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Beware Western Governments Bearing Gifts

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WARSAW -- The United States is being accused of not sending enough aid to the ailing economies of eastern Europe and there is growing pressure to assist the republics of the former Soviet Union. But the government aid that already has been sent -- some \$2 billion under the Support for East European Democracy (SEED) act -- is not much help to the eastern Europeans and is hurting America's image in the region.

It has not been easy to damage America's reputation in such a short time. Despite their former geopolitical position behind the Iron Curtain, Poles and Hungarians -- who so far have received most of the U.S. aid to eastern Europe -- have been staunchly pro-American. Just two years ago, their new leaders embraced the model, the messages and the promises of America. Yet after a brief experience with U.S. aid in the form of the "Marriott Brigade," a familiar term for the onslaught of consultants who hurdle between five-star hotels across eastern Europe, the admiration has cooled.

The cornerstone of U.S. assistance to post-communist Europe, accounting for more than two-thirds of the grant aid administered through the Agency for International Development (AID) in 1991, is "technical assistance" in such areas as economic restructuring and privatization of state-owned companies. Given privatization's immense practical significance to the development of market-driven economies, and that it has come to be seen as a yardstick of progress in the new democracies, it would seem the east Europeans could use all the advice they can get.

However, a chorus of Polish and Hungarian officials have concluded that their countries are "technically over-assisted," in most areas as Marek Kozak, a Polish official who monitors foreign aid, put it, and that the assistance is doing more harm than good. While the consultants themselves are the primary recipients of the aid, they generally are unfamiliar with institutions peculiar to post-communist economies. Over-burdened top-level officials, often working without benefit of trained support staff, complain that they can't do their jobs because they must spend their time meeting with fact-finders and consultants, a state of affairs that Hungarian privatization official Peter Kazar called "ridiculous."

Western assistance is supposed to promote free-market principles, but it is sending the opposite message to eastern Europe. While preaching "pure capitalism" and "markets" across the region, the private initiative of many Western firms active there consists of lobbying their governments for aid contracts. These "free-market proponents" tend to seek monopolies and exclusive deals in countries legally and institutionally ill-equipped to monitor their activities. A potential conflict of interest lies in the fact that Western consulting firms doing asset valuations often are exactly the same firms whose clients are potential buyers at the prices the consultants have established.

Clearly, this situation creates incentives to understate the full value of these properties. A classified report put out by NIK, the Polish government's chief auditing agency, concluded that accepting the recommendations of consulting firms with respect to asset valuations sometimes resulted in significant losses for enterprises and "serious violations of the interest of the state treasury."

Moreover, rather than participating in an open process, Polish managers are being handed hard-wired deals and given signals familiar to them from the old communist way of doing business. Managers of companies undergoing privatization have been led to believe that by using Western firms for asset valuations, the privatization or sale of their companies will go smoothly. The foreign trading companies that make up most of Poland's export potential expressed their concerns when the Ministry of Foreign Economic Relations, which oversees them, placed three AID-supported consortia at the top of its list of approved consultants.

These consortia, which have been awarded "indefinite quantity contracts" (IQCs), are expected to receive at

least \$50 million over a three-year period for activities throughout eastern Europe, according to AID official Peter Or. The circumstances under which AID funded the consortia and the procedures of AID itself have baffled Polish and Hungarian officials. The Polish government was not consulted about the IQC structure, strategy or the particular firms chosen, and not even officially informed after the decision was made.

Polish Vice Minister of Finance Stefan Kawalec says he found out about the IQCs after the selection process was completed, and only by accident. The result is, as Mr. Kawalec explained, "A number of consultants are looking for profitable assignments that may be completely unnecessary. . . The U.S. government is paying them to provide advice to us without asking us, even without informing us." The one time the Ministry of Finance tried to use the IQCs itself, Washington turned them down, said Mr. Kawalec.

Although U.S. assistance generally has the worst reputation, technical assistance is also a major part of the European Community's PHARE program and the British Know-How Fund. Ignoring the input of aid recipients is a virtual guarantee that the aid will be wasted, but officials in Warsaw and Budapest complain that their suggestions have been ignored, despite AID bureaus in these cities and a stream of fact-finding missions from Washington.

Officials in the Polish ministry responsible for assistance coordination have been unable to obtain reliable information on the effective spending in Poland for particular projects even though the AID office, located in the American embassy, is just two blocks away. All this has led Minister Jacek Saryusz-Wolski, Poland's chief coordinator of foreign aid, to conclude that the American approach to assistance is "paternalistic -- like a parent gives to a child," which, he says, reinforces the passive psychological attitudes honed over 40 years of socialism.

Equally important, east Europeans are fed up with the eloquent but empty talk of democracy and the "integration" of Europe when the West's doors remain closed to trade. What the region needs, its chastened statesmen now say, is not monetary or technical aid, but access to markets. Increasingly, government officials are pointing out the hypocrisy of the West, which still maintains many trade barriers on east European exports including agricultural commodities, textiles and high-technology products. As Poland's Minister Wolski put it, "It's not credible to give assistance on the one hand and close the door (to trade) on the other."

The repercussions of such criticism in Warsaw or Budapest may not be as benign as in Washington. As Minister Wolski explains it, when people in Poland hear that billions of dollars in aid has come to their country they want to know what happens to it.

The aid question is heating up. Officials such as Mr. Wolski, who must answer inquiries from an angry public, think eruption is inevitable as frustration builds up during the tougher times to come. Meanwhile, the U.S. Congress and many "experts" are hotly debating how much and what kind of assistance to send to the former Soviet republics.

Yet again, AID has been put in charge, and a meeting called by Secretary of State James Baker to discuss and coordinate aid to the Republics next week failed even to invite the recipients. Lessons from eastern Europe should be learned. Some aid programs administered by private organizations have been effective, but the strategy for government assistance clearly needs reconsideration. Under the circumstances, America's most prudent course of action -- both for its own sake and the sake of the peoples of the former Soviet Union and eastern Europe -- may be to send no government assistance at all.

Ms. Wedel is a Fulbright scholar and specialist on eastern Europe whose latest book, "The Unplanned Society: During and After Communism," was just published by Columbia University Press.

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