

THE KISS

Peter Bowbrick¹

I went to Russia in 1994, on a short-term contract as an economist. The problem was the food industry. Up to then it had been run by the Soviet state. Civil servants are the same the world over, though. Everything has to be done in triplicate, decisions must be made by committees, and anyway it is safer not to make a decision at all, as it may rebound on you.

You cannot market fresh food this way, of course: it just goes rotten. In Russia, the only fresh food in the system was what the farm workers produced in their own smallholdings and sold direct to the consumer. The state farms would also sell a little in neighbouring cities. Otherwise, there was no fresh meat, only frozen. The state abattoirs froze all carcasses and shipped them to the cities. A carcass was left on the floor of the shop for a couple of days to defrost, and as it thawed, bits were cut off. It was first come, first served, starting at the tail and ending at the head. There were no cuts like sirloin or rump or topside: the customers had to take what they could get.

There was a similar problem with fruit and vegetables. The delays in the distribution system meant that there was a very high level of waste. The only things that survived were potatoes, white cabbage, turnips and beetroot, which is why the staple diet was Russian salad and borscht.

I was working for the World Bank. They were trying to tackle the problem in several ways. First, the abattoirs and food factories should be prised away from direct state control, and should, ideally, be privatized. Next, the Bank was advising the managers on how to operate in a market economy, and on what was the latest technology. Finally, because they were a bank, they were lending them the money to buy the latest technology. It did have

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some effect: today there are proper butchers, and you can buy fresh fruit and vegetables and even bananas in most of the country.

I was working at the first stage of this process, identifying possible projects and saying what technical and economic input would be needed to produce a bankable project. Sometimes it was identifying a food factory that needed help. Sometimes it was identifying a gap in the system – without fruit and vegetable markets, the free market system would not work.

I was quite enjoying what I was doing in Northern Russia. Then Vohra, the World Bank man came up to me.

‘Peter,’ he said, ‘I would like you and Pierre to go to Voronesh oblast to do the same there. As you know, the oblasts have a lot of autonomy, and can even have their own agricultural policy. In Voronesh, they are old-fashioned communists and are using all this autonomy to resist change. We have sent in three World Bank teams in the last year but they got nowhere. You have ten days. See what you can do.’

We were not too happy about this, but we went there. On the first day, we went to the foreign relations officer in the Governor’s office, and asked her to arrange appointments with the Governor, and the people in the Ministry of Industry and Trade and the Ministry of Agriculture.

‘Nyet!’ she said. ‘We do not need your help. Now we have Western computers we can do our calculations quickly. Now we will show you what Marxist Leninist planning can achieve.’

We negotiated hard and were allowed to meet a junior officer in the Ministry of Agriculture. However, he proved unhelpful, downright obstructive in fact, steering us away from the markets and firms we wanted to see.

Pierre and I were getting worried. There are no excuses for a consultant. If you do not produce results, you do not get paid. If you do not produce results, you do not get your next job.

So we branched off on our own, ignoring the Ministry of Agriculture and going to the newly privatized industries. We found that they were not very privatized. They had to route their mail, their telephones and their e-mail through the Ministry, and the Ministry often vetoed deals or changed the price.

Still, the managers were raring to go. They wanted to learn Western management and marketing. They wanted to learn the latest technology. And, above all, they wanted to borrow money. We were starting to get somewhere.

But that was not enough. Unless we could get Government approval for the outline, we had nothing. You see, the World Bank was lending a billion dollars to the Russian Government, and the Government was lending the rouble equivalent to the food industry, through a World Bank project. The Government had to pay back the loans even if the borrowers defaulted. So of course they had to check that they would work – they knew the people and the system and could make a lot of checks on borrowers that we could not.

It was obvious to us, and I assume to the Russian central bank, that there were problems with this. The Russian rouble was falling a few percent every week against the dollar, so it was clear that anyone borrowing at today's exchange rate would be able to pay off the roubles they borrowed in a few years with a wheelbarrow-full of worthless roubles. The Government would still have to pay the dollars bank, so the loan was really a gift by Government. Still, it was not my job to show the Government how to stop inflation.

By the weekend, it was clear that we were not going to get access to the Governor, and we were not going to get approval. Our mission would fail. We had only three working days to go. We panicked. We asked everyone we knew for help and advice. Eventually, Pierre found someone who found someone who could introduce us to the KGB.

'The KGB?' we asked ourselves. But if nobody else in the oblast Government would speak to us, we might as well.

The KGB man was small, slightly-built and in his early thirties. He greeted us warmly. He apologized for not speaking English – his foreign languages were Dawa and Farsi, the Afghan languages. A small ray of hope: evidently the West was no longer the main enemy.

We explained what we were there for, and what resistance we were meeting.

He said what was obviously the Russian for 'Bloody nonsense.' He picked up the phone and spoke sharply to the Governor. Then he looked at us

and said, 'Your meeting is for two o'clock this afternoon.' Then he phoned the mayoress and made an appointment for next morning.

After this, it was simple to get the Governor's reluctant approval for us to move to the next stage.

Then we moved on to the Ministry of Agriculture, where our contact was suddenly very helpful. This was not because of the KGB, but because his friend had finally arrived from the other side of Russia. The friend was a building contractor and offered to build Voronesh a fruit and vegetable wholesale market for \$12 million.

Both of them were despondent when we said that we had been thinking in terms of \$100,000 to turn an existing distribution warehouse into a market. They were even more despondent when I explained the World Bank's tendering procedure.

The Mayoress, on the other hand was delighted to see us. Yes, she did want a fruit and vegetable wholesale market. She also wanted a new fresh-food retail market because there was a sudden increase in supply. The city had acquired a lot of local farmland and turned it into large allotments or smallholdings for townspeople – a response to the near famine of a year or two previously. The smallholdings were starting to produce, and markets were needed.

What really delighted her, though, was when Pierre, a tall, handsome, Frenchman went up to her, clicked his heels, bent down and kissed her hand. She wriggled and blushed.

Which all goes to show, I suppose, that economics is not about number crunching or penny pinching. It is about people.

1368 words