

## **What Is Wrong With Western Aid To The FSU & Central & Eastern Europe And How To Improve It**

*Editorial Note: The European Commission responded to the points made in this paper, written in 1995, **inter alia** to the effect that they highly appreciated the list of eight recommendations, some of which were already the subject of action in their part.*

### **Summary**

In the last 4-5 years billions of western taxpayers' money have been spent. Hardly any practical real benefits to the Commonwealth of Independent States (CIS) countries have resulted. Somewhat better results have been seen in Central and Eastern Europe (C&EE) countries but in the assessment of many objective specialists they are hardly commensurate with the efforts expended.

In spite of the massive aid programmes, of the myriads of consultants, seminars and conferences devoted to reform, economic reconstruction and other crucial matters, the former USSR shows very few, if any, real advances toward improvement in the essentials of government actions. These must be to lay the foundations of:

- proper civilian, democratic control of the military,
- sensible democracy, coherent government,
- good relations with neighbouring states and ethnic groups within the Russian Federation and in its "near abroad" and with western Europe and NATO,
- policies to provide a reliable framework for honest, civilian activity in commerce, industry, agriculture and science such that the infrastructure of the country can be improved and so that business can become competitive in a market economy.

It is not far fetched to assert that the West has lost the opportunity to influence events in Russia in a positive direction. This failure is due to illusions, faults and errors traditional in Russia and reinforced by Homo Sovieticus. To set out such attitudes is merely to understand, not to criticise the local people; they could not be otherwise. Most westerners, especially in the aid agencies, are also ignorant of basics in the territories they plan to advise. They do not understand local history, culture and the current situation and needs. Many western advisers are also naive and arrogant. It is up to them to learn in order to be helpful.

Western aid agencies have in general displayed a tendency to use aid to fSU and C&E Europe as a vehicle for experimenting with their own prejudices and theoretical preconceptions, especially in macroeconomics. In TACIS<sup>1</sup> in particular this has led to poor project formulation, extravagant budgeting, a sense that their main function is to spend money allocated by the national participants regardless of

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<sup>1</sup> Technical assistance to the CIS.

whether or not it produces results in reality. There is evidence of poor management, poor coordination, inadequate support of their own field officers by Brussels, regrettably also of poor criteria in the choice of consultants, corruption by their consultants with local beneficiaries and above all by inadequate internal and external evaluation during the projects and afterwards. Lessons are not being learned and attempts to point them out are resented in Brussels.

Recommendations are made in this paper to improve the direction, management and evaluation of EU programmes.

## Introduction

M S Gorbachev, who rose through the ranks of the Communist Party bureaucracy, became its General Secretary. He was its first to listen to the briefings from advisers that the Soviet Union was collapsing under the weight of militarisation and inefficiencies. He attempted to reconstruct it through "perestroika" by a reformed Communist Party. Dramatic economic programmes such as Shatalin's 500-Day Plan were published. They failed, inevitably. However the west owes Gorbachev much in the political sphere, where his politics led to the liberation of Central and Eastern Europe (C&EE). His economic and political policies led to the failed coup in 1991 by those who wished a return to the rule of the CP. As a result another Communist Boss, B N Yel'tsin took power. The USSR was formally dissolved, but was partly replaced by the CIS. The Russian Federation, with half the population of the USSR, most of its military strength and its military industrial complex (MIC) assumed its natural, dominant place in the CIS. Yel'tsin was elected its first President in 1991.

Both Gorbachev and Yel'tsin appealed to the West for economic assistance. As a result a whole new industry sprang into existence, that of aiding the former USSR and C&EE to make a transformation to democratic government and to a market economy. Participants ranged from newly created banks such as the European Bank for Reconstruction and Development (EBRD), through programmes created within NATO, the European Commission and by national governments with bilateral arrangements to individual countries. In the last 4-5 years billions of western taxpayers' money have been spent.

In spite of the massive aid programmes, of the myriads of consultants, seminars and conferences devoted to reform, economic reconstruction and other crucial matters, the former USSR [in 1995] shows very few, if any, real advances toward improvement in the essentials of government actions. These must be to lay the foundations of:

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The territory of the USSR is regarded by many Russians as their natural, historical homeland. As a result of its break up, the people have lost their sense of national identity and may, if things get worse, support irredentist and military adventurism. At the same time the serious decline of the economy, has left most of the population far worse off than they were under the Communist regime. Large scale, organised crime and corruption is rife and out of control of the Government and organs of law and order, who indeed are often participants in that corruption. The struggle for power and privilege has several dimensions: between President, Government and Parliament; between the bosses of gas and oil industries, the MIC and the new traders, between the Muscovite centre and the regions. The Armed Forces are also divided but are almost a separate State within a State. They have their own agenda for reconstituting a formidable armed force without which they see Russia as "Upper Volta without Rockets." To return to the past of "Upper Volta with Rockets" would restore the punctured pride of many, even outside the military.

This process, to many Russians, comes before the creation of a respectable infrastructure and of a competitive economy. They do not see that restructuring the MIC, for example, would allow them both to retain an arms industry and to support large scale employment and their civilian economy. For such people it is imperative that the West would once again respect Russia as a Great Power. The injection of hard currency (*valuta*) has not assisted the process of reform of the economy. Huge amounts of *valuta* have been recycled abroad and deposited in the names of private citizens. Russians demand financial aid to be paid without strings with the aim of continuing to fund the unviable activities of the old regime. These run to subsidies for the MIC, transport, fossil fuel extraction, the military, and science.

The present parlous state of the Union is seen by many as the fault of the West. Amongst other accusations they cite the reduction to beggary of the ordinary, honest Russian people as a result of its erroneous advocacy of top-down, macro-economic reforms; the descent of hundreds of over-paid consultants who are seen by the locals as enriching themselves and providing no benefit to the intended beneficiaries. There is much truth in these criticisms. The external pronouncements of the President and his Government are designed to convince the IMF et al that they will pursue reforms vigorously and that the economy will improve. Not only have the reforms failed to produce useful results, not only are the internal pronouncements and actions of President, Duma and Government plainly at variance with the public assurances but no proper steps have been started at the lower levels of the working economy. I shall discuss my proposals at the end of this paper. The European Union, ludicrously, is blamed in print for bribing some republics to secede by promises of western aid; its consultants are said to be doing the job of western intelligence services by their work in the MIC. NATO is again seen as the enemy. In short the West is being demonised. The dangers to the West of these views are obvious.

The fSU is basically unstable and may lurch into further economic and political chaos. The post-euphoric, post-soviet time has every chance of developing unpleasantly for itself, its near neighbours and for the West. A possible scenario is for the CIS to reconstitute the MIC, the military unitary structure and an economic union dominated by Russia. The signs are there. To take just one example, Russia is operating a debt-equity swap with Ukraine and Belarus, taking shares in their MIC, oil and gas distribution and refining assets in return for cancelling huge debts owed for energy.

It is not far fetched to assert that the West has lost the opportunity to influence events in Russia in a positive direction. This failure is due to illusions, faults and errors traditional in Russia and reinforced by Homo Sovieticus as well as to the ignorance of most westerners, especially those in the aid agencies, of local history, culture and of the current situation and to the naivete and arrogance of much western advice.

This paper concentrates on Russia, Ukraine and Belarus. The three Slav republics, the heartland of the fSU, occupy a midway position between the non-Slav Republics further east and south, where the situation is far worse for reasons of national and ethnic history, and the newly independent republics that lie between the fSU and Western Europe, where, in most cases, progress has been better and where there is more ground for optimism.

This is due to several factors, especially:

- The shorter experience of Communist command rule,
- A residual memory of private enterprise from between the first and second world wars,
- In a few cases there is also a residual memory of democracy.
- All of them share a more bourgeois, western outlook than any in the fSU.
- All have the advantage of proximity to western Europe with its managerial talents, especially in their application to a market economy and also to the western markets themselves.

However there is no room for complacency or for satisfaction with progress. **The time has come for a fundamental correction to western aid policies, programmes and organisation in all those countries.**

This paper sets out to analyse the programmes of the aid agencies and to suggest a policy for their basic reform. Many of the comments and criticisms and all of the recommended changes apply to all the aid agencies to a greater or lesser degree. The paper is primarily addressed to the European Union but that body should not take the paper as singling it out for criticism and reform.

It must be emphasised, however, that fault lies on both sides - east and west, but it is up to the west to perceive clearly the errors, illusions, expectations and the real needs of the recipients and to understand the reasons for them. The failure of the western aid agencies and of many of the advisers, especially academics and publicists, to do so, lies at the heart of western failures to achieve useful aims in the territories.

There is no world experience that can guide us in the transformation of a massive Command economy to a market economy. The Marshall Plan cannot serve as a model in this respect, as some Americans think. It has to be remembered that the Hitler regime did not destroy private enterprise; the industrial and agricultural base of nazi Germany continued to be run by private entrepreneurs. The Marshall Plan financed the rebuilding of the shattered infrastructure and industry of western Europe, including both France and Germany. The victorious democracies of course did much to promote the transformation of Germany from a politically authoritarian

regime operating under an inhuman and distorted legal system into a country that has developed into a far better social condition.

People now in positions of authority in fSU and C&EE grew up under the system of a centralised command economy. They cannot be expected to understand how to make the essential transitions to democracy, civilian control of the military, a successful competitive market economy and the creation of the essential social and physical infrastructure to provide for their people. There is no alternative but for the locals to learn how to improve matters without significant foreign investment. But their instinct is to resist this approach.

Westerners must understand that Slavs, and Russians in particular, tend to believe in miracles. They will pursue old policies, say of subsidising loss making industries in the hope that something will save them at the last minute. In the case of the MIC this lies in renewed internal purchases of weapons and also for earning massive amounts of *valuta* by exporting. Another modest example is that of a big tractor factory in Belarus which was on its beam ends. It signed a contract to sell 3000 tractors to Pakistan and promptly decided to reject all western aid in restructuring since it could manage by itself. This view was dampened a bit when they found that because they had calculated neither the costs nor the price correctly they would lose massively on the contract.

If the west thinks it has something to offer the east then it is its duty to understand what easterners have to discard as they move toward a regime which enables them to advance toward democratic solutions and economic success for their people. The failure of the western aid programmes is largely due to the West's failure to understand. But this failure is coupled with its own arrogance, its own illusions, its own predilection for western recipes, which may indeed not have been as successful as its protagonists think even in the west but are largely inappropriate in the east.

## **Problems With Western Aid Agencies, Particularly With The TACIS And PHARE Programmes Of The EU**

I will limit myself to economic affairs, the affairs of the MIC and its impact on the national economies. The examples are crucial to the countries concerned and are subjects in which I have many years of personal experience.

One might start with the recommendations of individual academic economists who encouraged Gaydar to launch "shock therapy". This was based in part on the idea that rapid dismantling of financial controls would encourage private enterprise and provide the basis for a free market economy. However they should have remembered the conditions in Britain at the end of the Second World War. Exchange controls had to be retained in one form or another for some decades by Conservative and Labour Governments alike. Had they not been retained it is probable that Britain would have seen the same financial results as we have seen in Russia since 1991.

The western economists had their own prejudices, especially in recommendation of privatisation of large manufacturing enterprises in fSU. These appear to have been based on a Thatcherite experience in Great Britain and upon Reaganomics in USA. Yet there, it took years, sometimes decades, to make that transformation. And yet the academics concerned and others working in EBRD and the EU TACIS and Phare

programmes have followed their own prejudices and theoretical preferences. It is tragic that even today they have not had the humility to study the consequences of that advice that are manifest in the territory over the past four years or so. It was obvious to all who understood the territories that these policies would lead as they have done to results which are disastrous for the economies and for the people of those countries.<sup>2</sup>

If early privatisation is inappropriate so is the current emphasis on developing small and medium sized enterprises. In manufacturing these should grow naturally from the steady restructuring of the giant factories. Another, specifically British disease which developed during the Thatcher years was to dismiss manufacturing and to argue for an economy based on service industries. Such basic errors overlooked the simple fact that service industries had to have something else to serve. In truth no economy of any size can survive without efficient agriculture and manufacturing, certainly not the fSU. Executives in the western aid agencies would do well to understand this.

Furthermore it has to be emphasised that in the fSU the conditions for successful small businesses do not yet exist. There is no banking system that understands how to lend to start up SMEs (small and medium sized enterprises); neither the banks nor others are in a position to advise one-man or small businessmen on elementary matters. The clearing system for payments, in spite of years of advice and promises, does not work. Withholding payments by government fictitiously reduces the published rate of inflation. The banks hold for months at a time payments to creditors by debtors. In times of high inflation this benefits the banks but the firms go broke.

There is a definite need for SMEs in manufacturing and in servicing such as repairs of consumer goods and cars. But, at least simultaneously, a reliable network of spares and deliveries needs to be developed. It also has to be remembered that employees rarely become successful businessmen, even in the West. British figures show that only a very small percentage of redundant employees opt for training in business, and of those that started the majority failed rapidly. Most prefer to wait for businessmen to come to the area and to offer them work. The success rates in fSU for the establishment of such SMEs will be even smaller.

Western aid programmes should be diverted from setting up Government aid centres to internal counselling within the old factories, to creating the opportunities for them in collaboration with local authorities, to developing a professional job seeking and advice service. This is the sort of aid done by regions of the British Employment Service for civilian redundees. Good work is also being done by the British-German Resettlement centres for military redundees. The work requires to be much more at "grass roots" level and less at the macro-economic level which is the instinctive approach of the aid agencies. The West must also avoid pandering to the Centrist instincts of the eastern authorities which require all reforms to be under the control of a Government agency.

There are several **conclusions** that must be drawn from this narrative.

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<sup>2</sup> Well-meaning but ill-thought out programmes combining aid and restructuring are not new. The British Government's disastrous Groundnut Scheme in Tanganyika in the immediate postwar period led to ruin for many willing workers.

- People who staff the Western aid agencies and economic advisers suffer from the mirror image of the faults of the executives, politicians and economists in fSU and C&E Europe, who have no idea what makes a market economy work and how to get there. The westerners have no understanding of the realities in the territories and how to move them toward a working economy and society along the lines of one or more of acceptable systems in a reasonably democratic, advanced industrial country. It is indeed possible that a Confucian model, such as the Japanese, suits the CIS more than does a west European one.
- It is simply not adequate to state as some westerners do: "Communism failed, capitalism won, do as we do and you will win." Whereas there is only one basic model of a European Communist Command economy, with minor national differences, there are many varied models of a market economy and of a democratic system.
- It is dangerous to ram one's prejudices onto others.
- Aid to C&E Europe and the fSU is not a fit subject for experiment with one's theoretical ideas, even those that might have been useful elsewhere.
- It is essential to understand the territory thoroughly before offering advice
- It is essential to test one's policies and programmes by achieved results and not by intermediate false and superficial criteria such as: the number of reports issued, the number of programmes leased, the number of conferences and seminars that have been run.

If those faults are not bad enough there is worse to come when we discuss the management of the programmes themselves.

## **The TACIS & PHARE Programmes Of The European Commission**

[In 1995] TACIS has been active for about 4 years and is spending about 1 billion ECU/yr. PHARE has been active for over 3 years and spends about 0.5 billion ECU/yr. Both budgets are rising. TACIS is directed from Brussels, the representatives in the countries are directed not to intervene in formulating proposals which are suggested either by the national coordinator or by the staff in Brussels.

PHARE programmes are much more influenced by their local representatives. I have found in Slovakia and Lithuania, for example, that they are better targeted than the TACIS ones. It is unfortunate therefore to hear that the PHARE executives in Brussels wish to take back to themselves the control of those programmes. If these reports are true, the intention should be stopped.

### **Framing the Projects & Budgets**

Since it is essential for the programmes to be useful it is essential for the national coordinator and for the TACIS representatives to work closely together, to learn what is useful and what is not. Most of my personal experience with the EU is with TACIS programmes and I find them to be improperly conceived and directed.

a) The terms of reference (TOR) are plainly drawn up by people who follow their own whims, preconceived ideas along the lines criticised above, based on theoretical ideas irrelevant or indeed harmful to the country, sometimes impossible to carry out by the chosen consultants. It cannot be right for TORs to be formulated by the Brussels hierarchy or by their chosen consultants, usually academics, with no connection, experience or understanding of the territory and its needs.

b) Some of the senior Brussels staff react emotionally when experts on the territory suggest that the project is wrong, should be scrapped or modified and is a waste of money.

c) Some projects are suggested by locals, acting either as intended beneficiaries or national coordinators. Many of these reflect the old ideas of the Command economy that they wish to leave. These people need gentle but firm and rational argument to show them a better path to achieve their objectives.

d) The TOR once written is sacrosanct, it cannot be altered by the national coordinators, the TACIS representative or by the consultants in the field.

e) The budget follows the TOR. It too is based on theory not on proper costing of the steps of the project. It is inflexible; once written, Brussels does not allow items to be changed by its own evaluators, experts on the subject and territory. It is clear from my personal experience acting in this capacity as an expert on Belarus that the intention and motivation of Brussels staff is to spend the money allocated regardless of its utility. I have been urged several times to find something else to spend the money on within the project when it was agreed between me and the task manager that the purposes for which sums were allocated were excessive.

f) Some people in Brussels are beginning to recognise that TACIS directorate could benefit from the advice of experts on the territory and on specific sectors. Accordingly, it commissions them to write the strategy paper for its forward programmes. I was asked to write, together with another person, the strategy paper for Belarus and for the needs of the defence industries to help them to restructure themselves to contribute to the civilian economy. I am a recognised specialist on these issues not only by EU but by NATO and the British MOD as well as by other national and international bodies.

Our papers were rejected by the Brussels hierarchy because they did not reflect the self satisfaction of the hierarchy, did not support their preconceived ideas and were considered to be likely to upset the Belarus government by the frankness of the papers and recommendations. Our personal experience is that the ministers and directors within the Belarus government are very amenable to sensible argument. We were not given the opportunity to meet them. Instead, the hierarchy demanded major changes in the papers to reflect their own vanity and prejudices. We modified the format to meet demands put forward late in our discussions with Brussels but finally refused to write what they wanted. This is very unsatisfactory. Experts should not be the lackeys of amateur bureaucrats whose aim is to promote their own ideas while hiding behind the reputation of the experts.

To sum up this section, it is clear to me that the strategy of TACIS is to pursue expensive, often irrelevant, programmes regardless of their benefit or otherwise to the territory. The Appendix provides examples of comments (a-e) above.

**The Implementation Of Projects**

There are reported to be 11,000 consultants on the EU lists, all vying for jobs with the prime object of making money. Very few of them are experienced in the territories or in the specific problems facing the sectors of the economy in those territories. Many intrigue to be short listed and look around for the few experienced experts to add to their lists in order to become qualified. Such consultant groups are merely "post-offices"; several have approached me and my friends simultaneously to be added to their lists.

There seems to be a policy within the EU to award contracts to consultants more on the basis of which country's turn it is to get one rather than to examine their competence. In 1992 when I was first asked to put together a team to study the MIC in Belarus, I was told that there were too many British subjects in my team, could I not find a Greek or a Spaniard?

There is some evidence that some EU staff collude with their favoured firms in order to ensure that they get contracts as opposed to a fair, open competition.

The EU operates a policy of engaging staff even at quite high levels from several consulting groups acting as intermediate providers. The contracts are for two to three years only; this prevents the appointee from becoming expert in the territory and its problems. The policy is also costly. It is EU policy to award a contract on a specific job to consulting groups only on a short term basis. If you do the first stages you are debarred from the follow up, even if you have performed to the satisfaction of all concerned. This is in spite of the obvious advantages of continuing experience. In the case of the defence restructuring in Belarus, the report that I wrote together with Coopers & Lybrand was not shown to the successor firm, British Aerospace and their report, with recommendations, was not shown to their successor, Thomson Sofitel. Each starts with a tabula rasa. This is a sheer waste of experience.

In spite of the audit procedures, there are examples of direct corruption between appointed consultants and their beneficiaries. For example a Deputy Minister in Moscow demanded 10% of the fee paid to our group of advisers and when we refused he said, "I went to Brussels as an independent expert to help to choose the successor firm for the next stage of the job you are doing. We selected a Spanish firm who immediately gave me 10% of their fee, why cannot you do so?" Incidentally, it was plain to our team that the purpose of our assignment was not shared by this Minister. He wanted to manipulate us and to steer any report of ours to suit his own ends in internal squabbles with other Ministries. He had no understanding of scientific affairs and had no intention of adopting any sensible advice that we might give him. Consequently I wrote to the consultants managing the project and told them that I would not continue the project which would be a total waste of EU money and of our time. I also reported this directly to DG1. I refused to take further fees for the job.

In Moscow there were complaints that the TACIS national coordinator and his staff were flouting TACIS regulations by failing to transmit to the regions information on possible TACIS funding for jobs; these were kept for his Moscow cronies, it was said in some quarters. This needs investigation. But to my senses as a Russian myself, the man was untrustworthy.

In Belarus the national coordinators under the previous government were misusing the EC office for the commercial ends of their own private firms; they also spied on EC correspondence. One of their survivors was very properly required to resign.

### **Auditing The Work**

The TACIS staff seem to judge the performance of consultants only to the extent that they have carried out the TOR. For example, in my 1992 Belarus project, we were criticised for failing to provide a list of military factories with much detail required in the TOR. I asked several ministries for such a list and each refused. Either they did not know or did not wish us to have this information. In either event, to have insisted would have led to accusations of espionage. The local KGB General had in fact, toward the end of our assignment, written to the Chairman of the State Committee for Industry to tell him that he was in breach of the old Soviet Laws, still in force, by allowing foreigners into the defence factories. The Chairman ignored the letter. The foolishness and naivete of the writer of the TOR can be seen in the request to set out the record of what military equipment the factory made. The information requested was basically irrelevant to the task ahead. The Appendix provides more instructive examples of poor attitudes both in Brussels and in fSU.

Professor Patrick Humphreys of the London School of Economics, who also has had experience of operating TACIS and PHARE programmes, observed to me succinctly, "The Court of Auditors will give you 100% marks if your report substitutes the past tense for the future in every phrase where the TOR states "The consultant will ..."

Neither they nor the staff in Brussels pay enough attention to the question of what has been achieved by the work.

In **summary** the deficiencies of the TACIS programmes as I have experienced them are:

- The terms of reference are written without adequate understanding of the real needs of the beneficiary and whether the circumstances within that country allow sensible objectives to be realised. There are faults on both sides - it is hard for locals and most westerners alike to work out what objectives can and should be aimed for to achieve the transformation to an efficient political-economic system. But since there is much more expertise in the West - outside the aid agencies unfortunately - of how the Communist system worked and indeed of the basis of transforming poorly performing organisations, it is up to the Western aid partners to work much more closely and professionally with their eastern partners. The West must take the lead in human relations, understanding and professional expertise.
- What we have instead is the work of westerners without understanding of the problems and way forward of the territories they are supposed to help. Many projects reflect the theoretical ideas and experiences elsewhere irrelevant to the fSU and C&E Europe
- Budgets are written without proper basis for costing the job and are then sacrosanct. The Brussels executives seem to be anxious to spend money allocated regardless of its utility. Many projects could with advantage have been recast, reduced to a proper modesty and drastically reduced in cost.
- There are far too many consultants, usually ignorant of the territory and its problems, who are engaged to write strategy papers, terms of reference etc. It

is true that the TACIS staff is small in number. But it could very easily do the work itself if it were more professionally competent. Its very incompetence leads to a waste of effort. Expertise in any field allows the specialist to come to a correct diagnosis and recommended treatment quicker than an ignorant generalist. TACIS staff and consultants, if they have had any experience at all, seem to have worked either in their national bureaucracies or in former colonial territories. The fSU is not Africa or South America.

- It is assumed, wrongly, that projects are best carried forward by western consulting groups rather than by people experienced in the exact sector requiring help. There are other ways, as I shall propose in the recommendations.
- Consulting groups seem to be chosen on the basis of "It is X nation's turn next" rather than upon the competence of the group. There is some evidence that EU staff favour specific nations and/or groups in a manner bordering on the dishonest.
- These consulting groups mostly see only a pot of gold for themselves.
- The locals say that they are tired of repeating the same facts to successive visitations, either by TACIS executives or consultants. Furthermore they perceive little or no practical benefit from their activities from these long exercises, which simply enrich the western consultants. There may well be an understandable envy of the rates of pay of westerners but the basic criticism is correct.
- The internal evaluation by TACIS staff until recently at any rate was far from satisfactory. It fell far short of what should be expected from a spending organisation, whether a department of government, commerce or a charity. It remains to be seen whether they will use their evaluators, of whom I am one, properly or as a whitewashing operation.
- The Court of Auditors appears to examine only a very restricted aspect of proper expenditure of money. It does not appear to evaluate the progress and utility of the project.
- The European Commission should be ashamed of the bitter, truthful remark applied to it by people in authority in Minsk: " We are sorry to see that Socialism is alive and well in Brussels."

## **Recommendations**

The transformation of the fSU and of C&EE cannot be hurried; it will take decades rather than a few years. The West must therefore structure its aid agencies appropriately for perhaps half a century's work. This provides the opportunity for what is essential: the recruitment, training and management of a corps of professionals in collaborative aid. Competent staff can then look forward to a life-long career in a worthwhile job. It is probably beyond the realm of practical politics to get the aid agencies to cooperate in one Corps, but at least they might coordinate their efforts better than at present. The advantage of addressing this

paper to the European Commission is that these recommendations can be adopted by them.

1. Create a professional corps of people for a lifetime job. Each person should specialise in a territory. This requires fluency in the local language(s), good understanding of its history, culture, recent past, current problems. An expert should be recruited for the territory to work in a sector requiring long term expertise; this may be, for example, law, government, agriculture or industry.

2. The best road to proficiency is to assign a recruit as a junior in the territory and require him or her to pass examinations before confirming the appointment. He might then be assigned as a junior officer in the national section in Brussels. He should have learned enough in the field to support the field officers, rather than to frustrate and hector them as is too often the case now. This experience should lead to the important job of acting as a senior adviser in the field in his area of competence; in turn this could lead the officer back to a senior job in Brussels and to the role of the representative in a country. Senior representatives will have learned a lot about their territory and its needs and should work very closely with the national coordinators in the local government; learning will be a two-way process. In this way it is likely that aid programmes will become more practical.

3. The present staff should be evaluated. Those with the right attitude should receive general and specific training in the conditions and needs of the country with whose affairs they are to work. The opportunity should be taken to release unsatisfactory personnel.

The Commission should immediately discuss with the specialists on the territories and their problems who are to be found in NATO, national Ministries of Defence, Employment, Foreign Affairs and with non-government organisations such as specialist research centres in member countries of the North Atlantic Cooperation Council, NATO and EU. Other sources will be the university centres of languages which have always provided education in general culture as well as in languages. It has always been the practice to send military, civil service and commercial personnel from western Europe to study abroad in universities etc in fSU. This is still the case. From their ranks will come courses, seminars and tutors for TACIS and PHARE personnel. It is an astonishing lacuna that these actions have not been the rule to date. Access to continuing education and training is the rule elsewhere; it should be the rule within the Commission.

4. The Commission should reconsider its extensive use of consultants. The present system is unsatisfactory from every aspect. Advisers, to be successful, must have had previous personal responsibility for the kind of work required. Some I have met fulfil this requirement, including people invited by the consulting groups from several EU countries; many however have merely been consultants and command little respect in the territories. A better and cheaper policy is to invite volunteers seconded from similar jobs at home, perhaps paid by their organisations. This is the case, for example, in the British Employment Service, with the British MOD Resettlement Service and with the American Bar Association. A more extensive use of retirees as volunteers should be sought. Experience, however, suggests that their home organisation must in some cases become more professional. Such people are invaluable because they can demonstrate quickly their expertise in doing similar jobs, facing similar problems, solving them in a practical way. It is, however, essential for such people to have had some basic

briefing in the attitudes and circumstances of their hosts. Furthermore the volunteers are likely to be middle aged; some territories respect age and experience and prefer such older advisers. People with that background and with the right attitude, who clearly demonstrate a sympathy and a wish to help, very quickly create a personal rapport with their counterparts.

5. Specific experience in restructuring the military industries shows that the best approach is to take matters in stages. A short visit from an experienced industrialist to a factory suffices to establish the most likely way forward. It is now clear that it is unlikely that such factories will be able to evolve their products to compete with western goods. However much the policy is unpalatable to some locals, it is found that the best way for them to earn a living quickly is to interest a foreign company in working with them. One possibility is to start by assembling western products for re-export to the west. This will be in competition with the countries of the Pacific Rim, where much such work is done on behalf of leading Japanese and western firms with well known products. Another opportunity is for a western firm to supervise the manufacture and servicing of their products locally for sale in the fSU. This is possible, particularly where such products are already sold from import. The job of the consultant is to act as a "marriage broker" to find suitable western partners who will then, in their own self-interest, provide the "soft" technology, the management skills that the EU currently expects consultants to provide. Sadly there are few examples of successful restructuring as a result of mere consultancy. The redefined role of consultants must be to enable the recipient factory to be competent to do its own market intelligence work. This is essential, rather than having the Government to provide this role centrally.

Later it will be necessary to develop links between industry, agriculture etc with educational and research establishments in order to be able to develop new products and production processes, management etc. This, incidently, is the purpose of the second phase of a project that is being recommended to TACIS for Belarus. If done well and received positively it will serve as an example for others to consider. This new policy would drastically reduce the cost to the EU and is far more likely to succeed.

6. Essential to the TACIS and PHARE programmes is the provision of effective, objective, professional evaluation. If the recommendations above are put in place it is likely to improve the aim and thrust of projects. They should be subjected, before final approval, to independent expert evaluation as well as by local and Brussels-based personnel. The programmes should contain specific review stages which provide additional opportunities to change direction or to close projects which are deemed to be unsatisfactory. The culture of spending money for its own sake must be brought to a stop. There is no shame in admitting error or indeed failure, provided that the lessons are learned.

7. In addition to the present system of sanction by the National Governments, it would be valuable to add a body of territorial and sectoral experts to supervise the strategy and framework programmes intended and running under the aegis of TACIS and PHARE. These experts could be provided by the national governments and by other specialist groups. These could be invited on a case by case basis.

8. On present evidence, it appears that the Court of Auditors should, with advantage, be strengthened by the addition of specialists on the territories and

their sectoral requirements. These should be from professions additional to finance and economics.

## APPENDIX

Some more examples to illustrate the poverty of projects and approach both in Brussels and in the territory.

- The first project to study the restructuring of the Belarus MIC inter alia required the consultants to detail the financial data such as profit and loss accounts and balance sheets. This demonstrates total ignorance of the management systems of the fSU which has no basic data to allow such financial presentations.
- A senior TACIS officer wrote in the official journal that he would "lose his temper when he heard criticisms of TACIS programmes". Another person slandered me when I wrote arguments, later upheld by his seniors, against his pet and expensive ideas of launching massive programmes to support privatisation of the giant factories without previous preparation. Such irrational responses need restraint.
- In Belarus a project was dreamed up within the Government to monitor pollution. It required different sensors to be placed over the territory of the Republic to send back data to a central station. It would have cost billions and to no purpose since there is no Law to allow inspection of sources of pollution and to require their modification or closure. The right way is to provide such a law, to train a corps of Environmental Safety Engineers, who would advise on cleaning up the pollution sources and to require the management of the organisation causing pollution to act accordingly. This would be far cheaper and also effective.
- Again in Belarus there is a TACIS programme, costing 3 million ECU, carried out by really competent experts from the British Government's Energy Efficiency Service. They audited some factories but no one would take their advice, some of which required management with no expenditure, simply because they did not care to save energy with energy prices so low. However they were not low: they represented 42-47% of the costs of industrial production. The truth is no one cares about costs in fSU. The British set up an efficiency advisory centre similar to that available to industry in UK. I doubt anyone will bother to use their advice. The British Director in Minsk told me that they intend to instrument and fit out an apartment building to show how much energy could be saved. However energy prices to housing are heavily subsidised and there seems to be no reason why anyone will bother any more than did the industrialists. The Belarus authorities have spent a lot of money on setting up Energy Police instead of saving electricity in practical ways. This is a policy typical of Peter the Great.

I suggested that the project seemed doomed to fail and that the expenditure was not worthwhile. There are two logical paths, one to tell the Belarus authorities to play their part in providing financial incentives and penalties or, two, to terminate the contract. It was deemed worthwhile since it was gradually persuading people to the right policies. However 3 million ECU is an awful lot to spend on changing the opinion of a few people in one Republic on a simple matter like energy saving. That

sum of money would fund for several years the all-important NATO Outreach Programme of changing the policies and relationships of the civilian and military authorities across every country in C&E Europe.

- An excellent British agricultural firm leased 70 Ha from a Ukrainian collective farm, In two seasons it raised the output/ha by 2.7 times by using British seed, husbandry and modifying Soviet equipment. The Minister of Agriculture was delighted and asked them to continue on 7 more farms; a good example of creating a model of excellence for others to copy. However the work came to nothing because the previous cooperative Director of the farm was replaced by a former tractor driver who stopped it. Shades of Stalinism!
- In Belarus a big factory paid 18 million DM for a licence from Neoplan, a well known German manufacturer of coaches. The factory successfully made and sold 15 coaches. The money for them, however, went into the accounts of the main firm and the project was starved of funds to buy the materials for the next order. An example of arbitrary and suicidal decisions.

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