state renewed or joined the institutions before 1989. In the post-communist region the Czech Republic and Slovakia (representing Czechoslovakia in the 1940s/1950s period), Poland, Hungary, Romania and the former republics of Yugoslavia are the only states with prior membership. The Soviet Union was involved in the talks prior to the establishment of the institutions but did not join as discussed in Chapter 2.

EU or CIS Membership

The third factor under consideration as a predictor in lending is transnational memberships; whether a post-communist state gained membership or had an application pending in the EU, or if it was a member of the Commonwealth of Independent States (CIS). Why the
dichotomy between the two organizations? First, the variable is an either/or variable in that a state is either attached to the EU or it is attached to the CIS—there is no overlap and no state is left out of the either/or proposition.\textsuperscript{32} In addition, the dichotomy is based on the significant variation in the level of democratization and marketization expected of its members in the two organizations and is related to Neumann’s argument (discussed in Chapter 2) that the level of democracy organizationally effects democratic consolidation. EU aspirants operate in a broader context of political, economic and democratic conditionality. Whereas the EU attaches significant political and economic conditions to its membership, the CIS has no such conditionality. Therefore CIS countries may be less desirable candidates for aid since the motivations to restructure economically and politically may be weaker than for countries trying to gain EU membership. The economic conditions of membership force those post-communist states to restructure their economies even in the face of unpopularity with their citizens. Thus, with the need to restructure and the commitment to see through these reforms, it seems EU membership aspirations would predict higher levels of lending from the international financial institutions. In addition as all EU members must be democracies, it is more likely that new members or applicants will consolidate democracies to underpin their commitment to market economics. As such I hypothesize that EU members and applicants would receive higher levels of aid.

\textit{Level of Democracy}

The fourth factor under consideration for predicting lending is the level of democracy in the post-communist states. I hypothesize that states with higher levels of democracy, as measured by the Polity IV index, receive higher levels of aid from the international organizations. This is logical because if one of the goals of multilateral transition lending is to encourage democratic consolidation to anchor economic stability, then countries rated as more democratic and more committed to democratic processes will receive higher levels of economic aid to increase the likelihood that their economic development provides the requisite conditions for democratic survival. Since the staffs at the IMF and World Bank are mostly western educated whose education would emphasize the connection between democracy and market economics, it

\textsuperscript{32} Georgia withdrew from the CIS in August 2009 following its conflict with Russia in 2008. Albania, Bosnia-Herzegovina and Serbia had extensive relations, particularly through trade agreements, with the EU throughout the study period and are considered here potential members—they are so regarded within the EU as well.
also seems likely that states with democratic governance would be better candidates for lending than states with authoritarian leaders. This may be particularly true for the EBRD since its mandate includes a provision that the bank only works with states following democratic processes. Thus it would seem logical that the level of democracy would be significant in predicting lending from the EBRD. However, the democracy indicator might be blurred by the ability of the EBRD to bypass the public sector of a state that is not following democratic processes. Indeed, even though the EBRD’s charter allows for the suspension of a state that is not practicing democratic processes, this has not occurred. Instead, the EBRD emphasizes private sector lending in these cases.

**Government Stability**

The fifth factor under consideration is the government stability of the post-communist states. Transitional government have shown considerable volatility and this in itself may impede coherent cooperation with external actors. I hypothesize that post-communist countries with highly stable cabinets between elections are likely to receive higher levels of assistance than governments that are more prone to cabinet instability. As the international organizations are interested in solidifying the transition to market economies in the post-communist states thus increasing the likelihood of democracy, these organizations may be less willing to provide lending to governments that are in continual disarray with ever changing cabinets. Consistently changing cabinets could signal incoherent policy making or implementation problems of economic reforms which could result in the inability of a state to adequately absorb aid. While not all post-communist governments are based on parliamentary systems, all – even the autocratic states – have prime ministerial cabinets responsible for day to day policy-making. Thus, the autocratic states will also be coded by whether or not the head of government shuffled his executive leadership.

**Ethnic Conflict**

The final factor is the propensity for ethnic conflict – an additional risk factor in the post-communist transitional environment. I include this variable as another measurement of the stability of a state and whether or not the environment is suitable for lending. I hypothesize that a country that has a high threat of ethnic conflict, actual ethnic conflict or an active separatist
region will receive lower levels of aid, as the international organizations will not be willing to provide aid to a volatile country that may not be able use the assistance to increase economic stability. Ethnic volatility may also decrease the ability of a state to absorb aid as certain regions may be too unstable to implement economic reforms. To determine the saliency of this factor I will use data from the Minorities at Risk project to determine whether a conflict has occurred or continues to occur or whether a minority group within a post-communist state is likely to create conflict in the future.

Results

As discussed earlier, the outcome variable is lending to the post-communist states from the IMF, World Bank and EBRD. I ran four different regression analyses using different variations of the outcome variable. The first model used a composite variable of all aid from the three international financial organizations to the post-communist states. I then ran separate regression analyses for lending from each individual international financial organization. To ensure that the outcome variables and the continuous variables of economic need and western connections are normally distributed, I take the log of the variables in the regression analysis.33

While the data for the study stretches from 1992 to 2007, I divided the data set into distinct time periods to determine if there are different patterns of lending based on the different phases of the economic transition in the post-communist region. The time periods are 1992 to 1997 prior to the Russian financial collapse, 1998 to 2001 when the international organizations were regrouping in the wake of the Russian financial collapse, and 2002 to 2007 as lending normalized both in relation to the collapse of the Russian financial system and to the overall transition of the economic systems within the post-communist region. The reasons for the separation of the time period is that between 1992 and 1997, the international financial institutions may have based lending decisions on the fact that this was the time period when optimism toward the economic transition was highest but also in which the post-communist states faced the greatest challenge of overcoming underdeveloped infrastructure, disruption in trade and payment arrangements. However, between 1998 and 2001, the international financial organizations had to regroup after facing the Russian financial collapse. For the EBRD, the

33 The explanatory variables are a mixed set of categorical variables based on a 0 or 1 scale and continuous variables. Thus the regression equation is *(lg)lending = ß0 + ß1*(lg)economic need + ß2*(lg)western connections + ß3*EU/CIS membership + ß4*past relations + ß5*democracy + ß6*political stability + ß7*ethnic conflict.
Russian collapse led to it posting its first net loss as an institution as discussed in Chapter 3. Finally, during the 2002 to 2007 time period, the region seemed to stabilize economically. EU accession occurred in Eastern Europe for a select number of states and the Russian economy settled as Putin ascended to the presidency along with rising oil prices that stabilized Russia’s budget. In addition, between 1998 and 2007, several Eastern European states were able to change their status with the IMF from borrower to donor and thus have been removed from the data sets during the appropriate time periods for all aid and for IMF lending. The results of the regression analyses are provided in Tables 4.2 through 4.5.

The regression analysis using the natural logs of the outcome variables as well as the natural logs of economic need and western connections resulted in the significance of economic need and western connections during the 1992 to 2007 time period for all aid as show in Table 4.2. Within the post-communist region economic need does predict some lending as I hypothesized in Chapter 3. However for the individual financial institutions, only lending from the World Bank could be predicted by economic need as shown in Table 4.4. Western connections, as measured by export data, was significant during the 1992 to 2007 period for all aid as well as for the IMF, World Bank and EBRD. For a one percent increase in a state’s exports to the advanced industrialized states, that state can expect a .866 percent increase in lending from the international financial organizations. From the IMF, states could expect a 1.6 percent increase in lending while from the World Bank and EBRD, states could expect a .760 percent increase and a .703 percent increase, respectively. In the post-communist environment in which the fundamental restructuring of the economic system necessitated lending from the IMF, World Bank and EBRD, western connections predicted more assistance would be available for those states better linked to the advanced industrialized states. As I hypothesized in Chapter 3, states would see a higher increase in lending from the IMF rather than from the World Bank or the EBRD in relation to their exports to the advanced industrial states since the IMF is most concerned with the economic interaction of the states in the global economic system. As can be seen in the scatterplots in Figure 4.1, it looks as if Russia might be driving the results. Therefore, as a test of robustness, I excluded Russia and the significance of economic need and western connections remained.

34 Between 1998 and 2001, Czech Republic, Poland and Slovenia and between 2002 and 2007, Hungary and Slovak Republic change their status with the IMF.
Figure 4.1: Scatter Plots of Economic Need and Western Connections
In addition, economic need is also a significant predictor of aid. For the post-communist region, states that see a one percent increase in GDP per capita could expect a decrease of .788 percent in aid flows. However, economic need is not a significant predictor of aid for the separate donor institutions except for the World Bank; I had hypothesized that the World Bank's economic development mission would suggest a higher predictiveness for this variable. Thus, states with a one percent increase in GDP per capita could expect a .95 percent decrease in lending from the World Bank. However, this variable is not statistically significant during the initial 1992 to 1997 and the intermediate 1998 to 2001 time periods before becoming marginally significant during the 2002 to 2007 time period. At the outset, it would appear all states regardless of economic development level, experienced the need for transition assistance. Thereafter, greater differentiation of lending occurs, slanted toward the poorer states. For the individual financial institutions, lending from the IMF and the World Bank is marginally predicted on economic need during the 2002 to 2007 period when the economic systems are more stable within the post-communist states. Then states that experience a one percent increase in GDP per capita can expect a 5.6 percent decrease in aid flows from the IMF while they can expect a 4.6 percent decrease in aid flows from the World Bank. Thus, the IMF and World Bank did use economic criteria for lending though not very strongly. This emphasizes that in the later period of lending the Eastern European states where GDP per capita was higher than the former Soviet Republics had mostly decreased their lending from the IMF and were no longer using the World Bank as a last resort for funding.
Western connections as measured by trade volume were significant for all lending between 1998 and 2001 as well as 2002 to 2007. The EBRD also showed significance on the western connections variable during the 2002 to 2007 period as shown in Table 4.5. When Russia was excluded from the data, the World Bank also showed marginal significance on this variable during the 2002 to 2007 period. The variable does not show significance during the 1992 to 1997 period as the transition of the economic systems is starting although it is marginally significant for the IMF. Thus connections to the West as measured by export data during the early time period was not a motivating reason for lending. The overall strategy during this early period of the economic transition may be based on the fact that since this region was previously outside the global economic system, the donor institutions were motivated simply to integrate the post-communist states into the global system with as little disruption to the world economy as possible regardless of their connections with the West since these states had been cut off from the advanced industrialized states during the communist period. International linkages show some statistical significance during the 1992 to 1997 for IMF lending although most of the variables are only marginally significant as shown in Table 4.3. The one statistically significant variable during the 1992 to 1997 time period was past relations with the Bretton Woods institutions for the IMF as I hypothesized in Chapter 3. States without past relations could expect a decrease in their lending by 7.7 percent. Therefore, having a past relationship with the Bretton Woods institutions could be a signal to the IMF that a post-communist state is committed to the global economic system based on market economics or it could be that regardless of the reason for early membership, an advantage does occur to a state that joins prior the communist collapse. Those states that have not previously established a relationship with the Bretton Woods institution may be at a disadvantage in borrowing from the IMF in the early transition period before the design of their economic system is settled. Likewise, the early establishment of international linkages through exports or an early declaration of aspiring to EU membership marginally increases aid for the post-communist states from the IMF.

Another significant result is that during the 1992 to 2007 period, the presence of ethnic conflict is a significant variable for overall lending as well as for the IMF, World Bank and EBRD. It is also a significant variable for the EBRD during the 2002 to 2007 time period as well as for the IMF between 1998 and 2001. While this variable is not significant during the early phase of the economic transition period between 1992 and 1997, it becomes significant during
the 1998 to 2001 time period as well as during 2002 and 2007 for overall lending. To check for the robustness of this variable, I also ran the data without Russia but the variable remained statistically significant during the three time periods as it did for the EBRD and for the IMF. While this is an interesting finding that was unexpected, it does show that the donor agencies were willing to assist states with major problems even if it created an unstable investment environment. Thus the donor agencies are willing to lend to states that have ethnic conflicts.

Eastern European leaders expected the connections to the Western industrialized states to help them in their economic transitions and what the statistical analysis shows is that western connections are an important link that can be helpful in predicting lending from the IMF, World Bank and EBRD. But what the statistical analysis did not show was that transnational associations as an aspect of international linkages are not as predictive as trade volume. During the 1992 to 1997 time period past relations predicted lending from the IMF which shows that an early relationship provides an advantage to those states that have developed ties to the IMF prior to the collapse of communism regardless of the state’s strategy in becoming a member. However, in the 2002 to 2007 period, past relations become marginally significant again in predicting aid levels from the IMF. In a test for robustness of the model, when I excluded Russia, past relations with the Bretton Woods institutions and EU membership became marginally significant for the IMF during the early transition phase. Therefore the connections post-communist states established with the transnational associations increased aid in the early transition period as I hypothesized for the IMF in Chapter 3. But while early lending from the IMF could be marginally predicted by a state’s transnational associations, in general, the transnational associations of a post-communist state did not signal the linkages that matter to the international financial institutions. Having a past relationship with the Bretton Woods institutions or being a member of the EU may not signal that a state is committed to the theoretical underpinnings of the west. Rather, the pattern suggests that prior membership simply offered an initial advantage of experience with lender organizations that positioned those state to take more immediate advantage of available assistance. By contrast, trade volume proved more durable in its establishment of linkages to the advanced industrialized states.

What the results explain is that international linkages are influential in setting up post-communist states for better chances of getting lending from the international financial institutions. As the literature on international factors pointed out, international linkages can
influence the direction of economic reform when states position themselves to be connected to the advanced industrialized states. Since the purpose of lending from the international financial institutions is to assist in economic development, any additional lending a post-communist state receives improves the chances that the economic restructuring of the command system will be successful. Therefore as post-communist states increase their exports, their orientation to the western standards of market economics increases as well. Thus international linkages can be considered a predictor of IMF, World Bank and EBRD lending.

But what the statistical analysis does not tell us is what ways the post-communist governments interact with the international financial institutions. Specifically as post-communist states increase their linkage to the advanced industrialized states, does this change actually affect their relations with the international financial institutions? In the following three chapters I focus on the case studies to analyze in-depth the interaction between the international financial organizations and Poland, Turkmenistan and Russia. But first let me discuss how the case studies were selected.

<table>
<thead>
<tr>
<th>Table 4.2: All Lending to the Post-Communist Region</th>
</tr>
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<tbody>
<tr>
<td>Economic Need</td>
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<tr>
<td>Western Connections</td>
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<tr>
<td>EU/CIS Membership</td>
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<tr>
<td>Past Relations</td>
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<tr>
<td>Level of Democracy</td>
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<tr>
<td>Government Stability</td>
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<td></td>
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<tr>
<td>Ethnic Conflict</td>
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<td></td>
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<tr>
<td>Constant</td>
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<td></td>
</tr>
<tr>
<td>R2</td>
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*Significant at p > 0.05 level; **Significant at p > 0.10
Table 4.3: IMF Lending to the Post-Communist Region

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*Significant at the p > 0.05 level; **Significant at the p > 0.10

Table 4.4: World Bank Lending to the Post-Communist Region

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*Significant at the p > 0.05 level; **Significant at the p > 0.10
Table 4.5: EBRD Lending to the Post-Communist Region

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<tr>
<td>Ethnic Conflict</td>
<td>.705*</td>
<td>-.604</td>
<td>.972</td>
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<td></td>
<td>(.289)</td>
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<td>18.311*</td>
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<td>(8.808)</td>
<td>(8.522)</td>
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*Significant at the p > 0.05 level; **Significant at the p > 0.10

Case Study Selection

I selected three cases – Poland, Turkmenistan and Russia – on the basis of the outcome of the data collection on the outcome variable without regard to the values of the explanatory values. King, Keohane and Verba initially advise against selecting on the dependent variable, because they argue that “this procedure will not generally yield valid inferences.” However, they suggest when using this type of selection that the researcher should ensure the selection is made “without regard to values of the exploratory values.” (King et al 1994: 141) I chose Poland and Turkmenistan for their dichotomous position within the aid distribution data. Poland received a large amount of overall aid from the three international organizations while Turkmenistan received relatively little aid during this timeframe and was not active within the IMF at all. I also include a case study of Russia because of its importance to the post-communist literature and its global position as well as the large amount of aid that it received. What I hope to gain from the in-depth case studies is a more dynamic understanding of how the process of aid allocation is determined and why certain variables are more likely to increase or decrease the amount of aid. I particularly want to look at the role of international pressure in domestic policy-making decisions that play a role in aid distribution from the international organizations. Although the statistical analysis provides a base line for assessing the pattern of aid distribution, delving into the actual process in specific states should enhance the understanding of the dynamic interaction.
of the financial institutions and the governments of the receiving states. In addition, the case analysis can compensate for the static nature of the quantitative variables by tracking the temporal dynamics. Russia, in particular, is a case study that may emphasize the importance or insignificance of different variables in the aid process because of the high stakes attached to its transition by the international community. “The objective of an irreversible economic transformation was seen in the West as the key to fostering the irreversibility of Russia’s transition from the communist system.” (Mendras 2001: 496) Because of its visible position in regime change in the post-communist region, the dynamics of aid distribution may be driven by different factors than for other post-communist states and international factors may not be important.

In addition to exploring in greater detail the factors identified in the statistical analysis as influencing variation in aid, I also intend to explain distinctive aspects of the relationship between the international lending institutions and the individual states through the case studies of Poland, Turkmenistan and Russia to understand how the international factors are salient in this relationship. Through the study of the process of negotiations between the individual states and the international financial institutions, the lending history of the international financial institutions to the post-communist region, the conflicts that arise both in the domestic political situation as well as in the relationship between the state and the international lending institutions and the crisis moments of withholding loans, I intend to provide a more thorough understanding of why variation in aid occurs and how that affects the transitions of the post-communist region to market economies.

As discussed previously, the case study selection was determined by the quantitative measures. Using the data from the IMF, the World Bank and the EBRD, I chose cases based on the largest amount of disbursement of overall aid, and the smallest amount of disbursement of overall aid to explore the dynamics of why states receive larger or lesser amounts of aid. Thus, Poland is selected as a positive case of high-level aid disbursement and Turkmenistan as the negative case of aid disbursement. These cases will emphasize how the factors of international aid actually play out within a state. These cases also provide variation within the post-communist region as it provides an Eastern European case, a Central Asian case and Russia. I include Russia as it is not only the state with the highest level of aid overall but also because it is a special case within the post-communist region. First, it is the most important state not only within the region
but also globally because of its previous status as a superpower, its potential economic power, its status as a nuclear power and an energy power. Second, the same logic that applies to other states in the post-communist region may not apply to Russia, as Stone’s analysis suggests, since its stability is extremely important to the West. Particularly of interest is the time period around Russia’s economic crash in 1998 when problems developed in Russia as to where IMF money was going and how that affected lending from the World Bank and the EBRD. Russia may also provide additional leverage on how international linkages influence aid disbursements.

Four additional factors that will be explored qualitatively rather than quantitatively are economic conditionality, economic capacity to absorb the aid, the effect of corruption on aid disbursement and the type of regime. As the case study of Turkmenistan illustrates, the state regime influences international linkages in ways that a simple Polity IV score does not capture. When exploring the function of economic conditionality, I will also look at how states abide by the conditions attached to the aid as well as how the effects of government change influence a state’s commitment to the conditions. The capacity of a state to absorb aid involves not just bureaucratic effectiveness or ineffectiveness but also how economic reform provides an environment for private-sector aid absorption. The fourth variable in the qualitative section is the role of corruption in influencing the amount of aid from the international lending institutions. While corruption has become a hot-button issue, the level of corruption within a state may also affect its borrowing position. I intend to pursue these factors in the qualitative aspect of the study because of the difficulty in creating an adequate quantitative measurement for each variable.

While Transparency International tried to measure corruption quantitatively, the data misses many years and states within the post-communist region. Another set of corruption measures, the World Bank Governance Indicators on government effectiveness, began in 1996 and were not annually revised until 2002. Consequently it provides only four years of data for the time period of my study prior to its annual revision. Thus studying corruption within the post-communist region may be better served through a qualitative approach. The case studies will be able to analyze how economic conditionality, capacity to absorb aid and corruption play a role in aid dispersion.

Economic Conditionality

Economic conditionality refers to the conditions placed on the recipient state by the donor institutions to ensure repayment of loans. Economic conditions include budget restraints on social welfare spending, percentage of debt allowed in regard to GDP, and caps on inflationary levels in the economy. States that do not follow the conditions may lose additional tranches of loans or be denied additional lending. The question then is whether economic conditionality hinders or encourages states to seek international aid? Thus economic conditionality may be an important international influence on the transition and consolidation of market economics and democracy in the post-communist states, quite apart from its direct economic impact.

Another issue that economic conditionality raises is government compliance with conditions set in the aid package negotiation. For governments that are undergoing extensive economic reform, international aid may be the primary source of financial support. But are the governments truly committed to making those reforms? Can we detect the difference between a committed government and one that is playing the system? In the Russian case, the Yeltsin administration only seemed to formally accept the conditions of the IMF without paying much attention to them as the money was spent. Likewise, in the case of the EBRD, some states – particularly Belarus and Turkmenistan – merely pay lip-service to the notion of “democratic processes.” Some governments may want to be seen as committed to reform but are concerned about the effects of reforms on certain domestic constituencies. Conversely, using international aid with economic conditionality may be the only way for a government to actually undertake the necessary reforms without having to reap the political consequences of the harsh measures. In this circumstance, the government is committed to reforms, yet does not want to be blamed for lower pension payments or restricted social services. Placing the culpability on the international lending institutions and the economic conditionality that comes with the aid is a now well recognized strategy to allow the governments to absolve themselves of blame. These scenarios of the politics of convenience are what the case studies will be designed to understand.

A final issue in regard to economic conditionality is what happens when governments change. While the state is under obligation to abide by the conditions approved in aid package negotiations, how much wiggle room is available for the opposition if it takes the reins of government through elections or other devices? Therefore, do changes in government coincide
with variation in aid and the effects of reforms in the post-communist region? Or do opposition politicians play their own politics of convenience? Do they degrade the influence of international lending institutions while in opposition but once in office change their stance about how international lending can help them improve economic conditions within their country? One way of understanding these dynamics is to study the crisis moments when negotiated packages are withheld by the international lending institutions. In the case of Turkmenistan, there is no change in government during the study time period. In Russia and Poland cabinet instability is high but result in different outcomes as to how each country met their commitments to economic reform.

*Corruption and Capacity to Absorb Aid*

Another factor is the ability of post-communist states to absorb the aid particularly as they undergo extensive reorganization and restructuring of the economic sectors and the development of modern industrial infrastructure. This may be of particular interest to the EBRD in which lending is concentrated in the private sector. The variation in aid may be a result of individual states’ abilities to absorb the aid as they continue to reform. It is logical that only so much can be done at once. While the extent of reform is massive, there may be a disconnect between the amount of aid that is needed and the ability of the governments to use the aid in reform programs.

The ability of a state to absorb aid may not be a simple function of economic infrastructure, but may also be a function of how aid is filtered from the government to the economic sectors in need. This is an issue about how functional a given government’s bureaucracy is. In the post-communist region, bureaucratic ineffectiveness may be detrimental to a state’s ability to effectively negotiate an aid package and then implement the aid in a given sector. Thus it may hinder a state’s international position in receiving larger amounts of aid from the IMF, the World Bank and the EBRD. As an example, Turkmenistan’s unwillingness to privatize economic sectors prevented the EBRD from extending loans since the private sector could not absorb the lending and the EBRD suspended lending to the public sector since Turkmenistan was not committed to democratic processes. Therefore, EBRD lending was to be concentrated in the private sector which was practically non-existent during the 1990s. While bureaucratic ineffectiveness may be a legacy of the bloated communist state, it may also be a function of corruption that disrupts the capacity for a state to absorb aid. While the World Bank
Governance Indicators does include a measure for government effectiveness, the measure was not compiled until 1996 and was done every other year until 2002. As Figure 4.2 demonstrates, government effectiveness and aid flows for the 2002 to 2007 for the post-communist region are randomly distributed. When looking at the individual case study countries, Poland, Russia and Turkmenistan, in Figure 4.3, no pattern is discernable.

**Figure 4.2: Scatter Plot of Government Effectiveness and Aid Flows to Post-Communist Region**

Another issue with aid absorption is how does political conflict within a state derail bureaucratic efforts to facilitate aid dispersion once the international lending institutions have released the aid? The case studies will explore the ability of the government and bureaucracy to ensure that aid is absorbed in the economy and is used as it was intended to be used. In Turkmenistan, most projects were not development or transition related but were intended to glorify Niyazov in his conception of a personal state – a major difficulty for the multilateral institutions. Additionally, corruption may also be linked to economic conditionality and the capacity to absorb aid as economic conditions may rest on the removal of corrupt practices. Therefore, corruption is an issue that Poland, Turkmenistan and Russia must deal with as they try to contend with both the economic conditionality of the aid and its absorption by the economy.

Post-communist states have frequently proven unable or unwilling to tackle corruption effectively. As such, monetary lending may be affected by the presumption that economic reforms are undermined by the level of corruption within a state. While quantitative
measurements of corruption are unreliable and spotty within the post-communist region, the case studies may be able to unearth the qualms about corruption from the IMF, the World Bank and the EBRD officials that restrict lending amounts or reward anti-corruption efforts.

Corruption could be an influential marker for the connections between post-communist states and the international community in that states that actively pursue anti-corruption reforms may be seen as more committed to international ideals of unfettered market economies and democratic processes. Thus exploring the problem of corruption within the case studies may highlight the influence of international linkages. On the other hand, corruption may not be an issue as other factors figure more prominently in whether or not lending is continued.

In addition, several other issues regarding the negotiation of aid may need to be explored in the case studies. These issues include the variation in the characteristics of the negotiation process regarding rigid protocol against loose standards as well as the way glitches in the negotiation process are handled. Particularly of importance may be the suspension of aid. As Stone suggests, suspension of aid and the length of punishment may affect how much states are willing to go to the international lending institutions for aid and whether the states feel the aid is worth the conditions imposed with it. Thus some states may deliberately refuse to accept the influence of international linkages on their economies and polity as was the case in Turkmenistan.

Therefore, each case study chapter will be framed by a set of common aspects. First, I will discuss the variables from the quantitative section as they relate to the situation in each case study country. Then I will analyze the economic policies of the state, how the domestic politics and policy making affects the amount of lending and what role economic reform policy has on the level of lending requested by each case study. I will explore how the international factors are relevant to these cases along with how the ability to absorb aid and the role economic conditionality functions into the level of aid received. I begin with Poland.
Figure 4.3: Government Effectiveness and Aid Flows in Poland, Russia and Turkmenistan

Government effectiveness is measured in percentile rank from 0 to 100 and is shown on the secondary y-axis (right-hand). Government Effectiveness data collected from the World Bank Governance Indicators at http://info.worldbank.org/governance/wgi/sc_chart.asp. Aid flows are the total amount of lending from the IMF, World Bank and EBRD. Aid flow data collected from aiddata.org.
CHAPTER 5
POLAND – EMBRACING WESTERN LINKAGES

This chapter begins the case study section of the dissertation. I first look at Poland as a case that is most integrated into the international community with its early thrust of involvement with the international financial institutions and its high levels of borrowing from the IMF, the World Bank and the EBRD. The second case is Turkmenistan which had low levels of aid from the IMF, the World Bank and the EBRD. This is a case of intentional international isolation and low levels of integration with the international community and even lower levels of integration with the international financial institutions. The final case study is Russia which also received large amounts of aid from the IMF, the World Bank and the EBRD. The Russian case represents a state trying to balance its integration in the international community with its own sense of its importance to the global system.

While the three cases vary on the dependent variable, a similarity that all three cases share is the level of instability at the cabinet level. Each state had a large turnover at the ministerial level but the ability to continue to reform economically and remain in good standing with the international financial institutions varied. For Poland and Turkmenistan, the changing faces of the policy makers at the cabinet level did not hamper the continuity of policy although for different reasons. Poland’s policy leaders agreed on the overall strategy of market economics and democracy regardless of party affiliation. Turkmenistan, on the other hand, was ruled by a sultanistic leader who dictated policy; therefore cabinet members were not the foci of policy making. However, in Russia, cabinet instability led to policy discontinuity and a rocky relationship with the international financial institutions. I now turn to the Polish case.

Introduction to the Polish Case

This chapter analyzes Poland’s economic transition, its relationship with the international financial institutions and how it was able to overcome cabinet instability to remain committed to the market economy. Poland accepted the international community as a positive influence for market economic reforms. Poland enjoyed good relations with the IMF, World Bank and the EBRD throughout its transition process despite its unsteady start as an IMF member. Poland’s effort to rebuild its relationship with the West began many years before Solidarity swept away
the communist regime. During the failed reforms of the 1970s, the Polish communist leaders looked to the West for consumer goods and manufacturing technology using credit from Western governments. As the debt continued to grow and economic reforms stagnated, Poland resorted to membership in the IMF to try to help ease the burden of its balance-of-payments problem. With the end of the communist system, Polish leaders looked to reintegrate with Western Europe through membership in the European Union. During the post-communist regime, Poland’s cooperative approach ensured a large amount of lending to help finance the economic transition as well as the restructuring of its previous debt even while Poland went through many different governments. But the most important factor that improved Poland’s chances of a successful economic transition was that the successive government coalitions, both of the left and right, agreed on the philosophy of market economics and European integration. Basic policy continuity tempered the impact of substantial government instability. I first discuss Poland’s position in the international context before turning to a discussion of how the quantitative variables of this study operate in Poland. I then move to an analysis of how Poland related to the international financial institutions and accepted the influence of the international factors to increase its chances of a successful economic transition, even though it suffered high levels of leadership instability.

The International Context

International factors were influential in the Polish transition at several stages and complemented the domestic political environment. Poland would have been unable to take the tentative steps to democratization had the Soviet Union reacted militarily to the 1989 elections that the Polish United Workers’ Party, the PZPR, lost. “The Polish case…was facilitated by an unusually favorable external context – specifically the only foreign context that mattered in the dependent societies of the communist bloc: the situation in the Soviet Union. Gorbachev’s policy of perestroika and glasnost echoed in Poland, where the self-confidence of the hard-liners was severely shaken.” (Matynia 2001: 457) Niklasson asserted that for Poland, “what was important…was not the idea of reform coming from the Soviet Union but rather the signals that Moscow accepted or even supported reform.” (Niklasson 1994: 210) Then with IMF approval of the first stand-by agreement in 1990, Poland was able to secure debt reduction from the West that helped to position its economy on a better footing. Poland established the goal of becoming
a member of the European Union early in the transition process which meant that it would have to rapidly attain a market economy that would be compatible with the rest of the EU.

Mark De Broeck, an IMF Deputy Division Chief and Vincent Koen, an economist for the OECD, argued that several factors accounted for the early success of the Polish reforms – two related primarily to the domestic political situation and two to the international political environment. They felt that the “early political window of opportunity…during which the population showed a readiness to accept the costs of radical reforms” provided Finance Minister Leszek Balcerowicz with the ability to introduce the shock therapy policies of liberalization and currency reform that temporarily decreased economic growth, increased unemployment and created consumer shortages but was expected to produce large payoffs in the long-term in the form of a full-functioning market economy. Another important factor for Poland was its “sizable private sector” under communism that allowed for the enactment of a supply and demand system to function earlier than in other transitioning systems. They also agreed that the “early and broad dismantling of obstacles to foreign trade which hastened the reorientation of trade to the West and pressured firms to restructure” galvanized an early expansion of the economy. Poland and the EU agreed to trade terms that allowed Poland to retain tariffs on imports but at the same time decreased tariffs on exports to the EU. Finally, they argued that “generous external debt relief, which paved the way for inflows of foreign direct investment” was as important to the economic transition as other internal aspects. (IMF Survey 2000: 91)

Without the connections to the international community, particularly as the communist trade system collapsed along with the communist regimes, Poland’s ability to develop its economy have been greatly inhibited. With the disintegration of COMECON, Poland’s trade with Soviet Union suffered a 16 percentage point decline in just 18 months, “plunging from 41 percent in 1988 to 25 percent in 1991, and continued to decline in subsequent years, thus making trade ties with advanced industrial states even more important. (Sanford 1994: 191) Unlike Russia and Turkmenistan, Poland could not rely on natural resources like oil and natural gas to infuse capital into its economy. International factors were thus an important aspect to the Polish transition from a command economy to the market economy. Because of Poland’s EU membership aspirations, the government worked hard to forge linkages between itself and the Western European states as well as the United States.
Even though Poland had 15 governments between 1989 and 2007, the period of this study, regardless of party affiliation, political leaders were willing to work toward the market economy that would lead to EU membership. In that vein, former Finance Minister Grzegorz Kolodko argued that as “…the economic institutions [within Poland] became substantially strengthened… [it] allow[ed] Poland to become associated with the European Union in 1994 and join the OECD in 1996…” (Kolodko 2005: xviii) Poland became a member of the EU in 2004. Thus the influence of the international community was a positive development for Poland and created a positive environment for lending. This made its relationship with the IMF, World Bank and the EBRD constructive instruments in the development of its market economy.

Quantitative Variables

In chapter 4, I posited that seven variables may play a role in the amount of aid distributed to an individual state – economic need, level of democracy, political stability, ethnic conflict, Western connections, past relations with the Bretton Woods institutions, and EU or CIS membership. In Poland, some of these variables played primary roles while others were secondary. I briefly discuss each variable in relation to the Polish environment before explaining how the variables relate to the level of international aid expected in Poland.

Economic Need

As in all post-communist states, Poland was in need of economic assistance to successfully transition to a market economy even though its GDP per capita was in the middle range of post-communist states and was higher than Russia’s and Turkmenistan’s. While the Polish economy was not entirely nationalized under the communist regime – a substantial privatized agricultural sector did exist– the ability of Poland to accomplish its transition was predicated on international financial assistance. However, Poland’s economic need was not just based on its command economic structure but also on its heavy debt load – a unique economic combination in the post-communist states. Poland tried to reform its economy on several occasions during its communist regime and in its many attempts had taken on a great deal of debt – twenty-four billion dollars by 1980, the debt payments absorbing 96 percent of Poland’s export earnings. (Bjork 1995: 91) So not only did Poland need to reform its economy like Russia and
Turkmenistan but it also needed to restructure its debt with the commercial banks and Western governments that provided loans during the communist regime.

Poland’s economy had not been as rigidly ruled by command economy structures as other communist economies. Polish farmers were able to resist full collectivization and some private enterprise was able to co-exist with the state-run industry which made the transition to a supply and demand system somewhat easier. However, inflation and privatization were still concerns for the Polish government even as it undertook a shock therapy program of economic reforms in 1990. The shock therapy plan resulted in harsh economic conditions during the early 1990s. The economy stabilized between 1994 and 1997 under the Strategy for Poland plan before plummeting once again in 1998 during the Russian financial collapse. Economic health appeared again after 2001 with steady growth through 2007. And even under the subsequent global recession, Poland was declared a middle-income country by the World Bank in the mid-2000s. However, persistent high unemployment has been particularly difficult for Poland to overcome. With the addition of updated technology, productivity increased resulting in less need for unskilled workers. This left Poland with a chronic unemployment rate around 18 percent, the highest in the EU. (Reiserer 2006) After EU accession, many Polish workers left Poland to work in other EU countries which caused a backlash against Polish immigrants. For example, the United Kingdom reported over 260,000 Polish immigrants successfully sought employment after 2004, more than 60 percent of all immigrants from the new accession states. (BBC News 2006) EU membership was felt to be a good remedy for the unemployment issue.

**Level of Democracy**

Poland started the post-communist regime with a high democratic ranking. According to the Polity IV ratings, Poland steadily moved from a rating of 8 to a 10 between 1992 and 2007, reflecting Polity’s highest level of democracy. This is echoed by the Freedom House scores during the same time period in which Poland was consistently rated as “free”\(^{36}\). Democracy has been fully established in Poland. Polish elites do not argue over whether Poland should be organized on democratic principles but rather on how the Polish system will function with pluralism and where traditionalism values, particularly those of the Catholic Church, will fit into

the system. None of the intellectuals argue for a return to the communist system. From the outset, even the political parties with a communist legacy, the Alliance of Democratic Left (SLD) and the Polish Peasant Party (PSL), committed to a social democratic regime along the lines of social democratic parties in Western Europe. As early as 1993, George Szabowski argued that, “Most SLD members support in principle transition to a market economy and liberal democracy.” (Szabowski 1993: 349)

The negotiated Round Table meetings between the communist rulers and the leaders of the Solidarity movement ultimately ended the communist regime even though democracy was not the intended consequence. Even though the initial elections were designed to ensure continued communist rule, the outcome was in favor of the democratically-minded Solidarity. “No one thought communism would end. For the rulers, the roundtables were a way to hold on to power by getting Solidarity to share responsibility for Poland’s problems and move toward a new, more open system of government over the next four years.” (Curry 2008:169) To ensure the shared responsibility of policy making without giving up control for the communists, the negotiations designated 65 percent of the seats in the Sejm to be contested by the PZPR and its allied groups while 35 percent of the seats were designated for candidates affiliated with Solidarity. In the newly created Senate, all seats were openly contested. The purpose of the negotiated elections was to ensure continued communist rule and Solidarity complicity with the goal of reforming the economy before true democratic reform occurred. However, when the ballots were counted, the communist-affiliated candidates for the Sejm had not cleared the required majority of votes to win while the Solidarity candidates had. In the Senate only one of the 100 seats was won by a non-Solidarity candidate. Democracy was coming earlier than planned to Poland.

The democratization challenge of the 1990s was the calibration of power between the presidency and the Sejm. The first presidential election was held in 1990 and a semi-presidential system was established with a fairly strong president in Lech Walesa, who soon lay claim to more power than even those in his own coalition could countenance. He wanted to rule by decree on economic issues as well as have more control over the armed forces but the Sejm would not approve those powers. In the wake of this “war at the top”, the Sejm moved to limit presidential powers in 1992 and 1997 by successive constitutional revisions. In place of a strong presidency, the Sejm, the lower house of parliament, and the cabinet gained more powers that are checked
and balanced against each other. “[The elites] have continued the evolutionary ‘Round Table’ type of political process… [in which] the main political arenas have shifted to the Sejm, the Senate, the Constitutional Tribunal and Commission…” (Sanford 2002: 230)

With the increasing turnover of governments, “this produced both compromise and consensus over government powers and the eventual balance between political institutions which were embodied in the 1997 Constitution.” (Sanford 2002: 230) Solidarity leader Walesa himself lost to a more accommodating former communist Aleksander Kwasniewski in 1995. Thus, the president of Poland, while not a mere figurehead, has far less power in the Polish system than the presidents in Russia and Turkmenistan. With no dominant political leader able to seize power as occurred with the Russian and Turkmenistan presidencies, there was not a concentration of power in one specific institution.

*Government Stability*

Like in the Turkmenistan and Russian cases, cabinet stability was an issue for Poland. There have been 15 governments from 1989 to 2007 with a higher turnover during the first years of the post-communist regime when the political party system was particularly fragmented. There are several components underpinning this instability: the lack of a dominant (presidential) figure to anchor the political scene, as discussed above, and the high level of partisan volatility.

While elections occurred on a regular basis and the political parties freely competed, there is a question as to how rooted to the rank and file the parties are. The political party system was highly fragmented, particularly until the 1993 election, when a threshold clause was encapsulated in the 1992 Constitution. For example, 29 parties held seats in the Sejm in 1992. The system remained volatile; the communist-era Solidarity broke apart into myriad smaller parties as policy-making and governance challenged the unity of the organization. In addition, Poland saw a return to government of its former communist party, now called the Alliance of Democratic Left (SLD). It was joined in a coalition government with the Polish Peasant Party (PSL), the former communist-era Peasants Party. However, the reconstituted communist party became a center-left party rather than an extremist party with a platform based on rebuilding the

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37 As Timothy Frye (2007) demonstrated, Poland’s presidency, even taking into account that most of his research occurred prior to the new constitution in 1997, was weaker than Russia’s. Although Walesa wanted the ability to rule by decree to ensure economic reforms proceeded, he was denied these powers unlike Boris Yeltsin in Russia. Elgun A. Taghiyev (2006) measured presidential powers just in the former Soviet Republics and concluded that Turkmenistan had the strongest presidency of the post-Soviet countries.
communist regime. In fact, the SLD “failed to create any unique policy platform.” (Curry 1995, 59) Instead the SLD strategy was to quietly represent their districts and use their prior leadership experience in the parliamentary commissions while Solidarity policymakers fought openly over leadership and policy. Because of the continued fragmentation of Solidarity and the rejuvenation of the former communist party in the form of the Alliance of the Democratic Left, which won the highest percentage of votes in the 1993 election, electoral volatility has been high resulting in wide swings between left and right from one election to the next. The fifteen government in turn corresponded to frequent personnel shifts in the all-important finance ministry (see Figure 5.1 for the changing finance ministers), a discontinuity that was potentially damaging to coherent policy.

**Figure 5.1: Poland’s Finance Ministers**

<table>
<thead>
<tr>
<th>Finance Minister</th>
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</thead>
<tbody>
<tr>
<td>Leszek Balcerowicz</td>
<td>September 12, 1989 - December 5, 1991</td>
</tr>
<tr>
<td>Karol Lutkowski</td>
<td>23 December 1991 - 26 February 1992</td>
</tr>
<tr>
<td>Andrzej Olechowski</td>
<td>26 February 1992 - 5 June 1992</td>
</tr>
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<td>Jerzy Osiatyński</td>
<td>11 July 1992 - 26 October 1993</td>
</tr>
<tr>
<td>Marek Borowski</td>
<td>26 October 1993 - 8 February 1994</td>
</tr>
<tr>
<td>Grzegorz Kołodko</td>
<td>28 April 1994 - 4 February 1997</td>
</tr>
<tr>
<td>Marek Belka</td>
<td>4 February 1997 - 17 October 1997</td>
</tr>
<tr>
<td>Leszek Balcerowicz</td>
<td>31 October 1997 - 8 June 2000</td>
</tr>
<tr>
<td>Jarosław Bauc</td>
<td>8 June 2000 - 28 August 2001</td>
</tr>
<tr>
<td>Halina Wasilewska-Trenkner</td>
<td>28 August 2001 - 19 October 2001</td>
</tr>
<tr>
<td>Marek Belka</td>
<td>19 October 2001 - 6 July 2002</td>
</tr>
<tr>
<td>Grzegorz Kołodko</td>
<td>6 July 2002 - 16 June 2003</td>
</tr>
<tr>
<td>Andrzej Raczko</td>
<td>16 June 2003 - 21 July 2004</td>
</tr>
<tr>
<td>Mirosław Gronicki</td>
<td>21 July 2004 - 31 October 2005</td>
</tr>
<tr>
<td>Teresa Lubiska</td>
<td>31 October 2005 - 7 January 2006</td>
</tr>
<tr>
<td>Zyta Gilowska</td>
<td>7 January 2006 - 24 June 2006</td>
</tr>
<tr>
<td>Paweł Wojciechowski</td>
<td>24 June 2006 - 10 July 2006</td>
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<td>Zyta Gilowska</td>
<td>22 September 2006 - 7 September 2007</td>
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<td>Jarosław Kaczyński</td>
<td>7 September 2007 - 10 September 2007</td>
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<td>Zyta Gilowska</td>
<td>10 September 2007 - 16 November 2007</td>
</tr>
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<td>Jan Vincent-Rostowski</td>
<td>16 November 2007</td>
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</tbody>
</table>

Once the threshold clause went into effect, the political party system coalesced around the center-right and center-left parties. Even though governments collapsed, similar philosophies
from both sides of the political spectrum dominated – a conviction of establishing a democratic, market-oriented regime. “…the programmatic differences between the Left SLD…and the Right AWS (Solidarity Electoral Action) have been narrow.” (Schoenman 2005: 56) “The apparent contradiction between elite fragmentation and policy continuity ... [is] a significant...factor in the Polish regime transition experience.” (Szabowski 1993: 341)

*Ethnic Conflict*

Poland has not suffered from the type of ethnic conflict that has torn other countries apart and because of this “Poland has successfully consolidated a form of civic republicanism with only marginal expressions of ethnonationalism.” (Sanford 2002: 230) It is a comparatively homogeneous society similar to Turkmenistan but in stark contrast to Russia. With the collapse of communism, the minority ethnic groups were able to express their differences once democracy was established. While there has been some “violence over church properties with the Greek Catholic minority, disruptions at Ukrainian folk festivals, and bombastic homilies by Cardinal Gemp at Jasna Gora” the transition to a market economy has occurred without disruption to the Polish borders. Even with the unification of Germany, Polish leaders ensured good relations that produced secure borders with its former enemy. A Polish-German treaty was signed on June 17, 1991 that settled the border issue as well as the issue of the German minority. Poland also sought good relations with its eastern neighbors to ensure the inviolability of its eastern borders.

Another factor in the peacefulness of the transition is that Poland is also a majority Catholic state with nearly 90 percent of Poles belonging to the Catholic Church. Poland’s Jewish population prior to World War II accounted for nearly 10 percent of the population but 90 percent of Poland’s Jewish population was killed during the Holocaust and following the implementation of communism, the majority of the remaining Jewish population migrated to Israel. Therefore, interreligious conflict has been negligible, albeit with a legacy of “anti-Semitism without Jews.” The principal issue is the relationship between church and state. For some, the traditions of the Catholic Church should be enshrined in the state while others prefer a more secular state with a separation of church and state. Those who want a tighter coupling

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38 There are small minority groups such Germans, Ukrainians, Lithuanians and other minorities residing in Poland. See Prizel 2002.
between church and state argue “…the Catholic Church in Poland, not universal human rights and liberties, is a keystone of democracy, a natural reservoir of lasting political values that should be present in law, public life, and mass media…” (Gorski 2002: 276) As George Sanford argued, the “…homogeneous Polish nation-state, achieved at the cost of so much earlier historical suffering, provided a good basis for enshrining popular sovereignty in the new demos, despite the presence of the residual strains of economic modernization.” (Sanford 2002: 230)

Poland’s post-communist identity conflicts, in fact, have centered within the Polish majority, who have continuously wrangled over moral values and nationalism. (Harper 2010) These contests lack a territorial base or a potential for violence and thus sent no danger signals to external lenders.

**Western Connections**

Poland was adamant about becoming better connected to Western Europe and the United States. The exiled Czech writer Milan Kundera wrote that “…the countries of Central Europe feel that the change in their destiny that occurred after 1945 is not merely a political catastrophe: it is also an attack on their civilization. The deep meaning of their resistance is the struggle to preserve their identity – or, to put it another way, to preserve their Westernness.” (Kundera 1984: 34) First, Poland claimed a civilizational relationship with the West and its European Parliament Members of Parliament have pushed to ensure that Poland’s history is part of the European collective history. Poland’s mentality is that it always belonged to Western Europe rather than to the East. “The Solidarnosc Movement began the process of liberation and unification of Europe. The unification of Europe started in Gdansk,” according to former European Parliament Deputy Bronisław Geremek. (Killingsworth, Klatt and Auer 2010: 367) Part of the opposition to communism was “the idealized picture of Western democracy, freedom and economic prosperity.” (Sanford 1994: 183) Based on its contributions to literature and the arts, communist era Polish intellectuals had long debated its part in Western civilization. In addition, as stated in an Alliance of Democrats article, an organization financed by the European Parliament, Poland’s MEPs pushed to have the Katyn massacre and the rise of Solidarity commemorated by all of Europe, not just the Polish.

Not only do Poles believe themselves part of Western civilization but the government also tried during its communist regime to reignite its Western connections through trade ties that
eventually led to the large debt that further exacerbated the economic problems. Even during its communist regime, it developed trade ties to the West in an effort to bring more consumer products to its citizens. Not only has Poland established strong trade ties with the West but it has also made EU membership a central aspect of its foreign policy. The pattern of Poland’s trade deficit with the EU, shown in Figure 5.2, provides an interesting trend as Poland went through its economic reforms as the figure below shows. While the overall trade balance during the 1990s with the EU remained negative, it continued to increase through the late 1990s until it started to decline as Poland’s accession to the EU neared. Because of its agreement with the EU on trade liberalization, as discussed previously, Poland was able to gradually withdraw its tariffs while EU states immediately dropped many of their trade barriers on industrial exports in 1993 and gradually reduced other tariffs through 1998 on “chemicals, cars, porcelain, glass and textiles.” (Sanford 1994: 186)

**Figure 5.2: Poland’s Trade Deficit with the EU**

![Figure 5.2: Poland’s Trade Deficit with the EU](image)

*Past Relations with Bretton Woods Institutions*

Poland’s relationship with the IMF and World Bank dated to the inception of the institutions as it was a part of the founding charter. However, Poland’s communist regime soon came into conflict with the philosophy of open economic systems required by the Bretton Woods institutions. At the end of World War II, Poland was in much need of reconstruction aid as it had been extensively bombed and much of its infrastructure was destroyed. But getting that aid from the World Bank proved difficult. “When Poland requested a $600 million reconstruction loan
from the Bank in 1946, negotiations dragged on for years, and the final approved package amounted to only $45 million in narrowly targeted and tightly conditioned development assistance.” (Bjork 1995: 90) With its frustration at the World Bank and Stalin’s aversion to the Soviet bloc membership in the Bretton Woods institutions, Poland withdrew as a member of the IMF and World Bank in 1950 as I discussed previously in Chapter 3.

Its second attempt at membership started off slowly. With growing economic problems during the 1970s and 1980s, Poland needed membership in the IMF to help improve its economic and balance-of-payments position. However, a split among the members of the IMF appeared as to whether to accept Poland’s membership bid. While the United States initially favored Polish membership in 1981, with the imposition of martial law at the end of 1981, the Western states were concerned with Poland’s ability to remain committed to the transparency responsibilities demanded by the IMF as well as the respect for political pluralism. Poland’s IMF membership was held up until 1986 when martial law was rescinded and the United States relented in its opposition to Polish membership. (Bjork 1995: 91-92) However, its first negotiated stand-by agreement would not occur until 1990. Nonetheless, Poland was positioned, as communism collapsed, with a head start over other post-communist states that were only then gaining membership.

**EU or CIS Membership**

Poland quickly voiced its desire to become a member of the European Union and officially applied for membership on April 8, 1994. Because Poland saw itself as a natural Western European member with its identity tied into the West, not the East, it expected to quickly become an EU member. While the majority of Poland supported a “return to Europe,” Euroscepticism increased, as elsewhere in the region, to 29 percent in 2002 before returning to roughly 8 percent around the time of EU accession in 2004. (Napieralksi 2005: 44) “Generally speaking, liberals exhibit euro-optimistic views, whereas conservatives are more cautious and even skeptical in their European discourse, resorting to the concept of a Europe embracing separate fatherlands than to a united Europe of regions.” (Gorski 2002: 271)

But at the beginning of the transition to the market economy and democracy, the Polish leadership was quick to assert its “right” as a European state to membership in the EU, along with Hungary, although it would have to wait until 2004 to actually gain that membership.
Poland initially expected to be accepted as a member by 2000 and later pushed for a referendum date as early as 2001 or 2002 feeling it was ready for membership by 2003. (Lungescu 2000) However, the referendum on membership did not take place until June of 2003 and it was supported by about 78% of the voters. Following the 2003 referendum that approved the membership bid, Poland’s president, former communist Aleksander Kwasniewski said, “We have returned to the European family.” The European Commission echoed this sentiment, “A great, proud nation is turning the page of a tragic century and freely takes the seat that should have belonged to it right from the start of the process of European integration.” (BBC News 2003)

**Summary of Variables**

Poland’s standing with the international community seemed to put it in a strong position to receive a lot of aid and that is what occurred. Since western connections positively predict higher levels of aid, it makes the large of amounts of aid to Poland understandable. In addition, its past relations with the Bretton Woods institutions also suggest that it would also receive higher levels of lending from the IMF. With its strategy of cultivating Western links and establishing previous relations with the IMF and World Bank, Poland had a higher level of aid than other post-communist states. Even though Poland was devoid of ethnic conflict, it chose to connect itself to the Western industrialized states through its export.

However, government stability – Poland’s inability to establish a long-serving coalition government – would seem to be an issue that would undercut aid levels. In analyzing cabinet instability, while governments changed between right and left parties, the extremist parties remained outside the coalition governments. This meant that the political parties were consistent in their approach to establishing a market economy. So while cabinets changed, the relationship established by previous governments with the international financial institutions remained intact, as we will see.

I will now analyze how the international factors influenced the transition to market economics and Poland’s relations with the international financial institutions even while Poland suffered through cabinet instability.
Reform Attempts, Reform Successes and Cabinet Changes

The interaction of international factors and the domestic political environment in Poland through the 1990s helped to ensure a successful transition to a market economy. Several factors accounted for this positive environment. First, Polish political leaders regardless of party affiliation were committed to integration with the West. Secondly, successive finance ministers, more so than the president or the prime minister, played an important role in dictating the necessary economic reforms to establish a market economy. Lastly, the United States and Western Europe were willing partners with Poland to establish the linkages that would ensure Poland’s place in the West.

Communist Poland initially undertook reform prior to the Solidarity-led regime change. The reforms of the 1970s and the 1980s were primarily aimed at improving citizens’ standard of living and promoting consumerism. While the reforms initially boosted the economy and increased Poland’s debt, eventually stagnation returned thus creating the economic crisis that paved the way for the Round Table negotiations and the eventual transition.

However the domestic political environment was challenging. The electoral environment in Poland produced erratic returns but “…there has been a surprising and significant degree of consensus at the ministerial or executive level on major economic policy directions since the installation of the first non-communist Solidarity-led government in 1989.” (Szablowski 1993: 341)

Poland’s first Solidarity-led government, headed by Tadeusz Mazowiecki, was only partially legitimated by the restricted Round Table elections. Once the communist regime was replaced in 1989, however, economic reforms were the top priority of the Solidarity government. Between 1989 and 1991 period, the Finance Minister, Leszek Balcerowicz of the Freedom Union Party (UD), initiated a plan to shock the economy into a market system. With approval from the United States, Western Europe and the IMF, the Balcerowicz Plan began in early 1990. It was intended to quickly liberalize prices, establish the zloty as a convertible currency, establish a supply and demand system as well as begin the process of privatization. With the initiation of “shock therapy,” the IMF provided a $700 million stand-by agreement. Economist Stanislaw Gomulka, one of Poland’s negotiators with the IMF noted, “The proposed strategy…had the familiar three, generally accepted, components: extensive and rapid liberalization of prices and
trade, macroeconomic discipline, and market-oriented structural and institutional reforms, particularly privatization.” (Gomulka 1995: 317)

The initial post-communist $700 million IMF package for Poland was officially signed on December 26, 1989. The Polish negotiators included many academic economists like Balcerowicz and Stanislaw Gomulka who shared similar backgrounds with the mostly academically-minded IMF economists making negotiations smoother. Because of the ambitious goals of the Balcerowicz Plan and because the transition from a command economy to a market economy had not been undertaken previously, the Polish negotiators submitted a proposal that included tough conditionality requirements. Because of the initial emphasis on the exchange rate and price stability rather than balance of payments, inflation became a key indicator of success. However, the target for inflation was set unrealistically low by the IMF. Gomulka said that he discussed the original IMF estimates of inflation on December 6, 1989 with the IMF team and proposed “wage increases that were three times higher as well as energy price increases that were twice as high.” (Gomulka 195: 330) But he said, “The IMF showed a strong tendency to come up with low estimates for corrective inflation.” Thus as the Balcerowicz Plan drove up prices, inflation increased. By the summer of 1991, the IMF suspended its lending as “the government overshot the budget deficit negotiated with the International Monetary Fund” creating problems for the cash-strapped Polish government. (Kiefer 1992: 7)

The Balcerowicz Plan and the negotiated IMF package were not popular with all members of society. A certain bloc of left-leaning Solidarity members complained about unemployment rising in a state unaccustomed to official unemployment while the former communist complained about the rate of privatization. As one economist affiliated with the former communists, Mieczyslaw Mieszczanowski of the Polish Institute of Economic Sciences, said, “winding up uneconomic enterprises makes sense only when it is possible to transfer production to factories whose production costs are lower, which have spare capacity, the money to modernize or hard currency to import.” (Boyes 1989) Former IMF Director Michel Camdessus was not willing for the IMF to take so much blame. He pointed out that the IMF allowed significant social safety net provisions to remain in the Polish package and that the IMF too often is blamed for conditions local authorities are responsible for such as the provisions in the package that focused on the rate of inflation as the key indicator of success. (Rowen 1989: E1)
Since the IMF had initially granted a short-term stand-by agreement in 1990, negotiations on an Extended Fund Facility (EFF) occurred in 1991, but economic conditionality was harsher this time. Camdessus was unwilling at this point to relax requirements because he said, “a relaxation of the criteria would translate into a delaying of economic progress.” He also said “flexibility was not a word included in our vocabulary but I can assure you that we treat Poland and its economic program with sympathy.” (Polish News Bulletin 1991) Once again, Poland was unable to meet the conditions, leading to a suspension of the EFF. When the second agreement was negotiated, many in the Polish government felt that Poland would not be able to meet the IMF conditions. This agreement was negotiated by the Solidarity coalition government led by the Center Alliance Party (PC) that formed following the Round Table. Conditions in the agreement set specific rates for the budget deficit, inflation and unemployment that government economists knew would be difficult to meet but were difficult to renegotiate since debt reduction by the Paris Club was contingent on the signing of an IMF agreement.39 (Gomulka 1995: 338) But not only did those in government doubt the ability of the Poland to meet the IMF requirements, the IMF packages were attacked by the Christian democratic parties as not in the best interest of the Polish people. The peasant activists attacked the package as a “sellout of national interests.” (Sabbat-Swidlicka 1992: 19)

The conditions of the new agreement set forth by the IMF were to be included in the budget under consideration by the Sejm which was a problematic process. At the time, twenty-nine political parties were represented in the Sejm without one dominant party that could consolidate the government.40 Forming coalition governments was difficult in this political environment and three parties were part of the coalition government at the time. “Parliament can vote against the budget, but we know how difficult it was to form a government coalition and we’re aware of how hard it would be to form a new one,” stated Zbigniew Janas, a Democratic Union Party member of the Sejm. (Kiefer 1992: 7) Yet with its desire to remain tied to the West – and continue to negotiate debt reductions – the Polish government felt that it could not ask for less stringent conditions from the IMF. “Fulfillment of the IMF stabilization program is

39 Gomulka argued that even though the EFF was a failure in the sense of the suspension, it did serve its purpose in positioning Poland for debt reduction from the Paris Club.
40 The 29 parties serving in the Sejm was a bit misleading since the strongest ten parties held 417 of the 460 seats. (Sanford 1994: 181). The 1992 Constitution would establish a threshold clause for party representation that would take effect for the 1993 elections effectively decreasing the number of viable political parties. Once the threshold clause was enacted, fewer parties gained seats in the Sejm in subsequent elections.
necessary for the completion of the debt write-off that Poland negotiated with the Paris Club…” (Kiefer 1992: 7)

Budgetary constraints continued to destabilize coalition politics. When the budget was passed in May 1992, it included “a huge increase in public spending by canceling two-year-old laws that reduced state pensions and froze salaries of public sector employees.” (The Economist 1992: 38) But unlike Russia, Poland could not count on the United States to pressure the IMF to continue lending. Even though the IMF continued to negotiate with the government on the suspended $2.5 billion aid package, a crisis in the Polish coalition government occurred. With the increase in the budget deficit and a likely rise in inflation, the Finance Minister, Andrzej Olechowski, resigned on May 6. This created the likelihood that the Prime Minister, Jan Olszewski, would also be forced to resign collapsing the center-right coalition government; Olszewski eventually resigned in June 1992. With this resignation, following the failure of Waldemar Pawlak, leader of the left-center Polish Peasant Party, to gain Sejm approval as prime minister, Hanna Suchocka of the right-center party Democratic Union took over as prime minister. While the coalition governments retained the same core parties – Center Alliance, Democratic Union and Polish Peasant Party – the coalition partners rotated the prime minister position. Each government, however, remained committed to the economic transition.

While the Balcerowicz Plan seemed successful, inflation, a key indicator of success for the Polish government, remained high and caused the IMF concern about Poland’s ability to continue its economic reforms. Thus in the 1991 negotiations, the IMF wanted to ensure the budget deficit was decreased in an effort to decrease inflation. The inflation rate continued to be an issue as Poland sought membership in the EU since it was consistently higher than the government projected. In many ways, Poland needed an IMF agreement to decrease its debt obligations but debt relief was needed to arrange IMF agreements. As Daniel Kaeser, an executive director of the IMF, stated in 1993, “When Poland comes to terms with its creditors, it will be able to receive money from the IMF to buy out part of the debt.” (Polish News Bulletin 1993) Because of its commitment to the market economy and its previous agreements with the IMF, Poland was able to secure debt reduction agreements with the United States, the Paris Club and the London Club that decreased its debt by $12 billion through 1993 on a debt that had reached $39 billion by 1988. With the debt reductions, Poland positioned itself to acquire additional lending from the World Bank and the EBRD.
However, in the 1993 elections, the Solidarity government lost to the SLD, the communist successor party. Many in the West and those at the IMF were concerned by what this government would do to the market economic reforms since the SLD had criticized the shock therapy approach of Solidarity. SLD members, as the party of the opposition, had criticized the Solidarity and right-center-led governments for “unemployment, high prices, dependency on imports, excessive privatization, destruction of the public health and welfare programs, and an unacceptable degree of subservience to the fiscal and monetary dictates of the IMF, World Bank and other Western financial institutions.” (Szabolowsk 1993: 349) Nevertheless, the new left-center government was committed to the market economy as well as EU membership. In an interesting twist, “the left-wing government continued the established Westpolitik and the commitment towards the EU and if anything redoubled their efforts to achieve NATO entry.” (Sanford 1994: 191) Although it did not accept the shock therapy policies of the former government, “…the new government, elected on populist promises, itself showed a commitment to stay the macroeconomic stabilization course, even calling for a further deficit reduction to 4% from 5%.” (Tiongson 1997: 60)

The ability of the SLD to continue the market economic reforms was not a stretch for the former communist party. As the PZPR, the communist party undertook modest economic reforms throughout the 1970s and 1980s. In an attempt to appeal to the citizens on economic reform, the party held a referendum in 1987 that aimed to curb inflation and reduce the foreign debt. But only 40 percent of the populace voted for it thus compelling the communist party to invite Solidarity into talks. (Colomer and Pascual 1994: 283) The communists hoped to bring Solidarity in as a reform partner to share the scope of the blame for the economic problems without giving up complete control of the regime, hence, the electoral bargain during the Round Table Negotiations discussed above. As SLD Finance Minister Kolodko explained, the communist leaders in the 1980s already made the strategic decision to institute market mechanisms to increase the efficiency of the economic system. He argued that when reforms were initiated in the 1970s, they were made to improve the efficiency of central planning. But by the time of the 1980 reforms, central planning was secondary to marketization. “The Polish leadership…exhibited real determination to push ahead with sound market reform. This determination had many roots, including bitter experiences with central planning and, indeed, the
conviction that the economy would never perform efficiently or achieve sustainable growth without a major overhaul.” (Kolodko 2000: 13)

The process the PZPR went through to become the viable SLD party was easy to understand. Anna Grzymala-Busse argued that because the PZPR communist regime after World War II was imposed on the Polish people by Stalin, the party was forced to be pragmatic in its relationship with society. (Grzymala-Busse 2001: 437) It could not simply resort to violence because of its lack of popular acceptance. Therefore, it worked to legitimize its rule through policy initiatives favored by society. One example of the PZPR’s pragmatism was its abandonment of complete agricultural collectivization in the face of Polish peasant opposition. She argued that the forceful repression used in other communist states was not enough to keep society controlled in the contentious Polish environment. Therefore, the PZPR developed reform programs in an attempt to pacify the citizens. Thus, Grzymala-Busse argued that “the more the party had to respond to an antagonistic society, the more it could develop experience with policy innovation, negotiation, and justification.” (Grzymala-Busse 2002: 23) The legacy of reform programs developed leadership abilities in the former communists that were translated into the post-communist era through the SLD members’ ability to actively contest elections resulting in their control of government in 1994.

As the new government took over following the 1993 elections, the coalition of the SLD and the PSL gave the IMF reasons to be cautious of the reform plan. Even though the new government was willing to reduce the budget deficit, former IMF Managing Director Michel Camdessus said, “I always expect problems when I hear that the deficit should be increased.” (Bjork 1995: 124) Moreover, both parties were communist-legacy parties which might have portended a major reform reversal. As we will see, however, basic policy continuity prevailed. Both coalition parties contributed to this outcome in different ways. The PSL, which provided the new prime minister, Pawlak, remained committed to its former Peasants Workers Party that concentrated on helping the rural and agriculturally-based population even though it had been a coalition partner with the right-center parties between 1989 and 1992. This commitment made the PSL one of the most stable political parties as its rank and file members were less likely to desert it for other political parties when economic realities imposed harsh conditions on the Polish citizenry. On this reliable base, the PSL could be strategic in its ability to coalition with either side of the political spectrum. “…given the PSL’s left-wing socio-economic policies and
(broadly) right-wing approach to moral-cultural issues such as the role of the church and religion in public life, the party also sought to portray itself (almost by default) as ‘a party of the ‘golden center’ able to cooperate and form coalitions with ideological groupings on both the anticommmunist right and former communist left, thereby helping to ensure ‘stable government and limits on extremes’.” (Szczerbiak 2001: 571)

Yet what was most important in this coalition was that while the PSL provided the prime minister, the SLD provided the finance ministry positions with Grzegorz Kolodko one of the longest serving Finance Ministers at three years and the most frequent with service under four prime ministers. According to Jacek Raciborski, “to form a government in a country whose prosperity and security depend in important ways on membership in international organizations and on the inflow of foreign investment once must consider the possible international response. The composition of the government itself is a signal of policy directions, and in particular it can evoke the trust or distrust of international markets.” (Raciborski 2007: 29) While Kolodko combined a sharp critique of Solidarity’s prior economic program, he continued its essential components. In Szabowski’s assessment, “Policy continuity is evident in macroeconomic, fiscal, and privatization fields, and in foreign policy including foreign economic relations and relations with the European Union.” (Szabowski 1993: 341) In addition, the independent Central Bank president, Hanna Gronkiewicz-Waltz – who later became a vice-president of the EBRD – was committed to reducing inflation regardless of the SLD-PSL platform.

Kolodko was extremely critical of Balcerowicz’s policies. In both his public pronouncements and in his extensive academic writings, he asserted that the Washington Consensus was the wrong set of policies for the reform of a command economy.41 In his argument, he suggested that the conditions the IMF imposed in the 1991 stand-by agreement resulted in the unnecessary worsening of the post-communist recession. He said that had less emphasis been placed on liberalization and privatization, the recession would have ended earlier.

When Kolodko introduced his “Strategy for Poland” plan, his approach re-emphasized many of the economic priorities originally established in the Round Table talks which SLD members felt had been abandoned during the second Solidarity government. Wladyslaw Baka, a communist-era Minister of Economic Reform and President of the National Bank of Poland during the first Solidarity government, joined in this critique and targeted the international

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41 Kolodko makes the argument against shock therapy in both The Polish Miracle and From Shock to Therapy.
lending institutions as complicit in the economic consequences of shock therapy. Baka argued that while the first Solidarity government adhered to the original economic platform, the second Solidarity government gave in too strongly to the Washington Consensus of the IMF and World Bank. He argued that prior to 1991, the government “accorded priority to curbing inflation, balancing the economy and strengthening the currency” as well as “overcoming the barrier of external debt.” (Baka 2005: 54) But after 1991, (after the ex-communists left the government), the government focused too heavily on stabilization policies emphasized by the IMF.

Yet despite this often dramatic disagreement, SLD’s approach in office was notably milder. Although Kolodko championed a more gradualist approach, particularly one that also placed more emphasis on social values than did the shock therapy strategy, “from the imposition of the Balcerowicz Plan until the election of 1997, reforming basic social welfare was not on the government’s economic agenda…” (Curry 2008: 184) Kolodko’s theory on how to establish a market economy differed from Balcerowicz, yet during his three-year tenure, he did not reverse the reforms initiated under his predecessor. Kolodko, like Balcerowicz an academic economist, did propose slower privatization and more social spending to help the Polish citizens weather the economic recession caused by the transition to a market economy. His plan “proved particularly successful in combining economic growth with declining inflation and unemployment and slow but steady privatization.” (Sanford 1994: 187) Kolodko would later argue that Balcerowicz’s shock therapy was not what brought about the market economy in Poland but the rather gradual reforms initiated under the SLD government that followed. It was during Kolodko’s leadership of the Finance Ministry that Poland was able to discontinue use of IMF funding because of the fiscal prudence that decreased the budget deficit to 3.3 percent and the steady strength of the zloty by 1995. With the economy recovering from the posttransition recession and coupled with debt restructuring, Poland had less need to rely on IMF lending to overcome balance-of-payments problems and a proposed 1995 package was scrapped. (Taras 1996: 127) At this point, Poland stopped borrowing from the IMF although it continued to borrow from the World Bank and the EBRD.

Thus, even though the partisan composition of cabinets changed, as did the rhetoric, the commitment to seeing through the market economic reforms did not. Unlike in the Russian situation that I examine later, the technocrats and government officials were not reform versus anti-reform and there was no divide between a strong president and a weak parliament. Polish
leaders were committed to remaining connected to the West and installing a market economy. Moreover, Polish leaders, regardless of party affiliation, could use the prospect of EU membership against criticism of the harsh economic reforms. “…one key way to legitimize the economic reforms was to say that they were required for Poland to be in Europe and a part of the transatlantic alliance.” (Curry 2008: 186) It has been argued for the Polish case that “The policy consensus and its continuity have different roots. They go back to the Mazowiecki government of 1989 and the appointment of Leszek Balcerowicz as deputy prime minister, minister of finance, and chief architect of fiscal and economic reforms.” Balcerowicz insisted on a small trustworthy group of economists to help him transform the economy through his shock therapy plan that would induce “necessarily painful and socially costly by-products.” (Szablowski 1993: 352) And even though the costly by-products of inflation and unemployment did occur, subsequent governments did not fundamentally reverse the course of reforms. Undoing the economic reforms was not on anyone’s the policy agenda.

When Kolodko became Finance Minister, he addressed the lack of attention the Balcerowicz ministry had paid to “market-economy institution building, [it relied on] excessive and too fast trade liberalization and neglect of the growth stimulating functions of the state…” (Kolodko 2005: xvii) Thus, for successive governments, it was primarily a matter of which mix of reform policies were better to reduce inflation, stabilize the economy and increase production. In addition, Poland initiated a restructuring of the bureaucracy to lessen the chances of obstruction of the market reforms. “A pattern of intensive bureaucratic adaptation to the new political and policy realities, and the effects of transition, is clearly visible in nearly all ministries and agencies of the government.” (Szablowski 1993: 355) Even though the bureaucracy was not completely overhauled, it was less likely to obstruct the reform efforts than the bureaucracy in Russia. Thus as Poland’s political situation unfolded, it was still able to develop a strong relationship to the international financial institutions.

**Poland and Its Relations with IFIs**

Poland’s relations with the international lending institutions were forward-looking and backward-looking – backward-looking in the necessity to deal with massive Polish foreign debt, and forward-looking in positioning the country to accede to the European Union. Poland was thus committed to regaining its position in the international community and to prove its
commitment to Western European standards. It developed strong relations with the international financial institutions to underpin the radical marketization process. Early on Poland was committed to reducing its debt and the only way to secure its economic future was to cooperate with the IMF conditions. It also worked to gain the favor of the United States to help its cause not just with the Bretton Woods institutions but also with the Paris Club and London Club. While Poland’s financial situation soon improved enough to allow it to discontinue IMF lending, it became a large borrower from the World Bank and the EBRD. As reported by the Polish News Bulletin in October 2000, “By the end of 1999, the EBRD’s investments in Poland reached $1.4 billion in the form of loans, equity stakes and guarantees. This represented 13.6 percent of the Bank’s total involvement in Central and Eastern Europe, placing Poland in third place after Russia and Romania.”

The IMF took the lead in lending to Poland because of the debt problems inherited from the communist regime. Gomulka said, “This initial primacy of macroeconomic issues gave the IMF the leading role in formulating conditions for all Western assistance….Except on the occasion of negotiating the so-called Structural Adjustment Loan in Poland, in spring 1990, the role of the World Bank has been reduced to discussing sectoral adjustments and specific, government-supported investment projects.” (Szablowski 1993: 318) While IMF and Polish relations were strong, the IMF held Poland to its highest standards of meeting the specific conditions attached to its stand-by agreements. Eventually the IMF restructured its lending conditions to be more compatible with the different transformation environment of the post-communist states but not until Poland decreased its IMF borrowing. As Randall Stone argued, Poland was not in the same position as Russia with the IMF. Russia counted on US intervention to continue IMF lending when economic conditions worsened. While Poland courted US influence, the United States was not willing to back Poland at the IMF as it did with Russia.

While the IMF initially had the leading role in providing funding to Poland, it was eclipsed by the World Bank and the EBRD by 1995 when Poland stopped drawing on IMF funds. Poland received one of the larger amounts of aid in the post-communist region from the two banks between 1992 and 2007. Poland’s strategy in the borrowing from the two banks was to improve its economic infrastructure to complete its integration into the European Union.
As Figure 5.3 demonstrates, World Bank lending and EBRD lending was rather erratic though still provided billions of dollars in aid to the market economic transition. As discussed earlier, during 1992 and 1993, coalition governments were unstable and prime ministers rotated among the coalition partners although the World Bank was providing its highest level of lending and the EBRD signed its first loan as a bank with Poland. In 1994 World Bank lending decreased as the economy stabilized and the new finance minister, Kolodko, was not a fan of the Washington Consensus although he had consulted for the IMF and the World Bank. In 1997, a Solidarity government returned to power but economic issues arose particularly in the wake of the Russian economic collapse forcing the World Bank to limit its lending although the EBRD did not. In 2004, with EU membership achieved, Poland became a middle-income state in which the need for the concessionary loans offered by the World Bank and the EBRD were less necessary although still available.

Poland’s relationship with the EBRD got off to a strong early start as Poland was the recipient of the EBRD’s first loan, a $50 million loan to “the Bank of Poznan, for lending to several heating enterprises and other enterprises with privatization potential in Poland involved in the production and sale of heat and steam.” (Reiserer 1991) But not only was the EBRD committed to Poland at the beginning of its existence but this initial loan also financed an “operation [that] involved a parallel co-financing by the World Bank.” The EBRD was particularly involved in the Polish privatization process and the development of small and medium-sized enterprises (SMEs) to facilitate the transition to a market economy which
complemented the activity of the World Bank. The EBRD’s investment strengths are in municipal infrastructure, banking and non-banking institutions, small businesses, large-scale industries and agribusiness according to Alain Pilloux, Business Group Director for Central Europe. (Reiserer 2002) The EBRD and Poland worked together to develop operations that provided funding for small businesses through different types of EBRD facilities that provided capital to finance the necessary privatization that would have an immediate impact on the transition to a market economy. "Support for SMEs through a strategic, country-specific approach is one of the main priorities of the EBRD in its work to foster transition to market economies in central and eastern Europe," Kurt Geiger, the EBRD’s Financial Institutions Business Group Director, stated. (Reiserer 2000)

In line with the EBRD’s central lending focus on privatization of the banking sector, Steven Kaempfer, the EBRD’s Finance Vice President, said, "The SME Finance Facility is an important initiative which aims to address the lack of term financing for small and medium-sized businesses, and to promote their development in Poland…The EBRD regards [Wielkopolski Bank Kredytowy] as a serious partner in developing the Polish SME sector and in furthering the country’s integration into the European Union." (Reiserer 1999) The primary way of facilitating the privatization of the banking sector was for the EBRD to lend capital to private banks that would then use the funds to loan to small private businesses. The goal was to make the private banking sector the catalyst for increased small business activity. The EBRD was particularly helpful in Poland’s accession to EU membership. Hanna Gronkiewicz-Waltz, former EBRD Vice-President, former Polish Central Bank President and an academic political economist, said, “There were years when [the EBRD] would invest 500-600 million euros in Poland a year…We have used the experience gained in Poland in privatizing banks in countries aspiring for EU membership.” (Polish News Bulletin 2004) In one way the EBRD was the most insulated institution from the political instability in Poland. The EBRD could bypass the Polish government in its loan approval process. In addition, the EBRD brought on board a former Polish Central Bank president as a way to ensure that its strategy for transition impact within the post-communist region was as successful as its lending strategy was in Poland.

In contrast to the EBRD lending, the World Bank lending concentrated on infrastructure projects that promoted economic development. In comparison to the type of projects approved by the EBRD that focused at the private sector and on the transition impact of the project, the World
Bank provides loans to the government that are to be used to assist economic development in the hope that it would increase economic growth. For example, during 1995 and 1996 several projects were approved for infrastructure purposes in to improve electricity capabilities and water treatment. The first loan approved in November 1995 was for $160 million to modernize, rehabilitate and upgrade electric power transmission and to provide technical assistance to the power sector. The loan was part of a larger program to reinforce Poland's high voltage framework. (World Bank 1995) With additional electricity generation potential, industry could increase both quantitatively and qualitatively.

Two loans during the summer of 1996 were approved for similar infrastructure development. In June 1996, a World Bank loan of $12 million was approved for the provincial capital of Bielsko-Biala for a water and wastewater project. Part of the loan was to upgrade three water treatment plants as well as to rehabilitate and improve the efficiency of the water distribution system. The other part of the loan was to upgrade and expand two treatment plants as well as rehabilitate and improve the efficiency of the sewer system. The World Bank project did not just offer financing for the infrastructure improvements, but it also included technical assistance as well as training and engineering services. (World Bank 1996) Thus, World Bank expertise was not just provided in terms of hard cash but also included expertise on projects that could facilitate development, particularly in Poland’s pursuit of EU membership.

Another loan in August 1996 for $67 million was approved to support Poland’s increased trade volume. The loan was developed in a two-part project for three Polish ports that provided more efficient managerial structure as well as improved facilities in order that the ports would be able to provide efficient services. One part of the project focused on technical assistance and training that established an efficient administrative structure between the central government, local government, port authority and private sector. The second part of the project financed construction of important roads and water canals to make the three ports more efficient in the movement of goods in and out of Poland. (World Bank 1996) With continued trade growth between the EU and Poland as well as the other industrialized states, Poland’s ability to move goods became a key aspect of economic development. Even though Poland has shown strong growth and continued to reform, it remains a leading borrower from the World Bank. A criticism of Polish economic growth is that it is concentrated in the urban areas and has left behind the more rural regions – one reason that the PSL maintained its strong electoral position in the Polish
political party system. As former World Bank President Paul Wolfowitz said, “There are many people who argue today that the World Bank has no business working with middle-income countries because they are rich and they have access to so much private capital. I don’t agree. Poland is home to five of the poorest regions in the EU.” (Wolfowitz 2004) While many states turn away from the World Bank as economic development increases, and unlike Russia once Vladimir Putin became president, Poland remained a customer of World Bank lending to try to even out the economic development in its different regions.

One of Poland’s ongoing economic issues is unemployment. During the economic reform program and even after EU accession, Polish unemployment remained the highest in the European Union. “The private sector share in output increased more rapidly than did its share in employment, particularly in industry.” (IMF Survey 2000: 90) Successive coalition governments tried to put forth policies that would decrease the unemployment rate yet it stubbornly resisted such attempts. Thus in its attempt to assist Poland in overcoming the unemployment dilemma, the EBRD in its strategy for Poland stated “continued fiscal reform is essential to maintain macroeconomic stability.” (Reiserer 2006)

As economic development occurred, Poland decreased, to a certain extent, its lending from the EBRD and the World Bank since it was no longer in a position to need the concessionary lending these financial institutions offered. Poland was able to move its borrowing into the commercial market preferred by the international financial institutions as a sign of successful development. However, some infrastructure projects still needed the concessionary loans available only through the EBRD or the World Bank as these could not be financed on the commercial market. In attempt to push more projects onto the commercial markets, the EBRD Strategy for Poland in 2004 stated, “…the EBRD…will maintain a strong focus on attracting foreign direct investment and enterprise restructuring.” (Reiserer 2004) Even during the turmoil of collapsing governments and replacements of prime ministers and/or finance ministers from different political parties, Poland remained a top recipient of aid from the international financial institutions and provided an example of state committed to engaging with the international community and with sustained economic reforms.
Conclusion

Poland’s cooperation with the economic reform plans pushed by the IMF as well as its desire to enter the EU helped to secure the connections to the Western industrialized states that have been shown to lead to successful transformations of political and economic systems. Even when the IMF suspended the stand-by agreements in the early 1990s in relation to missed conditional terms, Poland remained committed to the market-economic reforms that led toward positive economic development. With the assistance of World Bank and EBRD lending, Poland provides a positive example of a state cooperating with the international financial institutions to improve its chances of a successful transition. Poland used its previous relations with the Bretton Woods institutions to reenter the international community and rebuilt its trade ties to both the United States and the EU states. The Polish leaders’ commitment to the ultimate goal of Western linkages, and the policy consensus on the necessary economic reforms to achieve that goal, led it to overcome the instability of its coalition governments in a way that Russia did not.
CHAPTER 6

TURKMENISTAN – INSULATING ITSELF FROM INTERNATIONAL INFLUENCES

In this chapter I analyze how Turkmenistan resisted the growing influence of the international community that embraced democratic and market economic states because of its regime being dominated by a sultanistic ruler. Sultanism as described by Juan Linz and Alfred Stepan “is a generic style of domination and regime rulership that is...an extreme form of patrimonialism.” (Linz and Stepan 1996: 52) The ability of the international financial institutions to assist Turkmenistan in its transition from its communist past to its present regime was low. Turkmenistan received less aid from the IMF, the World Bank and the EBRD than the other post-communist states since 1992. Turkmenistan maintained its isolationism and its authoritarianism through a deliberate rebuking of the international organizations and the influence of the international community in its post-communist regime even as democracy and market economics became the increasingly accepted systems worldwide. Because of Turkmenistan’s authoritarian regime that encouraged a version of international neutrality, the state received irregular levels of aid from the World Bank and the EBRD, and no lending from the IMF even though it joined each organization upon its independence. I begin with a discussion of the environment in Turkmenistan as it relates to the quantitative variables of this study. Then I discuss Turkmenistan’s political and economic policy in regard to its lack of active engagement in the international environment that calls for democracy and market economics. Finally, I discuss the strategies undertaken by the EBRD, the World Bank and the IMF in regard to Turkmenistan’s transition from a Soviet republic to an independent state.

The International Context

When the Soviet Union collapsed and the constituent republics, like Turkmenistan became independent states, more research appeared on the ways that international factors might influence adoption of democracy and market economic reforms. “Indeed, many democratizations in Latin America, sub-Saharan Africa, and Central and Eastern Europe were initiated as a result of international pressures or the activities of actors from outside the states concerned.” (Grugel 1999: 19) But international factors provide more influence in the consolidation of the regime
change, particularly when that regime change is democratic. This is true for Turkmenistan in which its path to an independent state was dictated by the Soviet Union. For Turkmenistan, international factors influenced its regime type since its founding as a Soviet republic through its recent regime change even though the post-communist regime attempted to neutralize the effect of the international community on its domestic policy-making.

Turkmenistan’s history of statehood was highly influenced by its incorporation into the Soviet Union. Turkmenistan was not an organized state prior to its submission to Soviet power in 1924 and its inhabitants were mainly nomads. While it endured a difficult transition from a nomadic society to a socialist society under Soviet control with ethnic leadership, the republic of Turkmenistan eventually settled into its place in the Soviet Union. However, communist-era Turkmen officials continued to “favor a self-sufficient republic…with as few political or economic links as possible to other republics.” (Edgar 2004: 54) Yet as part of the Soviet Union, Turkmenistan was unable to control how closely aligned it would be with the other republics.

Turkmenistan’s transition from communism was influenced by the cataclysmic collapse of the Soviet Union. As the Soviet Union moved toward its disunion in the early 1990s, TSSR communist party leader and President Saparmurat Niyazov initially rejected the disintegration of the Soviet Union. He demanded that the parliament vote to remain in the Soviet Union in the spring of 1991 and the vote was 98 percent against disunion. But when disunion became a certainty in the fall of 1991, Niyazov demanded another vote in favor of leaving the Soviet Union and parliament responded with 94 percent in favor of independence. (McElroy 1994) Niyazov eventually rewrote history to declare that he was an initial supporter of disunion. With independence came a major push by Niyazov to establish a sultanistic regime in which the polity is the personal domain of the ruler. (Linz and Stepan 1996: 52)

Developments in the larger Soviet Union were of course an important factor in the regime change of Turkmenistan as the collapse of the communist system led the way toward democratization and market economics in Eastern Europe and for some of the Soviet Republics. However, Turkmenistan did not follow such a path. Russia, however, remained influential on the Turkmenistan polity even though Russia’s influence on its “near abroad” during the immediate post-communist period was limited because of its own transitional problems. Because of Turkmenistan’s dependency on exporting natural gas, it remained under Russian influence since its only pipelines ran through Russia.
Once communism collapsed in Turkmenistan, Niyazov seized the opportunity to establish his own form of authoritarian rule. Indeed, the key reason for the lack of international influence on Turkmenistan is the type of sultanistic regime established by Niyazov following the dissolution of the USSR. Turkmenistan’s initial orientation in the post-communist period was not directed toward isolating itself from the international community. Mostly through the work of the Minister of Foreign Affairs Avdy Kuliev, Turkmenistan actively sought engagement through both bilateral and multilateral commitments including membership in the IMF, the World Bank and the EBRD. Unlike in Russia and Poland where the Finance Minister is one of the top positions in the cabinet, in Turkmenistan the top cabinet position has been Minister of Foreign Affairs. Under Kuliev’s stewardship, Turkmenistan became a member of the IMF, the World Bank and the EBRD as well as other international organizations. But once Niyazov consolidated his powers as president, he “progressively engaged in a conflictual relationship with a number of ministries that hitherto failed to fall under his complete control.” (Anceschi 2009: 20) The Ministry of Foreign Affairs topped the list of ministries that Niyazov did not control at the outset but captured when he dismissed Kuliev at the end of 1992.42 Once Kuliev was removed, Niyazov was able to assert his decision-making authority in the area of foreign relations and he decidedly pursued an approach that isolated his regime internationally thus following a policy of disengagement from the international financial institutions.

Niyazov manipulated the way in which international actors interacted with his regime. While international factors can be important influences, Levitsky and Way (2005) argue that the ways in which they are influential depend on the amount of linkages and leverage that outside forces possess. Linkages are particularly important for influence as states that are more connected to the United States and Western Europe, and their corresponding multilateral institutions, are more likely to be democratic and thus also adopt market economic reforms. Linkages are defined as “the density of a country’s economic, political, organizational, social and communication ties to the European Union and the United States.” Leverage is defined as “a government’s vulnerability to external pressure.” (Way and Levitsky 2007: 50) 43 As will be shown, the ability of the West and the international financial institutions to use linkages and

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42 Kuliev left Turkmenistan upon his dismissal and organized the first opposition movement against Niyazov.
43 According to Way and Levitsky (2007), one important aspect of the divide in post-communist states is the between the democratic Central/Southeastern European states and the autocratic former Soviet republics because linkages and leverage were more substantial in Eastern Europe than in the former Soviet republics.
leverage with regard to Turkmenistan’s transition from communism was weak and a main reason for the lack of lending from the IMF, World Bank and EBRD.

**Quantitative Variables**

As discussed in previous chapters, there are seven variables that may play a role in the amount of aid distributed to an individual state – economic aid, level of democracy, political stability, ethnic conflict, Western connections, past relations with the Bretton Woods institutions, and EU or CIS membership. These variables may play a primary role or a secondary role in the way aid is distributed from the IMF, the World Bank and the EBRD. Below, I discuss how the variables relate to Turkmenistan.

**Economic Need**

Turkmenistan is a large thinly-populated land-mass state that is mostly desert. It is one of the poorest former Soviet republics. It is dependent on its natural gas reserves for revenue with a smaller amount of export earnings coming from cotton production. Turkmenistan has been heavily dependent on the export of natural resources throughout its history as a defined territory in 1924. During its years as a Soviet republic between 1924 and 1992, the Turkmen leadership tried to avoid economic control from the Soviet center. Yet once the turbulent era of Turkmen nation-building faded in the early era of the Soviet Union, the ethnic elite complied with Soviet orders to export raw materials such as natural gas and cotton to the Russian Republic and received manufactured goods in return. Thus, at independence, Turkmenistan’s economy was heavily dependent on Russian pipelines for exporting natural gas to the other former Soviet republics. It also had a dependency on its cotton exports to Russia. The level of infrastructure development was low and the Turkmen citizens had low standards of living. After independence, the government dictated economic policy as the Soviets had. “Directive credits and quantitative output targets continued to be set in Soviet fashion, and ministers dismissed for failure to meet them.” (Europa Publications 2002: 462) Niyazov did not accept the type of economic reform that most of the other post-communist states undertook and was not a fan of the shock therapy approach of either Poland or Russia. He stated, “We have our own structures, our own ways, in everything.” (Hiatt 1993: A10) Economic need was great and it might be assumed that external assistance would be high; however, that was not the reality of the situation.


*Level of Democracy*

Although the majority of the post-communist states transitioned to a form of democracy, not all regime changes were democratizations. It has been stated that during the third wave of democratization only 20 of the roughly 100 states undergoing a transition between 1974 and 2000 became stable democracies while the other states remained in some form authoritarian. (Carothers 2002: 5) By 2001 only eight of the post-communist states could be considered liberal democracies.\(^{44}\) (McFaul 2002: 212) This is particularly true of Niyazov’s regime that was quickly consolidated as a sultanistic regime and why his policies led to the isolation of Turkmenistan from the international community. Turkmenistan has consistently been rated by Freedom House as a non-democracy, because of the lack of civil rights and the lack of political rights throughout the 1992 to 2007 time period. In addition, Polity IV consistently rated Turkmenistan as authoritarian.\(^{45}\) The official stance was to deny this characterization. Halil Ugur, Turkmenistan’s Ambassador to the United States, in an address to the Association of Third World Studies in 1995, stated that Turkmenistan was developing a democracy; the organizations that rate democracy have not agreed nor have the international financial institutions.

Niyazov, the communist party leader appointed under Gorbachev guided Turkmenistan from a communist republic to an independent, sultanistic state in the wake of the Soviet collapse. The development of a sultanistic regime in Turkmenistan followed very closely the theoretical arguments of Juan Linz and Alfred Stepan. A sultanistic regime can be defined as limiting pluralism and freedom, maintaining a cult of personality around the leader, and rewarding loyal members but not producing a legitimate process of succession.\(^{46}\) The personalization of authoritarian rule is a defining factor. Niyazov’s regime was clearly sultanistic as he built monuments to himself, kept the parliament completely under his control and even determined school curriculum – all the while modestly claiming, “I ask people not to do this, but I have become a kind of national symbol.” (Hiatt 1993: A10) In the wake of Soviet disunion, Niyazov echoed many authoritarians who in the third wave of democratization declared their citizens unfit

\(^{44}\) These states are Poland, Hungary, Czech Republic, Slovenia, Estonia, Latvia, Lithuania and Croatia.


\(^{46}\) As Linz and Stepan theorized, sultanism is a regime in which pluralism is unpredictable and there is a high fusion of the public and private. Ideology is non-existence but where the leader is highly glorified. Mobilization is low but can be easily manipulated for ceremonial purposes. Finally leadership is “highly personalistic and arbitrary” (Linz and Stepan 1996: 45) with state appointments determined by loyalty rather than competence.
for democracy; “Our society is not yet mature enough for a civilized multiparty system.” (Stanley 1995: A3) Rather he intended to proceed in a stage-by-stage transition to democracy. Niyazov reasoned that the uneducated, nomadic lifestyle prevalent at the time of Turkmenistan’s founding as a Soviet republic and persisting thereafter was not yet appropriate for a democracy or for a market economy. “It will be what I regard as democracy par excellence; it will be democracy for all.” (BBC Summary of World Broadcasts 1993) This is ironic in that Soviet policy improved the education in Turkmenistan and it was Soviet policy that led to the Turkmen language being standardized and written. (Edgar 2004)

To consolidate his power, Niyazov had two trouble areas to manage. First, he had to neutralize tribal loyalties that might challenge his control. Secondly, Niyazov removed as many political opponents as possible either through exile or imprisonment during two stages of this rule – at the beginning in 1992 and then again in 2002. He was able to more “thoroughly neutralize... the opposition-in-exile movement...” following an assassination attempt on November 25, 2002 by arresting the leader of the opposition group indicted in the attempt, former Foreign Affairs Minister Boris Shikhmuradov. (Rasizide 2003: 204) While elections occurred for parliament and the presidency, “non-competitive elections became a distinguishing feature of Turkmen politics. Niyazov who ran unopposed in the 1992 presidential election was sufficiently powerful by 1999 to become president for life on December 28, 1999 after he persuaded parliament to enact an amendment to the constitution. Subsequent Turkmen presidents would remain liable to term limits. Three parliamentary elections have been held since 1994 and only Niyazov’s party, the Democratic Party of Turkmenistan has been authorized to compete. 47 In defense of his one-party state, Niyazov said, “We will also be very cautious in our approach to solving the problem of a multiparty system and opposition.” (BBC Summary of World Broadcasts 1993)

Turkmenistan’s democratic deficit generated poor relations with the IMF and its relations with the EBRD and the World Bank have been meager which has impeded the economic development of Turkmenistan.

47 As of the last parliamentary elections following Niyazov’s death, DPT was still in the only authorized political party.
**Government Stability**

Cabinet stability is difficult to assess given the secrecy around the government but the Turkmenistan regime’s policy core remained stable throughout the post-communist period even following Niyazov’s death in 2006. Most cabinet ministers at independence were holdovers from the Soviet-era cabinets. “Between 1992 and 1995, a high degree of stability characterized top positions in the five most influential ministries…Internal Affairs, Foreign Affairs, Justice, Defense, Economics and Finance.” (Anceschi 2009: 36) The one ministry that had the most turnover was the Ministry of Foreign Affairs with three ministers between 1992 and 1995 as shown in Figure 6.1. 48 This ministry, unlike in Poland and Russia, was a source of power within the Turkmenistan regime and thus was one that Niyazov had to control to ensure his power was not compromised.

![Figure 6.1: Foreign Ministry Turnover](image)

<table>
<thead>
<tr>
<th>Name</th>
<th>Start Date</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avdy Kuliev</td>
<td>January 1992</td>
<td>August 1992</td>
</tr>
<tr>
<td>Khalykberdy Ataev</td>
<td>August 1992</td>
<td>January 1995</td>
</tr>
<tr>
<td>Boris Shikhmuradov</td>
<td>January 1995</td>
<td>July 2000</td>
</tr>
<tr>
<td>Batyr Berdyev</td>
<td>July 2000</td>
<td>July 2001</td>
</tr>
<tr>
<td>Rashid Meredov</td>
<td>July 2001</td>
<td></td>
</tr>
</tbody>
</table>

Foreign Minister data collected from Anceschi 2009

After 1996, cabinet reshuffling became more frequent as Niyazov feared any minister gaining too much power. As Niyazov controlled the government in a sultanistic form, anyone serving as a minister in the government did so at his pleasure and could be easily removed. For ministers that fell out of favor with the regime or were felt to have gained too much power, Niyazov would name them as ambassadors: once out of the country they would be unable to consolidate power. Therefore, policy-making was clearly under Niyazov’s control. “Niyazov successfully disempowered existing institutions, in order to acquire strict control on internal decision-making processes.” (Anceschi 2009: 20) As Erika Daily, the Director of the Turkmenistan Project at the Budapest-based Open Society Institute said, “There is no indication that any decisions made at levels lower than the presidential level have any effect whatsoever.” (EurasiaNet 2003)

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48 Kuliev and Shikhmuradov became the leaders of different opposition movements upon their dismissals from government. Kuliev died in 2007 and Shikhmuradov was jailed in 2002
When Niyazov died in December 2006, he was replaced by Kurbanguly Berdymukhamedov, the Minister of Health. Because of the nature of the regime, a successor to Niyazov was not readily apparent when he died and many observers were surprised by the elevation of the Health Minister to the presidency. As stated in the Constitution, the Speaker of the People’s Council was to become acting president upon the death of the sitting president but after Niyazov’s death the Speaker was arrested on corruption charges and thus rendered ineligible. In an attempt to bolster Berdymukhamedov’s legitimacy as the successor to Niyazov, rumors spread that Berdymukhamedov was an illegitimate child of Niyazov’s (there is a physical resemblance). For the most part, Berdymukhamedov’s regime was similar to Niyazov’s as he promised. At first there was great continuity between the two administrations. But recently Turkmenistan has shown signs of increasingly opening itself up to the international community. “Berdymukhamedov said he would follow in Mr. Niyazov’s footsteps, but increasingly shows signs of a different approach.” (BBC News 2010) As Berdymukhamedov consolidated his power, he pledged to reform the education system and reopen health care facilities in rural areas that Niyazov closed as well as cooperate with the international financial institutions. However, one similarity between the two administrations is the rotation of ministers to ensure loyalty to Berdymukhamedov.

**Ethnic Conflict**

Turkmenistan’s history of statehood is rather short and devoid of ethnic conflict. It was not until the early Soviet Union leaders decided to divide and rule – to compartmentalize central Asian Islamic groups into distinct titular republics – that Turkmenistan developed into a defined political unit; it became a union republic in 1924. Because of Soviet policy, Turkmen elites saw an opportunity to gain control of the vast area the nomadic Turkmen groups inhabited and were “willing to embrace the idea of a Turkmen national republic.” (Edgar 2004: 8) The Soviet Russians were instrumental in standardizing the Turkmen language as well as trying to improve the Turkmen education. As the Soviets tried to increase the number of Turkmen running the Turkmenistan republic, difficulties ensued as the Turkmen population lacked the education to control the bureaucracy. Thus Soviet policy of indigenization was unsuccessful in Turkmenistan as Russians during the early Soviet years were unwilling to work with the Turkmen elite because many of them were illiterate and uneducated. Therefore, the treatment of the Turkmen elite under
Soviet rule increased resentment in the Turkmens toward the Russians that would reinforce the policy of absolute positive neutrality.

Compared its regional sister-states, Turkmenistan is more ethnically homogenous with at least three quarters of the population Turkmen and only one substantial minority, the Uzbeks. After independence, some Russians and other Central Asian groups left Turkmenistan once “the country moved rapidly to promote the Turkmen language and culture at the expense of Russian”49 (Safronov 2002) especially after dual citizenship for Russians was voided in 2003. However, strong tribal and clan allegiances within the Turkmen could become contentious and, thus one of the first potential threats to Niyazov’s power was tribal loyalties that had been constrained under Soviet policy. Niyazov overcame tribal loyalties to maintain tight control on power. Niyazov’s tribal identity as a Teke helped him since the Teke tribe had historically dominated Turkmenistan politics. At the same time, he denied the existence of tribal entities and through his title of Turkmenbashi emphasized one nation. He implored his people, “No matter what tribe we come from, we remain sons of the Turkmen people.” (Anceschi 2009: 14) Niyazov thus overcame potential tribal divisions to maintain tight control on power and avert the threat that sub-national loyalties presented to surrounding states. “In contrast to other former Soviet Republics, it has largely been free of inter-ethnic hostilities.” (BBC News 2010)

Religion was not an issue that divided Turkmenistan either. The state only recognized Islam and the Russian Orthodox Church and banned other religious organizations. “Concerning the relationship between state and Islam…, Niyazov preferred to describe Turkmenistan as a religiously moderate state, based on a secular structure where religion and politics are clearly separated.” (Anceschi 2009: 14) Niyazov stated, “We have no intention of building an Islamic state; religion here is separate from the state.” (BBC Summary of World Broadcasts 1993) In addition, Niyazov did not allow his regime to be pulled into the international fight against Islamic terrorists after September 11. He refused to ally itself with the United States and Russia against the Taliban as part of his larger neutrality posture.

49 Migration outflow started as early as the 1970s and peaked between 1992 and 1995 when departures to other former Soviet republics, and in particular to Russia, were more than double inflows. (Malynovska 2006)
For Turkmenistan, trade to the Western industrialized states was small. Trade partners for Turkmenistan remained primarily former Soviet republics, particularly in the natural gas sector. In 1992, 80 percent of exports were delivered to Russia, Ukraine, Kazakhstan, Uzbekistan, Georgia and Azerbaijan with the largest share of exports, mostly in the form of natural gas, going to Ukraine. Meanwhile 76 percent of imports came from those states, with 45 percent of imports coming from Russia. More recently, it was estimated that “two-thirds of its [natural gas] exports go to Russia’s Gazprom gas monopoly.” (BBC News 2010) Only recently has Turkmenistan developed gas pipeline connections to China and Iran. Turkmenistan also does not have a strong record of exports to the European Union. Its only EU partner of note is Italy for cotton. Exports to the United States were miniscule until 2000 as the Figure below shows when they greatly increased though the dollar amount is still relatively low. Even as trade increased between the United States and Turkmenistan as shown in Figure 6.2, the ability of the United States to use linkage or leverage to influence Turkmenistan’s regime remained low.

**Figure 6.2: Turkmenistan Imports to the United States**

![Graph showing Turkmenistan Imports to the United States](image)  

Data collected from the United States Trade Administration

Where Turkmenistan actively engaged in connections and cooperation was in its relations with Turkey and Iran following independence. The main reason for developing these relations was to balance the influence of Russia, particularly in the natural resources sector. Foreign Minister Avdy Kuliev claimed in 1992 that “Russia did not occupy any special place in the Turkmen partnership system.” (Anceschi 2009: 15) While the leadership may not have wanted Russia to occupy a special place, Turkmenistan could not remove itself entirely from the Russian
sphere of influence. It remained in the ruble zone until October 1993 and it continued to export natural gas through Russia to Ukraine and Georgia.

*Past Relations with Bretton Woods Institutions*

Turkmenistan can only claim indirect relations with the Bretton Woods institutions as a part of the Soviet Union during the 1940s when the institutions were being established. Otherwise, connections to the Western organizations were tenuous. While Turkmenistan gained membership in the IMF and World Bank in 1992, few other prior connections to the West were made. Without prior connections, Turkmenistan lacked any real relationship that would predict elevated levels of lending from the international financial institutions. In addition, with its lack of prior relations as well as its low levels of trade, it was reported that the United States was at a disadvantage in regard to its influence on Turkmenistan “because of its distance from Turkmenistan, its relatively smaller interest in developments there, and Niyazov’s neutrality that kept Turkmenistan at arm’s length from everyone.” (Blank 2007: 28)

*EU or CIS Membership*

Turkmenistan advocated for membership in the Commonwealth of Independent States shortly after Russia signed agreements with Belarus and Ukraine. While Niyazov would eventually declare his state neutral in international affairs, CIS membership seemed a positive development to reinforce good relations with its trading partners who were mostly members of the CIS. Therefore, Turkmenistan took a lead role in establishing membership for the Central Asian republics, hosting the Ashgabat Meeting on December 12, 1991. Conversely by 1995, Niyazov declared his intent to follow a positive neutrality policy that would keep his state out of the affairs of other states and, hopefully, keep those states out of Turkmenistan’s affairs. Nevertheless, as a member of the CIS and with pipelines “transit dependence” on Russia, Niyazov faced more Russian influence than he wanted to admit. “Turkmen officials have seldom issued political declarations clearly admitting the existence of a special relationship between Moscow and Ashgabat.” (Anceschi 2009: 15)
Summary of Variables

In reviewing the quantitative variables as they relate to the Turkmenistan situation, it would seem that they would predict low levels of aid from the IMF, the World Bank and the EBRD which is what happened. Without positive connections to the West through trade volume or previous relations with the Bretton Woods institutions, it would be predicted that Turkmenistan would receive low levels of aid.

While economic need was high and homogeneous Turkmenistan had positive values on ethnic conflict (ethnic conflict was not an issue), these variables could not overcome the negative values on the other variables. In particular, Turkmenistan was not democratic which decreased the ability of the EBRD to lend to Turkmenistan. Thus, as the framework would predict, Turkmenistan received low levels of aid.

Turkmenistan’s Post-Communist Policy

Turkmenistan’s post-communist political and economic policy was based on the continued rule of the communist leader Saparmurat Niyazov. Rather than establish a democratic state with a market economy, Niyazov established a sultanistic regime with a state-controlled economy similar to the communist economic system without the communist label. The political system revolved around the president as Russia did under Boris Yeltsin and Vladimir Putin. But unlike the Russian presidents, and especially Yeltsin, Niyazov did not waver on policy – he was strictly committed to avoiding market economy reforms. For example, he stated that “we decided to carry out reforms, stat and structural changes only if they have no negative effect on the majority of the population.” He also stated, “As for the internal economic structure, we are not in a hurry to implement privatization.” (BBC Summary of World Broadcasts 1994)

Turkmenistan’s political institutional arrangement is superficially similar to those of Russia and Poland with a president and parliament. Niyazov states, “We have chosen a secular, democratic path of development which is laid down in our constitution.” (BBC Summary of World Broadcasts 1994) But the separation of powers that obtain in Russia and Poland between the executive and legislature are non-existent in Turkmenistan. After independence, Turkmenistan became a presidential system with a 50-member parliament, the Mejlis or National Assembly. Presidential terms were established by referendum. While Niyazov won the 1992 election for a 4-year term, he won a referendum in 1994 to extend his rule to 2002. But in 1999,
Niyazov was declared president for life by the parliament. As can be seen, the parliament was a rubber-stamping body that carried out Niyazov’s wishes rather than a deliberative policy-making institution. Since only one political party was legal, Niyazov’s Democratic Party of Turkmenistan, and all members of the Mejlis shared Niyazov’s political party, the president never had cause to overrule the parliament since it never passed legislation Niyazov opposed. “The society is not yet ripe enough for creation of political parties,” Niyazov said. (Sneider 1993: 7)

In addition to the Mejlis, Turkmenistan had two traditional legislative institutions that allowed tribal members and elders to have an outlet for their specific needs and wishes. All the law-making bodies, however, were subservient to the president and overseen by Niyazov, lest anyone entertain the idea that a democratic polity was emerging.

The more powerful traditional body, the Khalq Maslehaty or the People’s Council, assembled once a year (or less) and included members of the Mejlis, 50 directly elected officials and various regional, executive and judicial officials; its membership numbered around 2500. (Freedom House 2002) This institution, presided over by the president, held veto rights over parliamentary resolutions. In August 2003, a constitutional amendment passed that made this body the highest legislative institution in the state; this move reinforced Niyazov’s control over policy-making since this body assembled infreqently. The second body is less a constitutional organ, yet still important for a cohesive nation-state. The Assembly of Elders, Yaqshular Maslehaty, included elders from all the Turkmen regions and allowed the regional elders to reaffirm their commitment to the Turkmenistan state; it is again headed by the president. The main reason for the Yaqshular Maslehaty was its promotion of traditional deference to the elders, and therefore, to the president himself, which Niyazov loved. (Akbarzadeh 1999: 276)

In addition to controlling the executive and legislative branches of government, the state completely controlled its citizens. Mobilization of Turkmenistan society was regulated by the government. Citizens could not move freely within Turkmenistan and, until 2002, exit visas were still necessary for citizens to travel outside Turkmenistan. (Graybow 2003) In addition, the media was not free although Ambassador Ugur argued that religious freedom, freedom of speech and gender equality were important rights guaranteed by the state.50 (Ugur 1996: 17)

50 Ugur was initially head of the consulate in Turkey and was a Turkish businessman. He gained his position in Niyazov’s government because of his “significant economic interests in Turkmenistan.” (Anceschi 2009: 15).
Because of his desire to build the state around him, it was important to block international influences from disrupting his plans for an authoritarian state. Niyazov developed a cult of personality in which he took the name “Turkmenbashi” or Father of All Turkmen. Rather than spend money on education or healthcare, Niyazov built statues or displayed paintings of himself in all public places which caused many problems when Niyazov changed his hairstyle and hair color, a constant theme in his life. In order to maintain tight control over his population, Niyazov dominated education and spiritual life through his book *Rukhnama* (Book of the Soul) that was required reading for all citizens. “Citizens must now demonstrate sufficient understanding of the book to receive degrees, documents and licenses…” (Rasizade 2003: 198-199) The decrease in education and healthcare became a concern for the leading human rights organizations as well as the international financial institutions. Without a healthy and educated population, Turkmenistan would be incapable of economic development.

However, in an attempt to isolate his state from the international community, Niyazov banned foreign television stations, newspapers and journals and it was extremely difficult for foreigners to gain entry to the state. (Aitakov 2008: 85) Internet access was difficult. In 2000, Niyazov outlawed private internet providers leaving internet access as a monopoly for Turkmentelekom. (*AsiaNews* 2008) Therefore, in 2000 only .1 percent of the population had internet access. Not until 2008 after Niyazov’s death did internet usage increase to more than one percent of the population. (Internet World Stats 2011)

Most citizens of Turkmenistan are unconcerned about the lack of democracy since the economic situation for most Turkmen is uncertain. With the average monthly salary between $4 and $8 a month, few have either the time or the luxury to cross the government. In addition, the state provided citizens with many subsidies such as free water, a free natural gas quota and gasoline subsidies therefore few citizens willingly opposed the government. (Sabonis-Helf 2004: 171) Without accountability to his citizens, Niyazov was able to run Turkmenistan as he saw fit given his state’s status as a rentier state in which has been able to spend gas revenue to decrease demands for greater freedoms. (Ross 2001: 333)

Policy-making in Turkmenistan fell completely into the hands of Niyazov and his inner circle. Officials kept their government positions based on their loyalty to Niyazov, not necessarily because they were members of the DPT or were competent in their duties. To assure his control over policy-making, cabinet reshuffling was an important ritual of Niyazov’s
administration after 1996. If Niyazov felt that a minister was capable of competing for power, the minister was removed. “Turkmen officials were regularly removed from power or transferred to new positions as a means of diminishing their power bases, and hence, their potential ability to become rivals to the President.” (Europa Publications 2002: 452) When ministers were dismissed, the official cause was either corruption or failure of duties. In addition, Niyazov confiscated the personal assets of a dismissed minister to ensure any wealth could not be used to challenge the regime. Officials who lost favor with Niyazov often received ambassador appointments outside Turkmenistan where they could do no mischief in domestic politics. Many of these dismissed ministers became opponents of the regime; a prime example is Boris Shikhmuradov who prior to his exile was the second most powerful man in Turkmenistan as head of the Ministry of Foreign Affairs.\footnote{Avdy Kuliev was the first prominent Foreign Affairs minister to organize against Niyazov. He established the Turkmenistan Foundation and worked to provide an alternative source of leadership to Niyazov.} After being dismissed as Minister of Foreign Affairs and appointed ambassador to China, Shikhmuradov announced his opposition to Niyazov and fled to Moscow. He returned to Ashgabat in 2002 and was arrested for the attempted assassination of Niyazov in November.

Turkmenistan leaders confused the idea of an independent state with democracy. While the leaders said they were committed to human rights, most human rights groups disagreed such as Freedom House, Human Rights Watch, and International Helsinki Federation for Human Rights. Elections were reminiscent of Soviet times. Niyazov was elected as president in 1992 with 99.5 percent of the 99.8 percent of the vote. (Akbarzadeh 1999: 273) In 1994, he received 99.99 percent of the vote in a referendum to extend his presidential rule to 2002. (McElroy 1994) While any citizen could declare for an election to the parliament, only those who were members of Niyazov’s Democratic Party of Turkmenistan actually competed (competition for seats was not required). As Niyazov said, “up to 2020, elections to the Turkmen parliament would not be held on a party basis.”\footnote{“Sapamurat Niyazov on Elections, Turkmen Democracy and Consolidation of Authority in Turkmenistan,” http://presidentniyazov.tripod.com/id35.html (April 5, 2011).} Elections were held in the old Soviet mode with one candidate on the ballot and citizens either put the ballot in the box as support for the candidate or crossed out the candidate’s name. Candidates had to receive 51 percent of uncrossed out ballots to win. In the 1994 election, turnout was reported at 99.8 percent, a remarkable number for a largely uneducated population. \textit{(The Economist 1994: 40-42)}

51 Avdy Kuliev was the first prominent Foreign Affairs minister to organize against Niyazov. He established the Turkmenistan Foundation and worked to provide an alternative source of leadership to Niyazov.

Economically, Turkmenistan policy did not diverge greatly from Soviet economic policy including a reliance on declared economic plans. Niyazov considered the economic situation of Turkmenistan – dependent on natural gas exports and cotton production – did not warrant a market economy nor a democracy until the economy was better developed. “I’m very careful about borrowing any model of economic development…I favor using general principles of those that are most fitting for Turkmenistan’s conditions,” Niyazov said. (BBC Summary of World Broadcasts 1993) As a desert state, economic development was difficult and Niyazov determined that a state-controlled economy provided a more stable economic environment. This also allowed Niyazov to continue his authoritarian control over all aspects of Turkmen life.

Niyazov was not content to kowtow to Western states, international financial institutions, or Russia for help in developing the economy. Instead, he developed a policy of “absolute positive neutrality” that would prevent his state from allying with any regional hegemon. Not only would he not be a pawn for Western powers but he would also not be a pawn for Russia or even Iran. However, the effects of an economy dependent on natural resource revenues caused friction between the ideals of international neutrality and the reality of its economic situation. The reality was that Turkmenistan was heavily dependent on exports of natural gas through Russian pipelines and cotton and relied on imports of food and consumer goods which created a problematic economic environment. Niyazov said soon after the collapse of the Soviet Union that, “We sell [natural gas] at fixed prices and receive prices which are 20 or 30 times higher on foodstuffs and consumer goods.” (BBC Summary of World Broadcasts 1992) However, he also stated, “We regard Russia as a great country with which we shall maintain friendly relations whatever may happen. It is our long-term policy to respect the policy Russia itself has chosen and to cooperate with it on a mutually beneficial basis.” (BBC Summary of World Broadcasts 1994)

Turkmenistan continued the state-controlled economy it inherited from the Soviet Union as the government continued to control macroeconomic management. Instead of adopting market economic reforms, Niyazov favored an import-substitution policy that placed an emphasis on state ownership. (Sabonis-Helf 2004: 169) He said, “Our target is to ensure domestic production based entirely on our own raw materials and to create jobs.” (BBC Worldwide Monitoring 1999) Economic development lagged even though Niyazov proclaimed an economic policy of “Ten Years of Prosperity” in 1992. By 2002 the program changed to “Ten Years of Stability.” For the
time period between 2000 and 2010, the Niyazov’s government based its economic predictions on increased levels of gas export revenues and foreign loans with an optimistic view for economic development. (Europa Publications 2002: 452) Yet privatization was barely undertaken in the years following the communist collapse and liberalization of prices was painfully slow. By June 2000, less than four percent of small enterprises and less than one percent of medium enterprises were privatized. (Sabonis-Helf 2004: 170) As the IMF reported (1994), privatization was undermined by the replacement of old ministries with new ministries that were to oversee privatization without detailed plans to actually engage in privatization. Mostly though, privatization was not an option since few small and medium-sized factories existed that the state was willing to sell. In addition, in a largely uneducated population where education continued to be cut, few entrepreneurs were available to invest in private businesses. As Niyazov said, “There are no people psychologically or financially prepared to become owners of big factories.” (Stanley 1995: A3)

Niyazov was unwilling to privatize the most valuable industries – gas and oil, communications and transportation that were the particular interest for the World Bank and the EBRD in their lending strategies. The production and pricing of most agricultural products remained heavily controlled by the state. Furthermore, agriculture was also not a viable privatization sector since cotton production made Turkmenistan a top 10 world producer and was the only other exportable product besides natural gas that produced revenue for the state. Niyazov stated that he preferred China’s agricultural model of “the gradual entrance into a market economy through the cooperation of small farms, the privatization of small and medium-size farms and the creation of free economic zones.” (BBC Summary of World Broadcasts 1993)

But the economic situation was not as dire as in other republics because of the national gas it exported to Russia. The fact that Turkmenistan never requested a stand-by agreement from the IMF stemmed largely from the cushion these export revenues provided. Turkmenistan did not suffer from a balance-of-payments problem as Russia or Poland did although its trading partners were not always timely in with their payments. As the IMF reported (1994), because of its exports, Turkmenistan had a fairly large hard currency reserve which made it easy for the state to establish its own currency, the manat, in 1993 without IMF monetary assistance but with IMF technical assistance. This also allowed the government, which owned the gas conglomerate, Turkmengas, to fund itself since private investors pocketed little revenue. And because of the
revenues the state collected, Niyazov observed, “Every year up to 60 percent of the expenditure side of the budget is channeled into developing the social sphere.” (BBC Summary of World Broadcasts 1996)

Hence, Turkmenistan was distinctive in its lower need for multilateral IMF lending because the economic disruptions of the Soviet state dissolution was mitigated by revenue from energy exports. Likewise, in the late Soviet era, cotton harvests had been extremely high although harvests declined after independence. As a surge in gas and cotton exports occurred in 1991, it offset an increase in imports. By 1992 as reported by the IMF, Turkmenistan’s budget surplus increased mainly from natural gas profits which went straight into government coffers or even into the pockets of officials. Turkmenistan saw a robust economic recovery in 1993 as the resumption of natural gas exports occurred. Likewise, Turkmenistan was able to build a substantial amount of hard currency reserves.

But the major issue monetary policy issue in the early post-communist period was that Turkmenistan remained a part of the ruble zone and thus subject to Russian policy. Not only did the continued use of the ruble put Turkmenistan at the mercy of Russian influence but it also produced inflationary pressures. Therefore, in October 1993, Turkmenistan introduced its own currency, the manat, to escape from some of the Russian influence that continued into independence. This counteracted IMF and EU preferences for the continuation of the ruble zone. This would not be the first time, or the last, that Turkmenistan flouted IMF advice.

While Niyazov promoted his absolute neutrality foreign policy in 1995, he was very much cornered in the Russian sphere of influence. Russia insisted that Turkmenistan only sell its natural gas to the “near abroad.” A small pipeline built to Iran allowed Turkmenistan to resist Russia especially when Russia’s economic collapse forced it to stop paying Turkmenistan for the natural gas. (Sabonis-Helf 2004: 167) Because of its highly constricted capacity to export outside of the former Soviet sphere, the United States and Western Europe or its affiliated international organizations were less able to actively engage Niyazov’s government. The U.S. position vis-à-vis Turkmenistan was weak unlike its ability to support Russia or Poland reforms. The U.S. was unable to use its influence at the IMF or World Bank to assist Turkmenistan gain access to aid or even influence the state to ask for lending. In addition, because the United States policy forbids bribery, subsidizing rulers in Central Asia or guaranteeing the leaders’ position or succession, it
failed to gain advantage in Turkmenistan by focusing on democratic processes without investing resources.\textsuperscript{53}

As an important indicator of international engagement, the amount of trade between states and the states in which trade occurs explains the amount of engagement a state is willing to accept. Thus, even though Turkmenistan was reluctant to take positions on international policy, its major source of state revenue came from energy exports as energy increased from 55% of exports to 83% between 1998 and 2001. (Sabonis-Helf 2004: 169) Other sources of revenue such as income taxes provided very little to state revenue. This placed a lot of pressure on the oil and gas sector to fund the government and prevented the state from privatizing the sector. As early as 1992, Turkmenistan looked for other trading partners outside of the former Soviet region to ensure the convertibility of currency transactions. Similarly, Turkmenistan began looking for outside partners for its cotton export and Italy, Argentina and Turkey became important cotton traders though the amount of exports remained low. But the CIA reported in 2007 that Turkmenistan’s trading partners continued to be concentrated within the former Soviet republics and other Central Asian states. (CIA Handbook 2007) The United States received some cotton exports but again most cotton exports went to the former Soviet republics.

A problem that resulted from the heavy reliance on exports to the former Soviet republics as reported by the IMF (1994) was that trade became based on barter arrangements rather than hard currency payments particularly from Ukraine and Georgia. In an attempt to remove barter from the export system, Turkmenistan took steps to ensure that bartering was not part of its internal economic system as the Governor of the Fund in 1999 Khudaiberdy Orazov stated that the government was making “considerable strides in reducing barter trade within its own borders.”\textsuperscript{54} (Orazov 1999) This created extreme distress for Turkmenistan in 1997 when economic problems battered its main trading partners causing them to default on payments. When trade payments became more problematic, Turkmenistan sought advice from the IMF on how to handle the situation. However, Turkmenistan did not always like the IMF advice they received. For example, as stated by Yolly Gurbanmuradov, Governor of the Fund for Turkmenistan in 1998, Turkmenistan “over recent years…with Fund encouragement…agreed to reschedule payments of overdue amounts to facilitate orderly adjustments by our debtor

\textsuperscript{53} Blank (2007) made this argument about the inability of the United States to influence Turkmenistan.

\textsuperscript{54} In Turkmenistan, Governors of the Fund were also the Head of the Central Bank. Under Niyazov’s control, the Central Bank president was removed on a yearly basis.
countries…” only to see the rescheduled payments continue to go unpaid. (Gurbanmuradov 1998)

Without substantial trade between the two states, the United States could not use export sanctions as a way to gain leverage on Turkmenistan for democratic or market economic reforms. It also meant that the World Bank and the EBRD were unable to use conditionality in their loan agreements to improve democratic processes or increase market economic activity. Thus the strategies the multilateral lending institutions used in Eastern Europe and many of the former Soviet republics to assist in market economic transitions failed in Turkmenistan.

Because Turkmenistan resisted market economic reforms, the three multilateral lending institutions, the IMF, the World Bank and the EBRD, sent less aid to Turkmenistan than other states in the post-communist region even though the institutions were initially willing to lend to Turkmenistan and tried to establish a relationship with the state. The multilateral lending institutions were optimistic in the immediate post-communist era that the transition states would be willing partners in economic reform. However, as Turkmenistan proved, not all states were willing to undergo market reforms. Although the IMF and World Bank undertook a leading role in the transitions of Eastern Europe and the former Soviet Union, their ability to lend in support of reform in Turkmenistan was reduced. Turkmenistan during the post-communist period did not request any IMF funding at all. The level of World Bank lending has been the lowest of all the 27 post-communist states as it was for the EBRD. The EBRD, established to finance the economic transitions in the post-communist states, fared poorly in establishing any relationship with the Turkmenistan government. While the EBRD and the World Bank, along with other agencies from individual countries, provided technical assistance for various sectors and projects during the 1990s; by May 2000 the EBRD froze all public-sector lending because of the poor progress in privatization and the lack of democratic processes. (Europa Publications 2002: 461)

Niyazov’s seizure of state institutions ensured that the economy remained under state control similar to what it had been under the communist regime. As Seyitbay Kandymov, Governor of the Fund and the Bank of Turkmenistan in 2000, stated “Turkmenistan, following its own way to solve problems related to transition, (emphasis added) is undertaking significant steps to foster economic growth and advance the reform process.” (Kandymov 2000)

Turkmenistan had a rocky relationship with the IMF, particularly in respect to its neighbors. In 2000, Kandymov, head of the Board of Governors, charged that “… Turkmenistan
is facing a clear case of financial contagion arising out of the failure of Fund programs to restore financial viability to our major trading partners within the CIS region… [The Fund] nevertheless approved a further extension of Georgia’s loan agreement this year without requiring a resolution of its unpaid debt obligations to Turkmenistan,” (Gurbanmuradov 1998) Likewise, Turkmenistan was at odds with the IMF in trying to sustain a smooth payment system. “Turkmenistan…[as] an inherently creditor countr[y] within the region, need[s] to be paid in cash on time for their exports if they, in turn, are to meet their trade and debt obligations to the rest of the world,” as stated by Khudaiberdy Orazov, Governor of the Fund for Turkmenistan in September 1999. (Orazov 1999) According to Orazov in 1996, Turkmenistan bilaterally agreed to reschedule Georgia’s debt of nearly $400 million but the agreement was not honored which led to economic problems in Turkmenistan. “While larger creditors can afford to adopt a benevolent approach to this issue, Turkmenistan’s financial position – worsened by non payments for our exports – does not permit such an approach.”

Not only was Niyazov content to establish Turkmen currency without western assistance, he also wanted to develop new pipelines without Western funding. Working with regional partners, Niyazov tried to develop new pipelines outside Western interests as well as Russian influence. However, the pipelines to Iran and China have only recently been built and Turkmenistan signed an agreement with Russia to continue to utilize the Russian pipeline. Finally, Niyazov refused to privatize or encourage private sector development that effectively removed the EBRD as a lending partner and eventually would drive the World Bank out of Turkmenistan as well.

EBRD and World Bank lending showed a similar pattern as demonstrated in Figure 6.3 – optimism at the outset that Turkmenistan would adopt market economic reforms, with a spike in lending between 1997 and 1999. Economic and political reasons accounted for the increased lending activity to Turkmenistan between 1997 and 2000. The first reason is economic. As reported by the World Bank, in 1997, Russia and Ukraine were unable to pay their natural gas bills leading to a suspension of exports from Turkmenistan. In addition, Georgia defaulted on its payments as well. This brought about a dispute with the IMF as Turkmenistan tried to reschedule payments with Ukraine and Georgia on advice of the IMF only to see those rescheduled payments go unpaid as well. Without the natural gas payments, the infrastructure reforms Niyazov sought were in jeopardy of being discontinued. Therefore, EBRD and World Bank
lending became more appealing. By 1998, however, the economy recovered with Russia and Ukraine resuming payments for their natural gas. Thus, Niyazov could afford to discontinue economic assistance from the Western multilateral organizations.

Figure 6.3: World Bank and EBRD Lending to Turkmenistan

![Graph showing World Bank and EBRD lending to Turkmenistan.](source: AidData, www.aiddata.org. Accessed 14 November 2010.)

Another reason for the spike in lending was political. By 1997 Niyazov began campaigning for a life-tenure as president. In doing so, the ability to reform the infrastructure and improve economic development throughout Turkmenistan was an incentive to engage with the World Bank and the EBRD in rebuilding infrastructure. But once the parliament granted Niyazov his life-term as president in 1999, the incentive to engage with the Western community disappeared as well as the economic incentive from decreased export revenue.

The World Bank strategy in Turkmenistan was to bring about economic stabilization and economic development. As such “…the Bank sought to engage with Turkmenistan through loans, technical assistance, and policy and strategy advice,” to assist economic reform. (World Bank 2008) However, because of Turkmenistan’s sultanistic regime, the above goals were unmet. Niyazov never undertook extensive economic reforms and the United States and Western Europe had neither the linkages nor the leverage to encourage economic reform in Turkmenistan.

Turkmenistan had an erratic history of lending from the World Bank based on its refusal to engage deeply with the international community. As the Bank stated in 2001 “the Bank will work initially to build a foundation of economic capacity and transparency through policy
dialogue and non-lending analytical support.” (World Bank 2001) The few projects approved by the World Bank during the 1990s focused on infrastructure improvements, mostly utility infrastructure. While the World Bank had additional projects under discussion in the agricultural and healthcare sectors, these were discontinued because of the lack of cooperation with the Turkmenistan government. The World Bank then became reluctant to undertake new projects and, thus did not have active projects in Turkmenistan after 2002. World Bank reports indicated that, “It is likely to prove difficult for the Bank to extend new lending in the near term, given policy, financial and legal issues.” (World Bank 2001)

Similar to the Bretton Woods institutions, the EBRD had few lending opportunities in Turkmenistan. Its mission in the post-communist states is to help develop market economies that lead to stable, democratic states by lending to both the private sector as well as the public sector for projects that have a transition impact. (Rousso 2005) Unlike the World Bank, the EBRD includes a democratic requirement for lending to the post-communist states. However, the EBRD worked around this requirement mostly by providing private sector funding instead of public funding in those states that were determined to lack commitment to democratic processes. Its first project in Turkmenistan was signed in 1994 but the majority of lending occurred in 1999 after lending agreements were signed in 1997. In certain ways, the EBRD has been limited by Turkmenistan’s inability to absorb its aid as there are few private enterprises or a private banking sector to work with. Without a regime committed to democratic processes and without a productive private sector that could benefit from international financial assistance, the EBRD had few opportunities to assist economic activity in Turkmenistan.

The EBRD had dual problems with Turkmenistan. First, according to the EBRD’s charter, it does not work with governments that do not engage in democratic processes; technically this implied the EBRD cannot and should not lend to the Turkmenistan government. (Rousso 2005) As EBRD Vice-President Hanna Gronkiewicz-Waltz said, “We take into account whether a county is democratic, whether the opposition is allowed to function normally. As a result, in countries like Belarus and Turkmenistan we don’t cooperate with state enterprises at all, doing business instead with private-sector companies, chiefly small and medium-sized businesses. This means that our exposure to such countries is relatively low.” (Polish News Bulletin 2004: B2) And with the majority of the economic sectors in Turkmenistan under state control, few private sector entities are available for EBRD lending. An EBRD spokesman noted,
“...the EBRD would increase its involvement in Turkmenistan once the government had demonstrated its commitment to reform and transition.” (Reiserer 2002) But even more importantly because of the reluctance of Turkmenistan’s leaders to be engaged in the international community, linkages and leverages are insufficient for the international financial institutions to either influence or pressure Turkmenistan to adopt democratic processes that would lead to higher levels of lending. “With little current movement towards critical democratic and market economic reforms, the Bank’s approach in Turkmenistan...will restrict itself to support for the private sector and dialogue with the government and civil society on ways to improve the investment climate for private entrepreneurs.” Thus many of the transition projects undertaken in other post-communist states through EBRD lending, like capitalizing the private banking sector, have not occurred in Turkmenistan.

Turkmenistan’s first lending agreement with the EBRD was a loan to the Central Bank of Turkmenistan in November 1994 that was to be disbursed to local banks in their efforts to fund private or privatizing, export-oriented local businesses. As the EBRD Director of the Country Team Stijn Albregts said, “...the first EBRD loan to Turkmenistan represents the Bank’s efforts to design a programme that will assist the transformation of the country to a market economy.” (Reiserer 1994) It was hoped that the loan would help create a stronger private sector in Turkmenistan. A key aspect of the EBRD’s transition impact has been to lend to the banking sector. But Turkmenistan’s banking sector is underdeveloped as the IMF stated, “the banking sector is small and dominated by state banks.”55 (IMF 2008) In other post-communist states, like Poland and Russia, the EBRD concentrated on lending to the banking sector to ensure the capitalization of the market economy. However, this strategy could not be followed in Turkmenistan since the EBRD suspended its lending to the public sector in the face of non-democratic procedures and most banks were part of the public sector rather than the private sector.

One of the most disappointing aspects of Turkmenistan’s transition was that private sector development was anemic. By 1999, “23 medium-sized enterprises had been privatized, 10 in textiles, seven in food and one electrical appliance factory…and, unusually, all buyers were local. About 24,000 small enterprises had been transferred out of state ownership, but many of these transfers were cosmetic...” (Europa Publications 2002: 461) Thus the next EBRD loan was

55 However, the IMF concluded during the Article IV consultation that the banking sector had grown prior 2008.
not agreed to until January 1996. That loan was for a new textile manufacturing plant that was intended to improve the ability of the state to manufacture its own cotton products rather than shipping the raw material overseas. However, because of the lack of private investment and the amount of state-control over the economic sector, the EBRD decreased its amount of lending after 1997. In addition, without a viable private sector, the EBRD was unable to help Turkmenistan attract private investment as it had done in Poland because of the lack of transparency in the government statistics, the problem of corruption and the lack of a skilled labor supply. (Sabonis-Helf 2004: 170) By 2002, with economic stagnation and strong-armed politics, few foreign investors were willing to do business in Turkmenistan. For example, ExxonMobile closed its offices in Ashgabat and in the regional center of Balkanabad. (Safronov 2002)

Besides its dependency on natural resources, Turkmenistan remained tied to agriculture. An equal concern for the EBRD and the World Bank was the need for reform in the agricultural sector in an attempt to halt the degradation of the environment since in 2005, “agriculture accounted for 26 percent of Turkmenistan’s economy and provided jobs for some 54 percent of its 5.8 million residents,” as stated by the World Bank. (EurasiaNet 2007) Both organizations attempted to fund waterworks infrastructure projects to ensure the quality and safety of Turkmenistan’s water supply. Since Turkmenistan is a desert state, water is an important source for economic development especially since the cotton industry uses lots of it. However, Niyazov planned to build a large lake in the Kara Kum Desert that environmentalists argued would lead to a large amount of evaporation and destroy the Amu Darya River that was to feed into the lake. But as the government focused on the lake project, it let other infrastructure erode. As Michael Wilson, the EU Resident Adviser for the Technical Assistance to the Commonwealth of Independent States program, said, “The water situation industrially and domestically is deteriorating rapidly because there is no investment in the infrastructure. The infrastructure is old. It’s constantly breaking down. The seepage and lose of water through it is enormous.” (EurasiaNet 2004) In addition, main source of drinking water in Turkmenistan is polluted from the cotton industry that is dependent on heavy chemicals to ensure crop growth. Yet without the cooperation of the Niyazov regime, neither the World Bank nor the EBRD could influence the government to seriously undertake infrastructure reform.
Without a great amount of trade and few links to the United States or Western Europe, the World Bank, the IMF and the EBRD did not have the ability to go to its Western partners to help influence reform. As such the international influence other post-communist states were open to was closed to Turkmenistan under the Niyazov regime. This left Turkmenistan isolated in the global system that emphasized democratic polities with open, market economies until Kurbanguly Berdymukhamedov became president.

**Change of Regimes: Openness to the International Community?**

Niyazov’s death in December 2006 turned the regime over to Kurbanguly Berdymukhamedov. He was appointed interim president upon Niyazov’s death then elected in February 2007 in a multi-candidate election. However, all the candidates came from the same political party and were part of the establishment. Thus it seemed Berdymukhamedov would continue the regime as Niyazov developed it. "I will devote my life to the greater glory of Oguz Khan (a Turkic historical figure) and will follow the course of Turkmenbashi the Great," Berdymukhamedov said during his swearing-in ceremony. (Chinadaily.com.cn 2007)

As such, “The media is fully controlled by the state, foreign journalists are not welcome, the country has only one party and most people are still afraid to criticize the government.” (Antelava 2007)

Another similarity between the regimes was the shuffling of cabinet ministers. In order to consolidate his power, Berdymukhamedov dismissed long-serving ministers from the previous administration and appointed elite that had been marginalized under Niyazov. (Anceschi 2009: 46) And to show that he was not afraid to change policies Niyazov enforced, in 2007, Berdymukhamedov introduced reforms “accelerating growth and diversifying the economy…developing the private sector and a more market oriented economy, and smoothly integrating Turkmenistan into the international economy.” His first acts were to change the education and social welfare policies enacted by Niyazov such as reopening rural hospitals. Berdymukhamedov also seemed to be more open to working with the international financial institutions. As Annette Dixon, the World Bank Country Director for Central Asia said in a visit to Turkmenistan in the spring of 2007, “I was impressed by the extent of the government’s plans to upgrade education and health services which will help improve the living standards of all Turkmen citizens. The World Bank stands ready to help the government in these endeavors.” (World Bank 2007)
Because of the lack of cooperation with the World Bank during the Niyazov regime, once Berdymukhamedov became president, the World Bank felt compelled to host a workshop in Ashgabat to inform the “Representatives of the Cabinet of Ministers…the Central Bank…and different line ministries, state agencies and commercial banks…” of how the World Bank operates since turnover during the Niyazov era had removed more experienced personnel from government. “The main goal of the event was to raise the knowledge and understanding on the part of the Turkmen counterparts of World Bank operations and procedures as well as exchange information and learn about developments in various sectors of the economy of Turkmenistan.” (World Bank 2007)

In addition, a new constitution was adopted in September 2008 that established a new, larger parliament and abolished the People’s Council as well as establish the foundations of a market economy. “The new constitution corresponds to all international and democratic norms,” stated President Berdymukhamedov. (BBC News 2008) The new president introduced reforms to signal his intention of developing strong ties with the West, to attract more foreign investment and opening the state to more tourists. “It is now easier to travel, the internet is no longer banned, schools teach foreign languages, and the government is talking about opening up the country’s enormous natural gas reserves to foreign investors.” (Antelava 2007) Although beyond the scope of this study, new EBRD projects were signed after 2008 to help build a private business sector. However, even under Berdymukhamedov, Turkmenistan has not completely adopted market economic reforms or democratic processes although the new constitution includes Article 10 that specifically says “the state encourages entrepreneurship and supports the development of small and mid-size businesses.” (Durdiyeva 2008)

**Conclusion**

Turkmenistan resisted international influences in its transition from the Soviet communist system. While international factors have influenced the state of Turkmenistan since its establishment as a titular republic within the Soviet Union, the sultanistic state of Saparmurat Niyazov isolated itself from the international community. Both politically and economically, Turkmenistan remained a relatively poor state. Although Turkmenistan amassed a stable foreign reserve, the government spent recklessly on worthless projects that were intended more for the glorification of the leader than the well-being of the citizens. Niyazov controlled the capacity of
his government to rely on international assistance in his effort to build a post-communist state. Instead of building connections to the international financial institutions, Niyazov proclaimed the policy of absolute positive neutrality that effectively barred strong ties to the West. Niyazov relied on his natural gas wealth to resist the influence of the international financial institutions. He was able to dodge absolute Russian influence in the early years of his regime since Russia’s economic problems kept it from interfering in Turkmenistan policy. Yet when Putin became president and the Russian economy recovered, Niyazov engaged more frequently with Russia particularly in the energy sector.

The ability of the IMF, the World Bank and the EBRD to assist in economic reforms was limited by the inability of the Western states to use either linkages or leverage to encourage democracy or a market economy. Only in states that are connected to the West whether through international organizations, trade or regional ties, can the West effectively pursue democracy promotion. With a state like Niyazov’s Turkmenistan, Western influence is limited and thus lending from the international financial institutions remains low. Sultanistic regimes like Niyazov’s create policy environments that are more conducive to international isolation rather than international engagement. As such, Turkmenistan’s ability to develop into a prosperous state either economically or democratically remains meager. Regardless of the attempt by Niyazov to limit international influences, his state was still within the Russian sphere of influence and his inability to develop his own pipelines until recently through other states never allowed him to leave the Russian sphere. Turkmenistan is likely to remain under Russian influence.

A sultanistic regime, like the one Niyazov created, is more likely to resist the positive influences of international factors on their regime. Niyazov was able to define the terms of cooperation with the IMF, World Bank and the EBRD which was a reversal of the normal focus of international financial organizations’ relations with developing states. With the death of Niyazov in 2006, the possibility existed for a more open regime and the development of a market economy that could lead Turkmenistan to develop better relations with the IMF, the World Bank and the EBRD in the near future.
CHAPTER 7
RUSSIA – INTERNATIONAL INFLUENCE OR INFLUENCED BY THE INTERNATIONAL COMMUNITY

This chapter analyzes how international factors influenced the relationship of Russia with the three international financial institutions. I first introduce how international influences affected Russia generally in the wake of its emergence as an independent state. I then explore the relationship between quantitative variables that I have utilized in my cross-case analysis and the dynamics of Russian political and economic change between 1992 and 2007 to assess whether or how they matter to the interaction of the international organizations with the domestic political environment. The rest of the chapter is dedicated to an analysis of the peculiarities of multilateral lending patterns during the Yeltsin (1991-1999) and Putin (1999-2008) administrations; lending patterns of the IMF, the World Bank and the EBRD diverge from each other and vary radically over time. I argue that these lending patterns are driven by the domestic factors pertaining to the stability or instability of the cabinets of each administration. During Boris Yeltsin’s administration, political instability made lending erratic as reformers and anti-reformers traded ministerial positions. However, once Vladimir Putin became president, government instability decreased along with the erratic pattern of lending.

The International Context

The Soviet Union’s influence on the international community was quite extensive as it was an anchor for a bipolar system. While it was not a promoter of democracy as is the United States or Western Europe, its reach into Africa, Asia and Latin America during its communist regime was widespread and it did promote regime change within these regions based on the communist ideology. As an international force, Gorbachev’s Soviet Union jettisoning of the Brezhnev Doctrine is widely agreed to have ignited the collapse of the Eastern European communist regimes. Russia, in turn, exerted influence on emerging neighbors during the decline of the Soviet Union when the Russian republic, under Boris Yeltsin, helped dismantle the Soviet Union. As the lead republic within the USSR, Russia’s influence was substantial, “as goes Russia, so goes the region.” (McFaul 2001: 91) The capacity – and limits – of the independent Russian state to exercise influence during the post-communist period, particularly in respect to
the “near abroad” as Russia refers to the former Soviet republics, has been a controversial topic not only within Russia itself but among the international community more broadly.

But how much influence does the international community exert on Russia now that it is no longer communist or a part of the Soviet Union? As Russia embarked on its post-communist path, its own ability to influence declined as the influence of the West increased. However, the unstable political environment during Yeltsin’s administration proved difficult for international influences to push for a stable democracy and a market economy within Russia itself. The situation in Russia stabilized as Vladimir Putin assumed the presidency. And under his extremely steady hand, Russia is no longer passively awaiting the course of international events.

The ability of the Western industrialized states to exercise positive influence on Russia was limited by the ideological legacies of the Cold War. While the West was “victorious” in the Cold War, it was not a ground victory for US forces that could then reshape Russian policies as had occurred in Germany and Japan following their defeats in World War II. Because the United States was not able to exert its influence on Russia in shaping the market economy as it had on the defeated World War II states, Marshall Goldman (1996) argued that the important institutions necessary for massive amounts of foreign investment from the West to Russia were impeded in the early post-communist years. In addition, European Union membership was not available to Russia as a constraint on reform policies that had to be enacted. Since the Soviet collapse surprised the West, contingency plans were not developed and some Bush administration officials were not certain the communist system was completely destroyed thus producing a “wait-to-see-what-happens” policy stance.

Thus, as the transition to a market economy from the communist command economy occurred without a blueprint, many different approaches to reform were viable for the Russian officials in charge of the transition. In many ways, this produced a chaotic and unstable environment for engaging in an experiment with such critical payoffs. While different groups debated and produced different pathways to a post-communist economy and polity, reform within Russia became haphazard as Boris Yeltsin and his administration groped for the most positive outcomes. Different groups of politicians and administrators backed by Western “experts” jockeyed for position within Yeltsin’s administration. As Yeltsin was unsure of the exact direction reforms should take, he went through seven prime ministers and nine finance ministers who were responsible for economic reform. In this environment of stop and go
economic policy, economic aid from the Western multilateral organizations was unlikely to influence the outcome of reforms. It was not until Putin became prime minister and then president that the political environment stabilized, allowing for a coherent platform to create a better-managed market economy.

However, international factors do have an influence on the continued path of economic reform in Russia. From the problems associated with IMF lending to the strong will of President Putin, Russia cannot escape the influence of international factors whether or not its actions are in step with the international community. Therefore, in this chapter, I will analyze how the relationship between the international organizations and Russia interacted with economic reform to produce a somewhat incoherent pattern of lending. First, I will briefly describe how the quantitative variables I analyzed in Chapter 3 worked in Russia. Then I will focus on the influence of the IMF, the World Bank and EBRD on the Yeltsin and Putin administrations.

Quantitative Variables

I earlier analyzed seven variables that may play a role in the amount of international financial institution aid that is provided. However, when looking at each individual variable, some played primary roles like Western connections and past relations with the Bretton Woods institutions while others were secondary like ethnic conflict or economic need. These seven variables are economic need, level of democracy, political stability, ethnic conflict, Western connections, past relations with the Bretton Woods institutions, and EU or CIS membership. I briefly discuss each variable as related to the Russian experience before explaining how the variables relate to the level of international influence on Russia’s economic reforms.

Economic Need

As with the other post-communist states, Russia was in economic need as the post-communist era began. With its entrenched command economy in ruins after Gorbachev’s experiments, and no functional substitute in place, even a rudimentary supply and demand system was non-existent. Thus, to overcome the economic problems that plagued the former Soviet Union, large amounts of money and major structural reforms were needed. Economic indicators showed the devastation of the communist system. Estimates of GNP and the change in GDP during the 1990s showed the implosion of the Russian economic system.
In addition, as the largest republic, Russia took on most of the debt. In many ways, this was the bargain for retaining the Soviet seat in the United Nations as well as keeping the military systems from the other republics. “The vast nuclear complex that Russia inherited from the Soviet Union, along with the lion’s share of Soviet debts and assets abroad…” (Kortunov 1995: 145) made it difficult for Russian reformers to devise reform policies that would immediately improve the economic situation.

Russia’s economic needs included but were not limited to improved infrastructure; better communication systems; improved road and ports; updated oil and gas facilities; and an infusion of capital into its banking system to normalize economic transactions.

Level of Democracy

Politically, Russia has been described as an electoral democracy, one “in which elections are held with certain procedures but uncertain outcomes determines who governs.” (McFaul 2001: 92) Measuring the level of democracy, based on the Freedom House scores, the average democracy rating for Russia during the period of this study is 3.9 on a scale of 7 where 1 is most free and 7 is not free. However, the scores become less democratic as Russia moves from the Yeltsin administration to Putin’s administration, even though through the entire time period of this study Russia stayed in the partly free category. (Freedom House 2011) Polity IV, on the other hand, provides a more positive trend for democratic practices as it scores Russia more positively on the democratic scale from Yeltsin to Putin’s administrations, going from a 3 (low level of democratic practices) to a 6 and providing an overall average of a 5 from 1992 to 2007.56

The December 1993 constitutional referendum approved a super-presidential system that helped to stabilize policy decisions, particularly economic policy decision-making, from the executive branch with or without legislative backing. The impetus for the referendum was the problem of a communist-controlled legislature that obstructed Yeltsin’s reforms. Thus after engaging in a violent confrontation with the legislature in October 1993, Yeltsin went directly to the people for approval of the constitution that he had drafted without consultation and tailored to his needs. However, the new parliament – the Duma – was not any easier to work with as it was not as committed to the economic reforms as Yeltsin and his reformers.

While Freedom House rates most of Yeltsin’s administration in the 3 to 3.5 category, these scores are not indicators that democratic reforms were a priority for Yeltsin nor have they been for Putin. Russia has been described after Yeltsin’s resignation in the following terms:

“… Russia has elements of a democracy, but it did not have a democratic system. Among the essentials missing were a constitution providing for a meaningful separation and balance of power; real national political parties other than Communists; reliable rule of constitutional, civil or criminal law; any serious effort by ruling elites to curb systematic high-level corruption and other abuses of office, much less prosecute them; and guarantees of elementary human rights…” (Cohen 2001: 195-196)

Yeltsin’s administration was more concerned with economic reforms than political ones. Putin in turn accented the need for “managed democracy” or even “sovereign democracy” although more recently he distanced himself from this concept. However, what Putin wanted most was a political and economic system that incorporated Russian traditions and restored Russian power. He argued that Russian values and morals must trump other inherently anti-Russian values that could be seen as imposed by the Western democracy promoters. He has railed against Western leaders who have impugned Russia’s political and economic systems that do not entirely follow the Western model. As an example, in an attempt to better reform the economy, Putin decreased media freedoms as well as the ability of citizens to protest government actions. “De-democratization in Russia has so far been principally a matter of encroachments on competition. Informal infringements on the pursuit of political points of view are more troubling. The most damaging have, of course, applied to the mass media, national television above all, and to the funding of opposition parties and nongovernmental organizations by members of Russia’s emerging business elite” (Colton 2007: 38) Although Yeltsin’s administration could hardly be called an exemplary democracy, democratic erosion has occurred since the Soviet collapse. As M. Steven Fish said, “The early post-Soviet period was a time of relative political openness. Rather than building on the gains of the late Gorbachev and early Yeltsin periods, however, Russia slid backwards. Russia has authored a tale of closure of a nascent open polity, rather than a story of democratization.” (Fish 2005: 246-247)

Government Stability

Government stability as defined by the turnover at the executive level is very stable in the Russian system at the presidential level as Russia has had only two presidents during the study
time period. Elections were held in both 1996 when Yeltsin was re-elected and in 2000 when Putin was elected after becoming acting president following Yeltsin’s resignation in 1999. Putin, of course, would subsequently serve the two full consecutive presidential terms permitted under the constitution before shifting to the prime ministership.

**Table 7.1: Yeltsin’s Changing Ministers**

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Minister</th>
<th>Ministerial Position</th>
<th>Reformer or Industrialist</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Yegor Gaidar</td>
<td>Prime Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>1992</td>
<td>Victor Chernomyrdin</td>
<td>Prime Minister</td>
<td>Industrialist</td>
</tr>
<tr>
<td>1993</td>
<td>Boris Fyodorov</td>
<td>Finance</td>
<td>Reformer</td>
</tr>
<tr>
<td>Sept. 1993</td>
<td>Gaidar</td>
<td>First Deputy Prime Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>Oct. 1994</td>
<td>Anatoly Chubais</td>
<td>1st Deputy Prime Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>1996</td>
<td>Vladimir Kadannikov</td>
<td>1st Deputy Prime Minister</td>
<td>Industrialist</td>
</tr>
<tr>
<td>1996 (post-election)</td>
<td>Boris Berezovsky</td>
<td>Security Council</td>
<td>Reformer</td>
</tr>
<tr>
<td></td>
<td>Vladimir Potanin</td>
<td>Deputy Prime Minister</td>
<td>Industrialist</td>
</tr>
<tr>
<td></td>
<td>Chubais</td>
<td>Chief of Staff</td>
<td>Reformer – but architect of Loans for Shares</td>
</tr>
<tr>
<td></td>
<td>Alexander Livshits</td>
<td>Finance Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>1997</td>
<td>Boris Nemtsov</td>
<td>1st Deputy Prime Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>1998</td>
<td>Sergei Kiriienko</td>
<td>Prime Minister</td>
<td>Reformer</td>
</tr>
<tr>
<td>Aug. 1998</td>
<td>Chernomyrdin</td>
<td>Prime Minister</td>
<td>Industrialist</td>
</tr>
<tr>
<td></td>
<td>Yegeny Primakov</td>
<td>Prime Minister</td>
<td>Reformer</td>
</tr>
</tbody>
</table>

However, the cabinets during Yeltsin’s administration were not stable as he had seven cabinets during his eight years as president. In many ways, this cabinet instability decreased the effectiveness of reforms. Depending on conditions in Russia, either reformists or non-reformists alternated in ministerial positions particularly at the prime minister, deputy prime minister and finance minister positions. The difference in the ministers led to differing levels of reforms. When reformers were in office, reforms were pushed through the Duma as much as possible. But in many instances reformers had to fight not just the Duma, but other government officials that were not as reform-minded. This was particularly an obstacle when anti-reformists held other offices that were able to block the reformists. For example, while Victor Chernomyrdin was Prime Minister from 1992 to 1998, different reformists held the Minister of Finance or the First Deputy Prime Minister positions as Table 7.1 demonstrates. However, Chernomyrdin was aligned with the industrialists, therefore, reform ministers like Boris Fyodorov and Yegor Gaidar, who came into the government in 1993, found their reform policies undermined and resigned their positions in 1994. They were followed by anti-reformist ministers, Sergei Dubinin,

Government instability in Russia was coupled with changes in policy. However, in Poland, and even in Turkmenistan, cabinet instability occurred in conjunction with policy continuity from one government to another. Thus, government instability is significant only, as in Russia, when the change of actors changes policy.

Ethnic Conflict

Since Russia is a large state with 100 recognized nationalities in 89 regional units, it is not surprising that ethnic conflict arose. For the most part military conflict has been isolated to the Caucasus region with Chechnya the area in which military conflict has been the strongest. “The Russians…feared that Chechen separatism might spread to the Caucasus and other minority regions, including Tatarstan, Bashkortostan, and Dagestan…” (Kenez 2006: 296) The first Chechen war broke out in late 1994. It was an unpopular war with the majority of Russian citizens opposed to the conflict. It drained resources from the economic reforms and it was stigmatized in the international community. A poll conducted the first two weeks of January 1995 by the International Sociological Research Center on Public Opinion, found that “78.9 percent said they wanted fighting in Chechnya to end and the troops to withdraw. Another 15 percent favored a cease-fire so that negotiations could begin.” (Englund 1995)

The second Chechen war occurred in 1999 after Putin became prime minister. This war was more popular and Putin would eventually tie the issue of Chechnya into the war on terrorism after the terrorist attacks in the United States on September 11, 2001. In many ways the second war was related to Putin’s efforts to control the republics so that economic and political reform could proceed from Moscow without interference from the regions. “[Chechnya’s] challenge to Russia’s territorial integrity and to Moscow’s primacy undoubtedly provided an even more urgent motive for Putin’s unyielding policy in Chechnya than does the threat of terrorism and Islamic fundamentalism.” (Fish 2001: 73)

57 This is according to the last Soviet census conducted in 1989. “However, the Russian Federation…still is home to more than 100 national minorities, whose members coexist uneasily with the numerically and politically predominant Russians.” (Curtis and Leighton 1998: 172)
**Western Connections**

In some ways, cultural and historical variables may play a role in the inability of international factors to influence the Russian political system. States that are culturally and historically connected to the West are more likely to embrace democracy and market economics; those that do not have such a connection are less likely to be as democratic or market oriented.

“In the former USSR, as elsewhere, democracy has fared better in countries that are culturally ‘Western’ than it has in countries that are not.” (Nodia 2001: 29) Levitsky and Way (2005) argued that linkages to the West are important aspects for states to consolidate democracy while Kopstein and Reilly (1999) argued that economic reform is more prevalent in states geographically closer to the West. However, Fish (2005) argued that de-democratization in Russia is not based on culture or history even though some scholars and Russian officials have used the historical/cultural excuse for it. In Russia’s case, history and culture play an interesting role. Russia has, on the one hand, historically embraced economic and technological modernization as defined by Western standards as far back as Peter the Great who wished to modernize (i.e. Westernize) his empire to remain internationally competitive and build the Russian navy. Yet on the other hand, Russians have felt the need to embrace their “Russianness” and their difference from the West – importing technology but not ideology. In addition, many Russian officials, including Putin, believe that Russia deserves the respect of Europe and the United States for the important contributions Russia has made scientifically, culturally and militarily. Thus, Russia does not want to be on the receiving end of demands from the United States, Western Europe or their affiliated international organizations.

Russia’s connections with the United States based on trade data show no consistent trend. Rather than a continuous increase in imports to the United States, the data show an increase and a decrease throughout the time period. However, Russia exported a great volume Russia to the European Union. While the majority of the years show increasing levels of exports, around the crisis years of 1998-1999, exports decreased. However the U.S. import data shows a slight increase during the 1998 crisis period. Overall, the largest increase in exports occurred in the mid-2000s. Overall exports to the western industrialized states are shown in Figure 7.1.
For Russia, oil and gas was the primary export to the western industrialized states. While the price of oil declined prior to the August 1998 financial collapse, the price rebounded in 1999 which drove the increase in exports to the western industrialized states particularly to the European Union states. This increase also helped Russia to balance its budget and restore its financial health. With the increased trade connections with the United States and Western Europe, it is expected to see increased lending from the international financial institutions.

_Past Relations with the Bretton Woods Institutions_  
Russia applied to join the IMF and the World Bank in 1991; official membership in the IMF did not occur until April 27, 1992. Originally, as the Bretton Woods institutions were being established, the Soviet Union participated in the conference and was asked to be a founding member. Some Soviet officials thought that at least having an observer status to the institutions would give the Soviet Union the opportunity for freer trade and better negotiating positions if loans were needed. However, since the Bretton Woods institutions were committed to open economies and free trade, the Soviet leadership was not interested in accepting an institutional logic incompatible with communist economic ideology and practice. Many officials, including Stalin, feared that Soviet links to the multilateral institutions might signal weakness to the West and could create dependence on Western financing. Molotov later remarked on that [the United States] was “trying to draw us into their company, but in a subordinate role. We would have gotten into the position of dependence, and still would not have obtained anything from them.” (Zubok 2007: 52) Thus the Soviet Union and its Eastern European satellites would not be
members of these institutions. Rather than risk being seen as weak, Stalin barred the Soviet Union even from observer status in the new institutions. In addition, the Soviet Union frowned upon Polish and Czechoslovakian membership of the IMF and the World Bank. Eventually, by the early 1950s, not one state within the Soviet sphere of influence had an active membership in the IMF or the World Bank; this situation only changed in the 1980s.

Even after Gorbachev launched his reform efforts, the USSR did not immediately join. Facing mounting debt, Gorbachev did discuss joining the IMF. However, the United States and its allies argued that the country did not meet the conditions for membership. (Gould-Davis and Woods 1999: 4) The Soviet Union initially received “associate membership” which meant only technical assistance would be offered. Given Soviet isolation from the more open global economic system, engaging in cooperation was a major shift for both the Soviet government and the IMF and World Bank. Only after the dissolution of the Soviet Union did any of the successor states join. The first IMF and World Bank loans for Russia were not signed until August 1992. Thus the first phase of economic reforms – what many alluded to as shock therapy – occurred prior to “significant foreign financial assistance. At most the IMF and the World Bank contributed technical assistance and a seal of approval to the ideologically sympathetic reformers in the government.” (Woods 2006: 111)

**EU/CIS Membership**

Rather than seeking membership in the European Union, Russia developed the Commonwealth for Independent States (CIS) to counteract the loss of the Soviet empire. As the Soviet Union collapsed and the Eastern European states set out on a path toward integrating with Western Europe, a new arena of international relations was opened to Russia and the former Soviet republics. Having been at odds with the states of the North Atlantic Treaty Organization and the members of the European Union, Russia envisioned a new organization that would keep the its former republics within its sphere of influence, the Commonwealth of Independent States. The CIS was not necessarily a counterweight to the European Union. Its conditions for membership were not based on the regime type or economic system. Rather, “the CIS was created for multiple and not very explicit purposes.” (Aslund 1995: 103) It has been argued that the CIS had the dual purposes of consoling the Russian imperialists for the loss of the Soviet Union but also for being “a useful mechanism to abolish it peacefully.” In addition, “it was a
useful international organization for the resolution of common problems among” the former Soviet Republics.

It was through the CIS, for example, that the initial ruble zone was established in an attempt to help states maintain trade and keep Russia tied to the former Soviet republics (FSRs). The IMF as well as the European Union [Commission] supported the continued use of the ruble within the FSRs which helped to preserve the currency. But many of the FSRs, like Turkmenistan, broke away from the ruble zone despite IMF opposition to the creation of new currencies.

Indeed, the CIS was never a very strong organization nor was it a “counter-European institution that some in Moscow had anticipated.” (Sawka 2008: 294) Unlike the EU, the CIS lacked a clear definition of mission or binding institutions, and thus it was not a very effective international organization at resolving problems or being able to enforce its policies within the member states. Another important aspect of the CIS was that it was not designed to help the member states consolidate market economies or democratic polities thus leading to an organization without much to offer its members.

Russia initially did not entertain the notion that it could become a member of the European Union, in light of its size and the debate over whether the Central and Eastern European states would be eligible. However, Russia signed cooperation agreements with the European Union and became a leading trading partner with the EU. Yet Russia bemoaned attempts at European integration of its former communist colleagues and resisted as much as possible NATO expansion into the former Warsaw Pact nations. Russia felt that NATO expansion challenged Russia’s security interests as well as objecting to NATO as the central security organization of Europe of which it was not a member. (Baranovsky 2001)

Summary of Variables

To summarize the results of the quantitative section, both Western connections and economic need led to higher levels of overall aid and are statistically significant while the other variables led to positive amounts of aid although the results were not statistically significant. Therefore in relation with the larger aspects of the overall study, Russia’s Western connections would indicate that Russia would receive a higher level of lending than other post-communist states and this is found in the study. However, because Russia did not have past membership in
the IMF and World Bank, this would indicate lower levels of funding. Yet, Russia (as the Soviet Union) was involved in the Bretton Woods conference thus theoretically this could predict the higher levels of funding. Throughout the Yeltsin administration EBRD lending continued to increase whereas IMF lending was more erratic.

The political variables such as level of democracy and government stability did not have as much an effect on lending in Russia as would be expected since Russia experienced cabinet instability. Ethnic conflict, on the other hand, was a significant predictor of additional aid and Russia experienced ethnic conflict in Chechnya. As far as the level of democracy is concerned, Russia’s decreasing democracy levels do not seem to be an issue with the IMF, the World Bank or even the EBRD. This is particularly true for the EBRD later in the years studied as the democracy rankings decrease and the EBRD is committed to states following democratic processes. Economic need is certainly an issue throughout the time period as economic growth is negative.

The close analysis of the case material that follows suggests that the variable that seems to have the most influence on lending is government stability. Although government stability was not an issue at the presidential level, the following case study analysis provides more in-depth discussion of the problem that ministerial instability caused in the relationship between the IMF, the World Bank and Russia. Even though government stability is not statistically significant in the regression models, the erratic flow of aid from the IMF and the World Bank seems to mirror the differences in policy orientation of the various ministers within the cabinet although EBRD lending is less affected. The ministerial level of the executive shows a pattern of instability that I will show hampered attempts at economic reform and thus the usefulness of lending until Putin became president when ministerial stability occurred. Let me now turn to the analysis of the Yeltsin and Putin administrations’ relations with the international financial lending institutions.

**Initial Reform Attempts and Failures**

The goal of this section is to analyze the interaction between international financial lending and patterns of Russian economic reform and performance during Yeltsin’s administration. The economic situation was one of episodic reform through 1998 until the financial collapse in August of that year. This was a result of ministerial turnover in which
reformers and non-reformers either alternated or co-existed within Yeltsin’s cabinets. The ministerial instability created a stop and go policy climate that led to an erratic pattern of IMF lending that would eventually decline in the Putin era as well as lead to an emphasis on EBRD lending. For the most part, Russia relied on IMF lending to overcome shortfalls in its budget. But lending from the IMF was not consistent during the 1990s as failure to meet lending conditions led to periodic suspension of funds. However, EBRD lending steadily increased throughout the 1990s until it was the largest source of lending to Russia by 2000. As I will explain in this section, the turning point for international lending is the 1998 collapse. In August 1998, Prime Minister Sergei Kiriyenko announced Russia’s default on its debt, the ruble was devalued, most banks became insolvent and citizens “emptied store shelves.” (Kotz and Weir 2007: 236) After the collapse, constructive reform was initiated and IMF funding became secondary to EBRD lending. To explain this peculiar shift in patterns of international support, let me begin with the issues of lending to Russia.

The most problematic matter for the international community as an influential factor for Russia was the ambivalent influence Western experts had on the initial reform policy adopted by Yeltsin’s administration. The initial reform was advertised as shock therapy but lacked many of the “shock” aspects. Anders Aslund argued that policy making was uncoordinated and monetary policy was only moderately strict; hence “macroeconomic stabilization [that was] extremely gradual.” (Aslund 1995: 275) But it was backed by Western experts who expected to see a market economy born out of a command structure lacking the requisite capitalist infrastructure. The sour economic conditions that followed dampened the enthusiasm for economic reform among some politicians, administrators and many Russians.

The most important international organizations that Russia developed relations with were the IMF and the World Bank and subsequently the EBRD. However, the different nature of these institutions forged different relationships between Russia and their governing bodies. While the relationships seemed to start off on the right foot, as the economic transition progressed, the relationship with the IMF and World Bank deteriorated. Yeltsin was ready to begin the relationship soon after the collapse of the Soviet Union. He said in 1991, “We are prepared…to immediately disclose the strategic data necessary for admission into international organizations….We will make an official appeal to the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development, inviting them to work out a
detailed plan for cooperation and participation in the economic reforms.” (Woods 2006: 109)
The attitude change toward the international financial institutions exhibited by Yeltsin was a monumental shift in thinking as previous leaders were not willing to be as transparent with their economic data; hence the lack of a previous relationship with the IMF and World Bank.

Yet the IMF and World Bank were too reliant on sympathetic Russian policy makers to be valuable in the early years of reform, particularly since constant changes in Yeltsin’s cabinets undermined stable working relationships. But another critical problem was the institutions’ reliance on the “Washington Consensus” that emphasized liberalization, budget austerity and privatization. With communist commitments to social services, eliminating excessive pensions, reducing military spending and quickly selling state-owned enterprises were problematic for Russian politicians. However, what the EBRD stressed was less formal. Its emphasis on the transition impact of its projects meant that less conditionality was tied into the lending and it was able to more effectively build the infrastructure needed for a market economy. The EBRD, for example, established the Russian Small Business Fund that allowed Russian banks to finance small businesses. (EBRD 2004: 77)

As noted above, the presidential system created a platform of political stability at the top levels of power. Yet while stability was found at the presidential level, the ministerial level, where everyday policy occurred, saw much more turnover. Early on as President Yeltsin acquired more power, relations between Russia and the IMF improved because Yeltsin was able to veto legislation that contravened IMF conditions for controlling the budget. Such was the case in 1995 when Yeltsin vetoed a higher minimum wage bill and an energy exports tax exemption bill. (Gould-Davies and Woods 1999: 12) Thus, by-passing the legislative branch, Yeltsin could control how much, and in what areas of the economy, reform would occur. However, the relationship between Yeltsin and the Duma throughout Yeltsin’s administration remained rocky and did not help to establish a healthy economic environment.

At the beginning, economic reform focused mostly on macroeconomic stabilization rather than structural adjustment, which meant that the market economy was unable to sustain growth as the requisite institutions for market stability were missing. As John-Odling Smee, IMF Director of Europe II Department, said, “From 1992 on, we worked with key policymakers and technicians in the Central Bank, Ministry of Finance and elsewhere on the importance of macroeconomic stability.” (IMF Survey 2003: 67) In this environment, Russia was significantly
dependent on IMF lending as it could not generate enough revenue to balance its budget to continue to support its social welfare system or reform its outdated infrastructure. As Michel Camdessus, Director of the IMF, stated, “Depending on the content of the program adopted by the authorities, IMF funds may go to finance part of the government budget or to strengthen the country’s international reserves.” (Camdessus 1999)

However, Russia’s relationship with the IMF in the post-communist period reflected its long held suspicion of Western institutions and fear of dependence on them. At the same time, post-communist Russia did not have a choice in whether it could trust the IMF. It needed funding after the economic meltdown of the late Gorbachev era. The IMF was the one of the few channels that could provide the lending needed in Russia as the Western governments were unwilling to lend on a bilateral basis. For example, West Germany was the major, previous lender to the Soviet Union but its attention and resources were diverted to the costs of reunification with East Germany. Yegor Gaidar stated, “Although there was mutual understanding [by the Western countries] of the need to help Russian reforms, real mechanisms to carry it out were not elaborated. Instead there appeared the simplest, deliberately inadequate solution of shifting the burden of responsibility to the IMF.” (Woods 2006: 112) Thus, previous suspicions of the institution had to be put on hold – part of a larger humiliation for a superpower to seek outside aid.

Many scholars and former Yeltsin administration officials have been critical of IMF lending in Russia throughout the 1990s. Stephen Cohen (2001) and Aslund (1995) argued that IMF timing for stabilization programs in July 1992 were completely off because reform policy had moved away from stabilization when these loans were approved and the loans were primarily for stabilization purposes. “… [T]he first reform offensive in Russia lasted from November 1991 to May 1992. It was followed by a period of government passivity from June to December 1992, distinguished by excessive monetary expansion.” (Aslund 1995: 57) Likewise, Cohen criticized the US administrations of the 1990s for doing too little (Bush) and for being too blind to realities on the ground in Russia (Clinton). While IMF assistance seemed necessary to help in the economic reforms, Yeltsin, and even more so Vladimir Putin, did not consider the institution trustworthy. As Richard Sakwa noted “the IMF’s strategy of artificially maintaining the value of the ruble up to 1998 through loans had not only been mistaken but had saddled Russia with unnecessary debt.” (Sakwa 2008: 241)
As I have suggested, part of the problem with the IMF was the bad timing of its lending policy. When it finally began to lend substantially in July 1992 the environment for reform had declined. “President Yeltsin appeared to have been seriously involved in [economic reforms] for two or three months at the end of 1991. But by March and April 1992, he was letting [Prime Minister Yegor] Gaidar down, joining forces with the industrial lobby against his own government.” (Aslund 1995: 295) Gaidar wanted IMF funding to help with his budget proposals, but Speaker of the Parliament Ruslan Khasbulatov was more interested in policy changes than IMF funding. (Woods 2006: 112) Khasbulatov wanted gradual reforms rather than the “shock therapy” that the reformists prescribed. While the IMF finally suspended lending in 1993 in the wake of unmet financial conditions, the political environment for reforms in Russia actually improved again after Yeltsin’s confrontation with the parliament. After the political changes in 1993, Yeltsin proved more readily reform-minded and the relationship between the IMF and his administration grew. But another problem that arose was that “neither Yeltsin nor his government nor Western donors, pushed for a modernization of government institutions that would have increased the likelihood of a sustained set of economic reforms.” (Woods 2006: 111) The influence of the IMF seemed to diminish until 1995 as the figures on lending saw little to decreased levels of lending for 1994. However, following the loans for shares deal, the economic system became dominated by a handful of oligarchs to the point that IMF head Camdessus would term Russia’s economy ‘crony capitalism.’ The oligarchs proved important allies to Yeltsin and helped finance his 1996 re-election. In return they expected less regulation and refused to pay taxes rendering the government unable to continue to keep its promises to the IMF.

Political concerns appear to have driven part of the Western response, as Yeltsin’s main rival in his presidential election campaign was the leader of the Russian Communist Party. The IMF allowed Yeltsin to relax the conditions of continued lending during his re-election campaign in 1996 and it resulted in two reform-minded deputy prime ministers being appointed – Anatoly Chubais and Boris Nemtsov. “[The Clinton Administration] arranged a booster-summit meeting in Moscow and a $10 billion IMF loan shortly before the election, justified the ongoing Chechen war … and sent U.S. campaign experts to serve as his advisors.” (Cohen 2001: 149-150) The impetus for the Clinton Administration to pressure the IMF for additional funding was that Yeltsin’s popularity had eroded as the 1996 presidential election neared. It was feared by reform
Russians and by U. S. officials that the Communist leader Gennady Zyuganov would win the presidency. Unlike the former Communists in Poland who were committed to market-economic reforms, Zyuganov was more like Turkmenistan’s Niyazov, as he was not at all committed to Yeltsin’s reform path. Thus, there was real concern that Russia would slide back into the command-economy and authoritarianism if Yeltsin lost. As Strobe Talbott said, “But you sort of grade on the curve where Russian democracy is concerned….the IMF and the U. S. Treasury made allowances when it came to conditionality, and we had to make some when it came to Yeltsin’s standoff with Parliament in 1993 and so on and so forth.” (Desai 2006: 177)

Although the communists seemed to be the biggest threat to reforms, the main opposition to the reforms for an open market system came from what Fish termed the gradualists. While the communists wanted to restore the Soviet system and were considered a severe threat in the 1996 presidential elections, the gradualists successfully dragged down the reform efforts. For example, Khasbulatov was a forceful proponent of the insider privatization program that Chubais implemented although Chubais was initially against such a process. Likewise, Viktor Gerashchenko, the head of the Russian Central Bank, delayed reforms by continuing to expand the monetary supply and provide credits for bankrupt businesses.

An examination of the level of lending and the influence the Western multilateral lending institutions had on Russia shows a clear shift away from the Bretton Wood institutions and toward the EBRD with its European governance starting in the late 1990s. Once Putin came into office, the IMF and World Bank provided less financing than the EBRD. Historically, the Soviet Union and Russia were inclined to believe that the United States had more power within the IMF and the World Bank. Looking at the different levels of lending, the IMF lending is very jagged, as demonstrated in Figure 7.2, sometimes out of step with the shifting political situation in Russia. In the 1992 to 1994 period, IMF lending initially increased during a time when the reform environment was unfriendly so it was not as effective. But once the referendum reforms appeared, lending jumped in 1995, decreased a bit as Yeltsin ran for re-election before regaining its surge, then plummeted as the 1998 financial crisis occurred and the IMF suspended lending. In many ways, the stop and go policy of IMF lending and its incoherence with the political environment of Russia matched the stop and go reform policies of Yeltsin’s administration. Rather than work together to provide the most effective use of aid at the most opportune time
within the policy making process, IMF lending was more counterproductive in that it gave Yeltsin an ability to avoid making tough policy decisions.

Figure 7.2: IMF Lending to Russia

However throughout the 1990s, the IMF was not blind to the problem. Many IMF officials doubted the Yeltsin administration would be able to abide by its promises of economic reform and many felt that the administration lacked the capacity to remain committed to reforms. “Reform laws either have been ignored or misinterpreted by low-level bureaucrats. With political pressure from the military, energy and agricultural lobbies to increase spending, the government often must reverse decisions.” (Wall Street Journal 1995: A10) One issue sensitive for Russian officials in 1995 was the conditions attached to IMF lending. Above all, they did not appreciate that the IMF disbursed money to Russia after monthly reviews rather than the standard quarterly assessments. However, Odling-Smee supported the logic of frequent assessments as he stated that “One thing I don’t take seriously is the idea that [IMF] impact occurs wholly through the composition of conditionality in IMF programs. To begin with, the policies included in IMF-supported programs don’t work well unless the government really wants to implement them. And, in Russia, the problems were often a lack of implementation…” (IMF Survey 2003: 66-67) But former finance minister Boris Fyodorov was pessimistic about what the IMF was really doing in Russia as he said in an interview, “The IMF was pretending it was seeing a lot of reforms [while] Russia was pretending to conduct reforms.” (Cohen 2001: 67) The IMF’s Odling-Smee stated “If the economic programs the IMF…supported…had been fully implemented, the Russian economy would look very different…” (Odling-Smee 1999: 274)
Thus how seriously was the IMF able to hold Russia to its conditionality provisions? “In Russia a mixture of Western goals and US priorities eroded the leverage of the [IMF] and the [World Bank]. In the face of these external pressures neither institution could fully utilize its normal bargaining power…” (Woods 2006: 107) As was seen earlier, the IMF did relax its conditionality in 1996 as Yeltsin ran for re-election and used budget gimmicks to buy off votes. As Russia is an important state that many in the West were scared of “losing”, Randall Stone’s (2002) credibly argued that Russia was able to abuse conditionality provisions without facing a real threat of lending suspensions. But Michel Camdessus defended the IMF’s record in 1999, “The IMF, through the routine process of monitoring its lending programs, is scrutinizing the Russian authorities’ policy implementation. If the IMF’s Executive Board concludes that Russia failed to meet program commitments, it will consider suspending further disbursements….” (Camdessus 1999)

However in the case studies in Stone’s book on lending credibility, he argued that IMF credibility failed to keep Russia in line in its programs because the United States interfered in the suspension and length of punishment the IMF tried to impose on Russia. Russian officials knew they could count on US intervention with the IMF and therefore routinely failed to meet IMF financial conditions such as improving revenue collection. However, since Poland and Bulgaria were not as important to the United States, US officials did not interfere with IMF suspensions and punishments. Consequently, Polish and Bulgarian officials worked hard to meet all financial conditions because otherwise the IMF would suspend aid and retain punishments until economic conditions were straightened out; IMF aid was thus more effective for Poland and Bulgaria. Ukraine fell between the extremes; its positioning depended on the current US posture toward Ukraine. In the initial years of the transition, the United States, intent on convincing Ukraine to transfer its Soviet-era nuclear weapons to Russia, protected Ukraine from IMF punishments when financial conditions deteriorated. This decreased IMF credibility in its ability to suspend and punish. But after the nuclear weapons issue was resolved, the United States refused to interfere with IMF suspension and punishment, although Ukraine was slow to realize its protection from IMF punishment had evaporated.

Even corruption was not an issue that derailed IMF lending. Recently corruption and government effectiveness have been important determinants of whether or not states should receive international financial assistance. But during the 1990s, this did not hamper funding
particularly for the Russian case. For example, Russian privatization was mostly done through presidential decrees rather than being approved by the parliament. Most of the privatization policy was crafted by Anatoly Chubais who was considered a reformist by the United States and Western Europe. As Fish argued, while Chubais wanted to enhance the private entrepreneurs, he compromised to allow essentially an insider buying program that led to the old Soviet directors taking over businesses as the opposition in the form of Khasbulatov wanted. Thus many of the privatized businesses were poorly run and not operated on a market basis, reducing the effectiveness of the program to grow the private sector. Furthermore, Chubais’s “loans-for-shares” program was heavily criticized as it allowed only a few chosen elites to have access to state enterprises and to pay below market rates for them. Yet the IMF was pressured to make loans during this time period to ensure Yeltsin’s re-election, in which Chubais worked to raise campaign funds from the elites who built their wealth on the corrupt privatization program. It was politics, not necessarily good policy that influenced lending levels. Similarly, in July 1998, as the IMF approved a program that was not released to Russia in the hope of staving off a major financial collapse, Veniamin Sokolov, head of the Russian Federation Chamber of Accounts, remarked that “All loans to Russia go to speculative financial markets and have no effect whatsoever on the national economy.” (Wedel 1999: 11)

But the IMF’s relationship with Russia not the only international financial institution with a problematic relationship as the World Bank also had trouble dealing with Russian officials. World Bank lending followed a similar pattern as IMF lending and is shown in Figure 7.3. Funding from the World Bank increased in 1995 as Yeltsin was ready to reform the economy and remained high until the 1998 financial crisis. However, World Bank officials were troubled with whether Russia could absorb the aid it was providing. As was admitted in a World Bank report, “the lack of stable top management in government and the lack of fundamental reform in the banking system… [and] the lack of government policy…” led to doubts that its programs were effective. (Woods 2006: 138) Thus World Bank officials acknowledged that ministerial instability caused problems in lending. Indeed, the World Bank was pressured by the Clinton administration to increase lending in the 1994-1996 period as had the IMF even though its staff knew the institutional weakness would lead to ineffectual outcomes. (Woods 2006: 138)

58 Martin Gilman, a senior IMF representative in Russia, wrote that while Chubais was seen as an effective reformer by Western officials, his reputation in Russia was much worse and he was views as just another head of a rival faction. (Gilman 2010: 82)
As a report on aid absorption capacity states, a constraint on aid absorption is based on institution and policy constraints. When a government cannot “define policy priorities” or cannot be held accountable for its policies, then aid absorption capacity decreases. (Ministry of Planning and International Cooperation 2006: 2) The attempts to establish a reform program and thus enhance the capacity of the economy to absorb aid were an issue as Boris Fyodorov pointed out in an interview with PBS’s Frontline in 2000. “When I was Minister of Finance in ’93 and Deputy of Prime Minister and the same actually even in ’98, [I] was not fighting parliament. It was not communists. It was always my own government, my own prime minister, my own president and his advisors…The spending habits of Mr. Yeltsin were quite strange, because he used to publish like a decree on additional spending something, somewhere, like basically on a weekly basis.” (Frontline 2000) Fyodorov was considered a reformist but he mostly served under Prime Minister Viktor Chernomyrdin who was aligned with the industrialists and thus part of the gradualist opposition. In addition, Yeltsin’s ability to use decrees bypassed parliament so Fyodorov was not constrained by the communists but by the gradualist opposition within Yeltsin’s administration.

When the financial crisis occurred in August 1998 with a debt default, ruble devaluation and a banking collapse, the relationship between Russia and the multilateral financial institutions changed. With the lending institutions, particularly the IMF, providing loans as a crisis neared or occurred, as nearly happened in July 1998, the incentives to follow through with reforms
decreased until a substantial crisis occurred as in August 1998. “The agreement with the IMF has bought time, but everything depends on whether it is used to deal with the underlying problems. It is quite likely that after the Duma has agreed to part of the stabilization program and the IMF has paid the first tranche of its loans, everyone in Moscow will go off on their summer holidays and everything will continue as before. If this is the case, a further crisis sometime in 1998-1999 is very likely.” (Ellman and Scharrenborg 1998: 22) However, the funds committed in the July 1998 agreement were not released as the economic conditions deteriorated rapidly. Even though Russian officials continued to ask about the new tranche from the agreement, IMF officials reported that given the change in economic conditions, the IMF could not release the tranche. (Gilman, 2010: 202) Thus, the inability of the Duma and the Yeltsin administration to agree on the needed reforms that would have stabilized the banking system might have prevented the financial collapse. “The availability of those loans [in 1998] clearly made it somewhat easier for the government to not impose strict fiscal discipline,” according to the IMF’s Odling-Smee. (IMF Survey 2003: 66) In an attempt to improve economic conditions prior to the 1998 crash, Yeltsin dismissed Chernomyrdin as prime minister to replace him with Sergei Kiriyenko. But this government, lacking support from the Duma, did not fare well. “Although the new administration brought a zeal and determination to reform in general and the job of tax reform in particular…it had no political muscle with which to take on the Duma with its entrenched position against them nor…[the] oligarchical interested arrayed against it.” (Woods 2006: 128) Negotiations with the IMF resumed in September 1998 and continued through the remainder of the year as the IMF team dealt with new domestic policy-makers in the wake of Kiriyenko’s dismissal as prime minister.

However, the Duma and Yeltsin’s government rarely saw eye-to-eye on reforms. As Fyodorov said, “And clearly it was a battle for power, and since the majority of parliament basically hated the guts of Mr. Yeltsin really seriously. And he didn’t act to alleviate these problems, because, obviously, president and government should work harder to cooperate with the parliament in any country. Personally, I tried, but it was very, very difficult, because most of the government didn’t want even to talk to [parliament].” (Frontline 2000)

But one of the most important factors in the relationship between the international financial institutions and Russia was the issue of political stability. If political stability is an important factor in gaining funds from international financial institutions, then Russia had a
mixed record during the Yeltsin administration. On the one hand, there was hyperstability at the presidential level with Yeltsin in power until his resignation in August 1999 in favor of his last Prime Minister, Putin, who then won the 2000 election. Yeltsin had nine ministers of finance during his two administrations. Given his lack of knowledge of the market economy, he was not sure-footed in his path to reform and replaced finance ministers as reforms were too painful for the Russian people or threatened the gains of “the family,” as his political cronies became known. In addition, in the later Yeltsin years, ministerial stability was lacking at the prime minister position. Yeltsin fired three prime ministers in the period before and after the 1998 collapse either as scapegoats when the economy was not going well or if he felt that the prime minister could be a threat to his power as he began to set his sights on a successor. For example, after the financial crisis in August 1998, Yeltsin appointed Yevgeny Primakov prime minister following his unsuccessful attempt to have Chernomyrdin confirmed as prime minister after dismissing Kiriyenko. Because of his proposed reforms that were welcomed by a supportive Parliament, including “opening corruption investigations of several financial oligarchs with close ties to the Kremlin…,” Primakov was the most popular political figure in Russia by early 1999. (Cohen 2001: 175) “Primakov’s cabinet did move away from the purportedly free-market, rigidly monetarist policies” favored by the IMF – “not because it was antireform or anti-market but because those measures had contributed so greatly to Russia’s economic collapse,” Primakov was removed in May 1999 after his popularity proved threatening to Yeltsin. But as a result of the change in prime ministers from one who was opposed to the IMF’s strict economic program, once again “the IMF resumed its loans” to Russia. (Cohen 2001: 176-177)

Once the 1998 crisis passed, Russia rethought its relationship with the Bretton Woods institutions and reduced borrowing from the World Bank. At the same time, the international financial institutions were wary of the relationship with Russia. However, the trend of EBRD lending was a steady uphill curve until the 1998 financial crisis. It plummeted in 1999 but then steadily increased until 2002 when it was above the lending amount in 1998 as shown in Figure 7.4. It did take a while for the EBRD lending to get started, not just in Russia but throughout the transition zone of Eastern Europe and the former Soviet Republics. After all, as a new institution, the EBRD had to find its own capitalization. Another problem was the first EBRD president, Jacques Attali, seemed more concerned with building an elaborate EBRD headquarters than with structural issues. But also the EBRD was interested in joint ventures lending which was not
readily available in Russia. As lending improved in 1994 and 1995, it “…reflected a shift from the EBRD’s previous practice of almost always engaging in joint ventures.” (Torday 1994)

Thus, as Russia overcame its financial crisis in 1997 and its economic collapse in 1998, it was less likely to make arrangements for economic aid through the US-dominated financial institutions. But the EBRD, with its European governance, provided better terms for its lending as well as removed the baggage of US-domination that the Bretton Wood institutions carried. Following the 1998 banking and currency crisis, Russia decreased its reliance on the IMF and the World Bank. The IMF faced much criticism for its lending policies since its original mandate was not geared toward transitional economies but rather to overall global economic health. The EBRD, on the other hand, had the mandate to develop lending strategies that included a transition impact. Because of its reputation as a more impartial lender, it became the leading investor in Russia following the 1998 crisis. As Hanna Gronkiewicz-Waltz, EBRD Vice President for Human Resources and Administration, said in a speech in September 2003, “In the aftermath of the 1998 Russian crisis, the EBRD – bucking the trend – remained closely engaged with Russia. Not only because of the Bank’s special mandate but also because we believed in Russia’s prospects and continued to invest at a time when Russia was virtually shunned by the entire international banking community.” (Gronkiewicz-Waltz 2003)

In many ways the appointment of ministers signaled the international financial institutions of the reform intentions of the Yeltsin administration. For example, when Yeltsin appointed Boris Fyodorov as Finance Minister, his connections with the EBRD and the World
Bank activated the disbursal of IMF funds from an STF. (Aslund 1995: 194) When reformed-minded ministers were appointed, funding tended to increase as it did following the 1996 election as stated above as well as following the 1998 crash with the appointment of Yevgeny Primakov as Prime Minister until his policies contradicted IMF prescriptions. Table 7.2 shows the different finance ministers between 1992 and 2011.

### Table 7.2: Russian Finance Ministers 1992-2011

<table>
<thead>
<tr>
<th>Finance Minister</th>
<th>Service Years</th>
<th>Reformer / Anti-Reformer</th>
</tr>
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<tbody>
<tr>
<td>Yegor Gaidar</td>
<td>1992</td>
<td>Reformer</td>
</tr>
<tr>
<td>Vasily Barchuk</td>
<td>1992-1993</td>
<td>Anti-reformer</td>
</tr>
<tr>
<td>Boris Fyodorov</td>
<td>1993-1994</td>
<td>Reformer</td>
</tr>
<tr>
<td>Sergey Dubinin</td>
<td>1994 (acting)</td>
<td>Anti-reformer</td>
</tr>
<tr>
<td>Andrey Vavilov</td>
<td>1994 (acting)</td>
<td>Anti-reformer</td>
</tr>
<tr>
<td>Vladimir Panskov</td>
<td>1994-1996</td>
<td>Anti-reformer</td>
</tr>
<tr>
<td>Aleksandr Livshits</td>
<td>1996-1997</td>
<td>Reformer</td>
</tr>
<tr>
<td>Anatoly Chubais</td>
<td>1997</td>
<td>Reformer</td>
</tr>
<tr>
<td>Mikhail Zadornov</td>
<td>1997-1999</td>
<td>Anti-reformer</td>
</tr>
<tr>
<td>Mikhail Kayanov</td>
<td>1999-2000</td>
<td>Reformer</td>
</tr>
<tr>
<td>Alexei Kudrin</td>
<td>2000-present</td>
<td>Reformer</td>
</tr>
</tbody>
</table>

As Boris Fyodorov said in a PBS Frontline interview in May 2000, Yeltsin did not understand the economy and particularly after his 1996 re-election, he effectively quit running the state. Thus it was up to his appointed administration officials or his cronies to continue to reform or, more likely to halt reforms, so that their gains could be increased. If Yeltsin was unwilling to support his own officials then those who were willing to undertake reform could not be effective in their jobs. Therefore, even as the IMF allowed tranches to be released, the inability of the government in 1998 to push through needed regulatory reforms led to the 1998 financial collapse. In addition, without sustained reforms, the environment for small businesses, in which the EBRD primarily invested in, was detrimental to growth. Thus erratic reforms hindered the ability of the small business sector, a key component of a market economy, to absorb aid.

However, when Putin became president, ministerial turnover decreased. In addition Putin re-evaluated the Russian relationship with the IMF and the World Bank. In his desire to bring Russia toward a more independent path, he froze relations and lending ended. Yet he continued to have good relations with the EBRD with whom he had a positive relationship when he worked in St. Petersburg prior to his move to Moscow. (BBC News 2001) The EBRD was willing to
continue its lending in Russia particularly at the private sector level. But more importantly, the
stability of reforms in Russia would be a priority for the Putin administration.

The international influence of the multilateral financial institutions were detrimental to
economic reforms during Yeltsin’s administrations as aid was not used effectively to buy time to
institute strong economic reform. In turn, this led to the inability of aid to be effectively absorbed
in the economy. But when Putin took over and the crisis of 1998 forced the hands of the Duma to
institute the banking and tax reforms once the IMF declined to intercede in the crisis with further
bailout money, the influence of the IMF waned while the EBRD became more prominent for
Russian lending. Two things occurred for this to happen. First, after becoming president, Putin
pushed through a recentralization of state control. As part of this effort, he was able to remove
regional governors that stood in the way of reform and he brought in new bureaucrats that were
more willing to oversee the reforms Putin demanded. Second, rising oil prices provided revenue
for the Russian government, facilitating decreased budget deficits and thus lower borrowing
needs. With an enhanced tax collection capacity, and better budget stability, Russia’s need for
the IMF to prop up its economy decreased. (Aslund 2008) In addition, with the increased
stability that Putin provided to the government and the faith that reforms would be followed,
confidence in the ability of the Russian economic sectors to prosper increased, and in particular
brought about increased investment from the EBRD especially in the banking sector that had
been ravaged in 1998.

Reforms at Last? The Post-1998 Environment

The financial collapse of 1998 was the turning point in the relationship of Russia and the
international financial institutions. It is after the collapse that Putin ascended to power and when
firm efforts at reform became more readily apparent as well as positive economic growth. There
was a marked difference in the governance styles of Yeltsin and Putin and in their capabilities to
lead Russia. In addition, the government stability that led to incoherent policy-making under
Yeltsin ceased. Martin Gilman, the senior IMF representative stated, “Perhaps, an initial modest
step was simply the fact that as of 2000, the political merry-go-round stopped and ministers and
government officials actually started to have an opportunity to mature in their jobs.” (Gilman,
2010: 234)
Whereas Yeltsin swayed back and forth on reforms, depending on his popularity with the public or more importantly with his oligarchic allies, Putin had a distinct and decisive approach to improving the economic conditions in Russia. Cohen argues that during Yeltsin’s term, “…about $25 billion of the post-communist debt, owed to the IMF and the World Bank, was undertaken at US urging and granted to Yeltsin for essentially political, not economic, reasons.” (Cohen 2001: 243) Following Putin’s appointment, lending became an economic act rather than a political act. As a St. Petersburg native, Putin was both “western-oriented and responsive to the needs of the country.” (Sakwa 2008: 17) He wanted to equalize the Russian relationship with the US and Europe. It also helped that oil prices increased dramatically at this time and thus put Putin in a position to improve the economic conditions in Russia. Some of his first acts as president included a bill that set “a flat 13 percent income tax rate…and reduced corporate taxes by an estimated 20 percent.” (Kotz and Weir 2007: 281-282) He tried to streamline the bureaucracy. Although he actually increased its numbers, the bureaucracy was more responsive to reform efforts. While he assured the oligarchs that he would not redistribute private property regardless of how it was gained, he refused to allow the oligarchs to threaten his control of government. While he initially increased pensions, during his second presidential term, he lowered social benefits as many analysts had called for including those at the IMF.

Under Putin, though, the 1999 Duma elections changed the party structure of the legislature that allowed for a better relationship which resulted in more reform laws being passed. However, the issue became not legislative obstruction but oligarchic obstruction of the laws that were being passed. “… [D]uring Putin’s first term as president and under Prime Minister Kasyanov’s initiative, a spate of federal laws were enacted. These laws conformed to international norms, but Russian oligarchs created bottlenecks in their regional enforcement.” (Desai 2006: 45) Thus the intransience of the oligarchs created the impetus for Putin to reign in the ability of oligarchs to thwart his policy decision-making. But corruption was another issue tackled by Putin and one in which the oligarchs were the main culprits. His program to reign in the oligarchs was part of his plan to reduce corruption although he was not open to divesting the property gained in a corrupt manner from those elites who supported Putin’s government.

But what is most important from an international influence standpoint is that Putin’s administration decreased its relationship on both the IMF and the World Bank. “By mid-2001, for example, the Russian government had become increasingly indifferent to IMF strictures and
was even resisting a $150 million World Bank program for imported drugs on the grounds it would further undermined the domestic pharmaceutical industry.” (Desai 2006: 233) Putin’s policy became more coherent. “Kasyanov’s government successfully steered measures through the Duma related to the adoption of a tax code…a land transactions bill, a criminal coda, and a joint stock company law.” (Desai 2006: 55) By the end of 1999, economic growth rebounded and revenue increased because of higher oil prices. As such without a balance of payment problem, an IMF agreement was unnecessary. While the Russians nearly agreed to an IMF program in July 2000, it was nixed by the Russians because of the conditions attached to the operation of the Central Bank. (Gilman, 2010: 231) By that point, Putin’s economic team led by German Gref was unwilling to rely on the priorities set by the IMF and preferred a program developed by the Russians that was focused on structural issues. Gilman states, “The IMF, however, stuck in a backward-looking mode owing to the political concerns of its dominant members, was adamant that the long-festering transparency and governance issues should be prioritized.” (Gilman, 2010: 252)

As recovery from the 1998 economic crisis continued, Putin’s cabinet undertook a review of foreign investment and dependence and came to the conclusion to reduce its borrowing from the IMF and World Bank. “Few if any Russian politicians or economists any longer believe in the neoliberal, monetarist measures dictated by the IMF since the early 1990s,…For the most part, the IMF’s main conditions – minimizing the state’s role in favor of purported free-market forces, maximizing privatization at any cost, putting government budgetary austerity, tight money and other anti-inflation indicators above investment, production, employment, and welfare – are more broadly rejected as unworkable, destructive and even having…cost Russia its economic sovereignty.” (Cohen 2001: 232-233) From this review came the decision in 2002 to reduce its borrowing from the World Bank as well as to overhaul the use of the loans. Andrei Bugrov, an executive director to the World Bank, noted that this was ironic as the World Bank was preparing to play a larger role in Russia after Putin came to power. “Russian priorities had changed with a lower priority assigned to foreign-financed programs and advice.” (Gilman, 2010: 50) Above all, the administration wanted more Russian management of World Bank loans. Economic Development and Trade Minister German Gref said, “The old system of cooperation with the World Bank has proved to be not effective enough. Almost half of the approved loans
were not used at all, and the rest were not spent very efficiently.” (Lavrentieva 2002) This coincided with a continued turn toward more lending from the EBRD.

Putin was also more decisive on the Chechen problem and when he authorized the second war (as prime minister under Yeltsin); the conflict was more popular among Russian citizens thus creating a stable environment for investments. It also showed not only to Russians but to the international community that Putin was capable of making tough decisions that Yeltsin had not been able to do, particularly as Yeltsin’s health faded. As Putin took office as the elected president in 2000, his determination to do what was right for Russia, not necessarily what would enrich Putin, marked a significant improvement in the ability of the Russian economy to normalize. However, important players from Yeltsin’s administration remained in place once Putin came to the presidency “with weakness and resistance in Russia’s state bureaucracy and the gubernatorial class.” (Woods 2006: 133) Putin began to dismiss Yeltsin-era ministers after his first year in office thus allowing his own people, reformers from St. Petersburg and the security forces, to fill important positions. (Sakwa 2008: 73) Putin eventually instituted new rules to ensure the loyalty of the governors by making their offices appointed rather than elected. He also began to appoint new bureaucrats with an emphasis on those who had served in the security apparatus. “Under Yeltsin, [the oligarchs] had significant influence over presidential and gubernatorial elections, government personnel decisions and government economic policy. Such a deep level of influence in the political machinery of Russia is no longer obvious [with Putin in office]” (Woods 2006: 132) As Putin built his own loyal base of support, voters improved his ability to control the Duma in the December 2003 elections as they removed many of Yeltsin’s reformers, such as Gaidar, Chubais, Nemtsov and Yavlinsky and voted massively for his United Russia Party. “After four years under Putin, Russians were ready to settle for a mild dose of authoritarianism that promised stability and steady economic gains…” (Desai 2006: 26)

While Putin was willing to work with the United States and Western Europe – he felt Russia was a part of the West – he expected the U.S. and Europe to respect the long history of power that Russia had exerted in the international arena and be accepted as an equal partner. IMF official Gilman argued that Putin felt the only way for Russia to achieve economic growth “was through greater integration with the global economy and its associated institutions.” (Gilman, 2010: 221) He certainly felt that the Western states should not overstep their boundaries in regard to criticizing his system of governance. Putin was also anxious to cement better relations
with Western Europe and the EU while maintaining solid relations with the United States. “Since the end of the Cold War, natural affinities between Europe and Russia have been reemerging. Germany is by far [Russia’s] largest creditor…. And in 2000, the European Union, which already accounted for about 40 percent of [Russia’s] foreign trade, openly declared its desire for a ‘strategic partnership’… based on its growing need for Russia’s oil and gas.” (Cohen 2001: 256) Yet Putin did not want Russia to be a lapdog to the United States and he put more emphasis on Russian connections to international organizations that were more US-neutral. As Gilman stated, Putin understood that “Russia had to adopt a cooperative posture toward the United States and the West without sacrificing Russia’s vital interests.” (Gilman, 2010: 221) Hence, the relationship between Russia and the EBRD grew. As the Western connections increased between Russian and Europe, in particular, EBRD lending increased as well.

Initially as Putin took office, first as prime minister and then as the elected president, Russia was still in economic recovery mode from the 1998 financial collapse. Eventually the international lending institutions were ready to return to Russia but not before evaluating the mess left behind. While all lending decreased in the wake of the August 1998 failure, the 1998 collapse hurt the EBRD forcing the organization to decrease its volume of lending. (Interfax Russian News 1999) “Many projects were delayed due to pessimistic forecasts and the need to reform the Russian economy after the crisis including the financial sector.” (Interfax Russian News 2000) The EBRD determined that its lending post-2000 would focus on banking affairs, infrastructure and structural company reforms with a stress on transparency, corporate governance and shareholders rights that emphasized the transitional impact the EBRD promotes. (Higgins 2000: A23) Putin clearly stated that “we are also ready to cooperate with the EBRD [on banking reforms]” in May 2001. (BBC Worldwide Monitoring 2001)

But an important consideration as to why the EBRD lending became an important aspect of the reform process was its emphasis on private sector lending. Putin directly states that the EBRD’s work with developing “small and medium businesses… is ‘of major benefit’ in its work.” (BBC Worldwide Monitoring 2001) In addition, the EBRD is less reliant upon conditionality than the IMF because the EBRD could bypass the government to finance projects within the private sector. While the EBRD prefers states that are dedicated to democratic processes, it does not shun those states that are in retreat in the democratic arena. Since the EBRD can avoid state lending by putting its resources into the private sector, it does not need to
push government reform, thus earning itself the ire of public officials. But also when Putin took office and gained control over the reform process – and actually improved reforms that had not been made prior to the August 1998 crash – the ability of the private sector to absorb aid increased. As EBRD President Jean Lemierre stated, “We can see the efforts [Putin] and Prime Minister Mikhail Kasyanov’s government are making to build investors’ trust in Russia.” (BBC Worldwide Monitoring 2001) A significant development of the market economy was the reforms that improved functioning of the banking system. With the banking system in desperate need of an infusion of capital, the EBRD was able to partner with private banks to help recapitalize the system and provide more lending to the private sector. Thus as the banking system recapitalized, the private sector was able to rebound and grow as well.

Even though Russia’s relationship with the EBRD was strong, the capacity to absorb aid was weak as the private sector where most EBRD loans are directed remained underdeveloped. At the beginning of 2003, “only 800,000 small businesses were registered in Russia;” a ration of six small businesses per 1,000 people. However, the EU average ration at the time was 30 to 1,000. (Fish 2005: 172) The direction that privatization took under Chubais is one reason for the lack of small businesses. But Fish also argued that the arduous regulatory environment, with multiple inspections, licensing requirements, bribes and finally taxes, decreased the ability of Russians to develop businesses. While some of the regulatory burdens were lifted by Putin, ingrained habits die hard as businesses continue to report harassment from officials.

However as Putin worked to develop a positive relationship with the EBRD, his view of Russia’s relationship with the IMF and the World Bank can be summed up in his own words. “The new architecture of economic relations implies a principally new approach to the work of international organizations. It has become increasingly apparent of late that the existing organizations are not always up to the measure in regulating global international relations and the global market. Organizations originally designed with only a small number of active players in mind sometimes look archaic, undemocratic, and unwieldy in today’s conditions.” (Gaddy and Kuchins 2008: 126) In addition, the IMF moved to a surveillance mode from a program mode around 1999 as economic conditions improved. (Gilman 2010: 245) Thus, under Putin, the EBRD became the most important multilateral financial organization to provide lending in Russia.
Conclusion

The overall consequences of the actions of the international financial institutions in the Russian case were not positive. Too often, reforms were downgraded when lending was provided by the IMF. When the ministerial turnover increased, IMF and World Bank programs became less useful as reforms efforts became inconsistent. As tax collection reforms and the banking sector remained disorganized throughout Yeltsin’s administration, the value of IMF lending and World Bank programs decreased. Yet with its ability to bypass the political instability, the EBRD provided valuable lending particularly to the private sector although the ability to absorb that aid was problematic. However, it took time for the EBRD to establish itself to provide the necessary funds which occurred later during Yeltsin’s administration. Not until Putin’s administration did the work of the EBRD progress. With more cooperative leadership under Putin and less turnover at the ministerial level, the EBRD was able to increase its effectiveness through loans to a more developed private sector. At the same time, the reliance that Russia had on the IMF disappeared as well as the relationship Russia had with the World Bank.

The case study of Russia emphasizes that international factors can play a secondary role to domestic politics when the aid recipient has the capacity to resist external pressure. As is the case with Turkmenistan, the reliance or isolation on the international community is dictated by the leaders in power. When those leaders do not wish to engage with the international community, and have political or economic resources to do so, then the influence of international factors on economic and political reform decreases. This is part of the dynamic behind the finding that Western linkages produce larger aid flows. Therefore, as states in the post-communist region decrease their ties to the West, lending from the IMF, the World Bank and the EBRD decreases.

However, when leaders are engaged with the international community, the commitment they make to following the prescriptions and demands determines just how effective international factors may be. When Yeltsin and his administration was willing to conform to the conditionality attached to IMF lending, then international linkages positively influenced reform. But when Yeltsin’s administration was unwilling to follow through on reform particularly in connection with the alternation of finance ministers, there were few actions that the international community could undertake to convince Russia to continue reforms. As Putin became president, he was more willing to work with the EBRD with its emphasis on private sector lending then
work with the lending organizations that conformed to the economic and political standards of the West. As connections to the West increased, as shown by trade data, EBRD lending increased as well.
CHAPTER 8
CONCLUSION

This study analyzed international linkages and multilateral lending from the IMF, World Bank and EBRD to the post-communist states, a distinctive region because of its transition challenge. This study includes two important contributions. First is the finding that international linkages increase aid allocation. Secondly, it provides a systematic study of the role of the EBRD in the post-communist region. As discussed in the introduction, the post-communist region is a distinct region in that its transition included simultaneous economic and political transformations. Using a multi-method research design, I showed that international linkages as defined by western connections as measured by exports from the post-communist states to the western industrialized states predicted higher levels of lending from the IMF, World Bank and EBRD. The case studies of Poland, Turkmenistan and Russia emphasized the impact domestic policy-makers have on relations with the international community and the lending decisions of the international financial institutions.

Integration of Quantitative and Qualitative Analysis

The democratization literature provided guide posts for how the international context influences transitions as well as how to quantify international linkages for aid allocation purposes. In conceptualizing the international context through linkages, purposive actors and conditionality, I was able to design a framework for discussing the way in which international linkages influence the economic transformations of the post-communist region and whether these linkages influence aid allocation from the international financial institutions. The use of the multi-method research design allowed me to show that international linkages in the post-communist region have predictive power in aid allocation decisions from the IMF, World Bank and the EBRD through their trade with the western industrialized states. As demonstrated in Chapter 4, post-communist states with higher levels of exports to the western industrialized states can expect to see an increase in aid for each percentage increase in their exports. This confirms one aspect of the aid allocation literature that trade is an effective tool for states to use to increase their aid possibilities. However, transnational organization membership was not statistically significant for increasing aid. Thus, economic linkage is the most important linkage
post-communist states can have to the western industrialized states in an attempt to improve their ability to gain aid from the multilateral financial institutions. Therefore, not only do international linkages increase the ability of a transition state to consolidate democracy as Levitsky and Way (2005) argue but the linkages are also an important aspect of economic reform and the ability of state to attract aid from the international financial institutions.

Economic need also showed significance in aid allocation for the post-communist region even though in the aid allocation literature this finding was inconclusive. As GDP per capita rose one percent in a post-communist state, that state could expect to see a one percent decrease in aid. But for a state like Poland in which its integration into Western Europe was a priority, lending continued at a higher rate as it sustained its economic transformation to a market economy. Likewise for Russia, even though its GDP per capita rose, it continued to see an increase in lending as well. But for Turkmenistan, even though its GDP per capita was low and not increasing, its lack of western connections continued to determine its aid levels.

But an increase in trade is not enough to ensure higher aid levels. The actions of domestic policy-makers in regard to their relations with the international community also affect aid levels – a difficult area to capture in a strictly quantitative approach. Thus, the case studies provide an in-depth analysis of how the interactions of the domestic policy-makers impact lending. International linkages only improve relations with the international financial institutions if domestic policy makers have incentives to cooperate with the international community. When policy-makers enact economic policy that reinforces the western connections then those policies will also facilitate more lending from the IMF, World Bank and EBRD. But when policy-makers weaken western connections and act intentionally to undermine their state’s linkages than less aid will be forthcoming. As the case studies illustrated, the way in which the domestic policy-makers enact economic reform was dependent on the stability of the cabinet even though government stability was not a significant explanatory variable in the quantitative analysis. Here policy continuity is the key factor. While each of the case studies lacked government stability, Poland had policy continuity between the different governments because of a central commitment to market economics and democracy held by politicians regardless of party affiliation. Whereas Turkmenistan lacked government stability, its decision-making was held by a sultanistic ruler so turnover in the ministries was not a problem for policy continuity as policy
was not created by the cabinet ministers. Russia, on the other hand, lacked government stability
and who was in the cabinet determined what kind of economic policy was enacted.

In addition, the Russian case illustrated how a state that is geo-strategically positioned
within the international community as an important state with high stakes attached to its political
and economic transformation can manipulate its western connections to ensure increased lending
without necessarily undertaking the economic reforms that enhance those linkages. Russia was
able to use its connections with the United States to ensure that aid continued to flow even when
Russia failed to meet conditionality requirements or continue on an economic reform platform.
While Russia may be a special case in the post-communist region, other regional hegemons may
also be able to exploit their western linkages in aid allocation and conditionality requirements.

The similarities of the three case studies end with the common feature of cabinet
instability. Poland’s establishment of its goal to enter the EU put it squarely on a path to market
economics regardless of the political parties in power. It was prepared to use its international
linkages to ensure its consolidation of a market economy and the reintegration into Western
Europe. While coalition governments fell and government changed from right-center to left-
center, the overall goal of the different governments was to establish democracy and market
economics. While the diverse political parties differed on what type of policies to enact to ensure
the development and growth of the market economy, there was no disagreement that Poland
would become a market economy.

The policy of market economics was firmly established by Poland’s first two finance
ministers, former academic economists who embraced market economics. While both had their
own preferred policies for the development of Poland’s market economy, their policies were
similar. Leszek Balcerowicz introduced shock therapy with the blessings of the international
community and the backing of an IMF loan while Grzegorz Kolodko was able to oversee the
growth of the market economy to the point that IMF lending was not necessary. As was stated in
the Poland case study, the appointment of ministers signaled policy direction to the international
community. For Poland, the signal was to continue reforms that would establish a market
economy capable of integrating with the EU. In addition, Poland did not have a strong-armed
leader as in Turkmenistan and Russia who could undermine the finance minister on economic
reforms (Walesa attempted to enshrine a strong presidency but was thwarted by the Sejm).
International linkages were an important aspect in the Polish transition in that the closer Poland
moved to the West, the more aid followed. In turn, as the Polish economy developed, it was able to absorb more aid even though certain regions of Poland showed lower levels of development. While Poland was not always able to meet its IMF conditions, it did not retreat from the international financial institutions. Instead it used the conditionality set in the IMF agreements to implement the tough economic reforms that would propel it to a market economy.

In the case of Russia, the finance minister was also an important player in the drama of economic policy. Unlike Poland, however, the finance ministers were not dedicated to a similar philosophy of economic reform. Rather than policy continuity, Russian reform efforts were more inconsistent as President Yeltsin was less committed to the specific objective of a market economy and unconstrained by the EU aspirations important to Poland. There were more varied approaches to reform and more opposition to a full-fledge market economy than in the Polish case. Whereas the Polish government and the parliament were able to work together to develop policy, Yeltsin took recourse to issuing decrees in the face of a largely obstructionist parliament. While Poland’s former communists successfully returned to power in 1993 as a reconstituted center-left party, Russia faced an unreformed communist threat in the 1996 presidential election that would undermine economic reforms.

As Yeltsin’s popularity decreased in the run up to re-election, rather than follow through on unpopular economic reforms that were a part of IMF agreements, Yeltsin, with the acquiescence of the U.S. administration, began to spend liberally. The spending undermined the attempt to restrain the budget deficit. Russia was able to ignore the conditionality of the IMF because of the U.S pressure to continue lending when political outcomes were in doubt. As such Yeltsin was inconsistent in his approach to reform. At times he supported reforms proposed by his finance minister as occurred in 1992. But at other times he supported those who wanted less reform as occurred during Boris Fyodorov’s tenure as finance minister in 1994 or he was simply incapable of making decisions as occurred toward the end of his presidency in 1998. Like Turkmenistan’s Niyazov, Yeltsin was a powerful president who could act through his decree powers to advance or undermine economic reform. As stated in Chapter 6, too often Fyodorov was not just battling parliament to enact reform policies but also battling other members of Yeltsin’s government.

After the 1998 financial collapse and the subsequent promotion of Vladimir Putin to the presidency, Russian cabinet governments stabilized. Whereas Yeltsin was inconsistent in his
approach to reform, Putin was not. Putin was prepared to present a unified reform package that would stabilize Russia’s economic situation. In addition, Putin was the beneficiary of rising oil prices that stabilized Russia’s budget allowing Putin to disengage from the IMF all the while increasing Russia’s economic linkages to the western industrialized states. While Yeltsin’s Russia had a rocky relationship with the international financial institutions, Putin was firm in asserting that IMF and World Bank lending were not necessary for Russia’s development. However, Putin was a supporter of the EBRD and courted a congenial relationship with that institution. Furthermore, when the Russian economic system collapsed in 1998, the international financial institutions took a step back from Russia to ensure their lending was working toward the goal of transforming Russia’s economy. But Putin was not convinced that the old Bretton Woods institutions were appropriate mechanisms for economic development. Thus he reduced his states use of their aid.

In Turkmenistan, policy continuity existed for quite different reasons than in Poland. While cabinet turnover was frequent in Turkmenistan particularly after 1996, the main policy-maker was President Niyavoz and his ministers were not important players in decision making. Ministers who challenged the president were simply removed. Niyazov committed himself to acting within the old communist structure under a new label. His statements indicated he did not believe the Turkmen society was prepared for democracy or market economics. He also pursued a foreign policy of insulation from foreign pressure under the rubric of “positive neutrality”. While he did not encourage his state to develop international linkages with the western industrialized states, he also tried to downplay the role of Russia in Turkmenistan’s economy. Thus, his first foreign minister tried to develop strong relations with Turkey and Iran to counteract the influence of Russia, Western Europe or the United States. It is also noteworthy in the Turkmenistan case that the finance minister was not an integral policy-maker as he was in Russia or Poland. During the early stages of an independent Turkmenistan, the foreign minister was more integral to policy decisions until Niyazov was able to bring that ministry under his control.

While Turkmenistan gained membership in the three international financial institutions, its relationship with these organizations was not close. Because of Niyavoz’s insistence on finding his own alternative to economic development, the international financial institutions were less likely to approve lending to his state. And, because of his unwillingness to use democratic
processes, the EBRD ultimately suspended lending to the public sector. Without a viable private sector, the EBRD essentially left Turkmenistan until the presidential turnover in 2007. In addition, Turkmenistan’s ability to absorb aid from the financial institutions was low. Without a functioning private sector, the EBRD was unable to approve projects that it had approved for other post-communist states like capitalization of a private banking sector. And Niyazov’s spending on frivolous projects, like the lake in the desert, were not the type of development projects the World Bank approved.

An interesting finding within the case studies was the lack of corruption as an issue for the international financial institutions. While there were obvious examples of corrupt practices in the Russian case (the shares-for-loans program), the international financial institutions did not comment on the problems. Their primary focus was to promote economic reform without pressing Russia to act in a transparent manner – and even their attempts to sustain Russia’s economic reform were less than successful. As for the Turkmenistan case, where infrastructure development was less of a priority than building monuments to Niyazov, the international financial institutions were too disengaged to make a difference in the ways that money was spent in the economic restructuring of the state.

**EBRD Lending**

Another important contribution of this study is the further understanding of the EBRD in the economic transformation of the post-communist region. Unlike the IMF and World Bank that rely heavily on economists, the EBRD recruits from the business and banking world so that the way in which loans are developed more closely resemble other banking practices. The EBRD is explicit in its official mandate that its lending has a political dimension as it regards democratic processes an important function of the state in successfully transitioning to a market economy. However, in the statistical analysis section, level of democracy was not significant for EBRD lending because the EBRD may avoid public sector lending to a non-democratic state through loans to the private sector.

The EBRD remains an important financial institution in the post-communist region even though it was originally designed to close once the transitions to market-economics in the region were complete. (Carrasco et al, 2008: 57) As of 2011, only the Czech Republic has “graduated” from the program. Unlike the development banks, its principal focus in economic aid is the
transition impact of its loans. It has emphasized the banking sector as an important step in developing market economics and it primarily lends to small and medium-sized enterprises. While it was originally agreed in its constitution to lend on a 60 to 40 percent ratio to the private sector, in most years private sector lending has comprised over 80 percent of the loans approved because of its emphasis on the privatization of small and medium-sized enterprises as well as private-sector banking. Thus, the presence of EBRD lending provided incentives to the post-communist states to increase the share of privatized business within the economy to take advantage of the lending policies of the EBRD.

Whereas the IMF took the initial lead in promoting economic reform, the EBRD subsequently overtook both the IMF and the World Bank in aid allocation to the post-communist region. Even though EBRD lending started off slowly as the institution was established, it became the largest lender in the region. As the Polish and Russian cases demonstrated, EBRD aid was an important aspect of their economic policy. In the post-communist region, as states increased their western linkages, particularly in the later years of the transition period, more aid was forthcoming from the EBRD.

International linkages were an important aspect in aid allocation to the post-communist states. As this region undertook the simultaneous economic and political transformations, the actions of domestic policy-makers in relation to the international financial institutions, particularly with the EBRD, determined how positive those relations influenced the transformations. States that fully engaged with the international community were more likely to receive higher levels of lending while states that deliberately undermined their international linkages received less aid. Thus the interactions between the domestic policy arena and the international financial institutions were an important facet of economic reform in the post-communist region.


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