

OPINION/ESSAYS

In Russia, Don't Tie US Aid to Privatization

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18

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AS the bombs fall indiscriminately on Chechnya, some members of Congress are asking the right question for the wrong reasons.

Yes, the wisdom of continuing aid to the Yeltsin regime should be questioned, but not only because of violations of human rights by the Russian Army in the Chechnyan war. Rather, Congress should take an all-encompassing look at the priorities and goals of US aid to Russia and other former Soviet republics. As five years of aid experience has shown in Eastern Europe, there is considerable potential for the aid to backfire, be misused, or be unwisely implemented. Already the signs of these problems are being seen in Russia. This should serve as a wake-up call to Congress to conduct a top-to-bottom assessment of US assistance to the region.

The privatization of the large state-owned socialist company has been the single most important priority of the major Western donors, particularly the United States. Donors have looked to privatization as a way to measure progress in the transition from communism to a market economy. Because the socialist enterprise that provided jobs, housing, medical, and day care symbolized the socialist workers' state, the breakup of the enterprise has come to symbolize transition. Yet it is very difficult to give effective and neutral aid in a politicized arena.

Privatization aid can be effective only if it can accomplish something that businesses in the recipient country cannot accomplish themselves.

Outside consultants can assist in structuring privatization efforts by helping to develop all-important legal and administrative frameworks for business transactions, such as laws to protect private property. But in a highly politicized arena with disincentives to quick privatization, the conversion of state-owned enterprises can hardly be accelerated simply by bringing in outside consultants or by hiring public relations firms to promote privatization.

In Russia, a "public education" campaign that began with television spots explaining to the general public what a business share is (and what to do with the shares citizens received from the government) turned into a mission to convince citizens of the benefits of privatization.

The US Agency for International Development (AID) paid a Western public relations firm to produce the campaign. The firm ran into trouble when it sought to find and publicize "success story profiles" of privatized state-owned enterprises. In many cases, employees didn't know whether their enterprises had been privatized and had difficulty identifying any real changes brought about by privatization. As a Moscow representative of the PR firm put it, "We scoured the country and found 25 success stories." Yet, on paper at least, there are hundreds of privatization efforts under way.

From a cost-benefit point of view, many privatization efforts are a waste of resources. According to a project evaluation commissioned by AID, of five large Central and East European firms assisted by AID-paid consultants, only one has been privatized and not as a result of AID help. Large enterprises tend to be more burdened by national political agendas than medium or small ones. When aid-supported consultants offer technical advice that involves downsizing or closing enterprises, consultants' recommendations often "go directly into the trash," as one ministry official put it.

TO complicate matters, suggestions of conflicts of interest repeatedly surface when foreign-aid monies are working in such a politicized arena as privatization. A host of players -- political elites, government officials, factory managers, employees, international corporations, and the aid community itself -- all have their own

agendas. No wonder, then, that local people perceive foreign consulting firms as more interested in representing their clients' interests back home than they are in helping the local economy. The management of one Polish enterprise expressed alarm when representatives of its major competitor were sent, under an aid contract, to help privatize the enterprise. "It's like General Motors advising Ford," they said.

Whether complaints of impropriety are valid in a given case is not the point. Rather, so long as the involvement of aid-paid consultants feeds the perception among local people that "foreigners have come to loot," the hand of anticapitalist, anti-Western, and antiprivatization radical populists is strengthened. One example of this extremism can be found at Ursus, the large Polish tractor factory that was once a hotbed of Solidarity activities. These slogans adorn the main entrance to the factory: "A Foreign Elite Steals From Us While the Polish People Are at the Bottom" and "Polish Property for All Poles."

When aid ends up in the hands of one group with a specific political agenda it can have damaging effects never intended by the donor. In Russia, much privatization aid has been leveraged by the government's chief privatization agency. But a former head of the agency was also a deputy prime minister and a leader of a prominent political party.

What lessons should be learned for aid to Russia and the other former Soviet republics? Congress and the American people want to see quick results for their money. Too often that means that aid is provided without critical knowledge of local players, conditions, and risks, and without significant oversight. Too often it means that "effectiveness" gets boiled down to a single number we can understand -- the total number of firms privatized.

In focusing many of its resources on privatization aid, the US aid effort is playing not to its strength but to its weakness. Its strength lies in offering technical training, educational programs, long-term resident advisers who are requested by and integrated into host institutions, and other long-range, less glamorous but more effective approaches.

If we continue to make privatization the only measure of success, our efforts may tragically backfire. The danger is not so much that aid will disappear into a "black hole" but that it will end up in the pockets of groups whose interests are antithetical both to the peoples of the former Soviet Union and to the West. ###
30

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