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I PURPOSE OF THE CONFERENCE

Since 1989 the West has allocated some \$35 billion to help ease Eastern Europe's transition to democracy and a market economy. With the end of the Cold War, tens of billions more were promised to Russia and the other former Soviet republics. The West offered aid, and the East accepted the assistance. Western politicians came to show support. Yet in just a few years, this promising era of cooperation became filled with disillusionment. Indeed, the "success stories" conveyed in donors' reports sometimes bore little resemblance to the aid projects in the field. The view from Washington, Brussels, or Bonn could be very different from the view from Budapest or Bratislava.

Despite the need to confront these differences, there has been little directed and open exchange among the donors and recipients involved at various stages of the aid chain. The conference that this paper summarizes was conceived to help rectify this situation by bringing Western policymakers, practitioners, and analysts together with recipient aid coordination officials and analysts. The goal of the conference entitled, "Western Aid to Central and Eastern Europe: What We Are Doing Right, What We Are Doing Wrong, How We Can Do It Better," was to create a problem-focused atmosphere conducive to informal exchange.

The conference was cosponsored by East European Studies of the Woodrow Wilson International Center for Scholars, Washington, D.C., which hosted the event, and the Friedrich Ebert Stiftung of Bonn, Germany, under the auspices of Dieter Dettke, Executive Director of the Washington, D.C., office. It was organized by Janine R. Wedel, Associate Research Professor in Sociology and Anthropology at The George Washington University, Washington, D.C., and John R. Lampe, Director of East European Studies.

This meeting took place at a time of fundamental shifts in the political and economic cultures of both the aid-giving and the aid-receiving world. In the United States, budgetary constraints, debates about the role of government intervention in the marketplace, and doubts about the efficacy of aid projects augur for changing foreign aid policies. Aid to Central and Eastern Europe and to the states of the former Soviet Union is under review,

with arguments having been made for conditioning Russian aid on actions in Chechnya and Iran. Speaking at the conference, congressional staff representatives warned that U.S. aid to Russia is likely to be cut and that the U.S. Congress is considering not *whether* to reduce foreign aid, but *how much* to reduce it. Thomas A. Dine, Assistant Administrator for Europe and the New Independent States at the U.S. Agency for International Development (AID), who spoke at an evening reception, offered an impassioned plea for continued U.S. foreign aid.

In Western Europe, the 1996 intergovernmental conference of member states of the European Union (EU) will make decisions about the future enlargement of the EU that will have significant policy consequences for all European aid donors to Central and Eastern Europe. There have also been significant changes within the recipient countries of Central and Eastern Europe. They now have five years' experience of self-development in the political, economic, and social spheres of post-Communism and of working with assistance programs.

Indeed, the conference took place at a time when many people are asking, as conference rapporteur John Harper, Senior Research Fellow in Cross Cultural Organizational and Management Studies at the University of Sussex European Institute, Brighton, United Kingdom, put it, "How much of the world of yesterday will produce the world of tomorrow?" This wider context of the conference added an important element of urgency and sharpness to the debates. Against this backdrop, the conference was designed to provide a forum for discussion among key practitioners from both donor and recipient countries, scholars studying aid, and policy advisers. It was designed to take a critical look at what has happened in the aid field since 1990, come to some conclusions about which aid models have proven effective, and discuss policy options based on an awareness of the needs and the scarcity of the resources available. The conference agenda is presented in Appendix A.

There were 39 conference participants--27 from the United States and 12 from Europe. American participants included representatives of the U.S. Department of State, including Ambassador Ralph Johnson, Coordinator for East European Assistance, and Ambassador Darryl Johnson, Deputy Coordinator for U.S. Assistance to the New Independent States; the U.S. Agency for International Development (AID); and the U.S. General Accounting Office (GAO). Also present were congressional staff, aid contractors, and scholars working on Central and East European aid. West European participants included representatives from the EU's PHARE (Poland-Hungary Aid for Restructuring the Economy) program for assisting Central and Eastern Europe, notably its Principal Adviser, Alan Mayhew. German aid analysts included Wolfgang Schaefer of Georgetown International and Herbert Wilkens of the Deutsches Institut für Wirtschaftsforschung (DIW).

Participants from Central and Eastern Europe were aid coordination officials and analysts from Poland, Hungary, the Czech Republic, Slovakia, and Croatia. Zdeněk Drábek, former chief aid coordinator of Czechoslovakia; Pavel Rozsypal, director of the Center for

Foreign Assistance in the Czech Republic; and Kornel Kovats of the Assistance Coordination Secretariat of Hungary attended. Jarmila Hrbáčková, formerly of the Department of Foreign Assistance, Ministry of Foreign Affairs, came from the Slovak Republic, and Ivo Bičanić of the University of Zagreb, Croatia, also participated. The complete list of participants is presented in Appendix B.

The participants were selected for their different responsibilities, experiences, and disciplines. The view from the inside—the recipient perspective—is often quite different from that of the outsider looking in. People working in the field may see the same project with different eyes. As Glen Fisher pointed out in his book, *Mindsets: The Role of Culture and Perception in International Relations*, "Outside advisors from the industrial world see themselves and their own country as part of the solution, never part of the problem."¹

The participants also represented different levels of involvement. Because middle managers and program officers often know very different facts from senior administrators, high-level policymakers, as well as middle managers and consultants, were invited. Thus the conference gave people connected to the aid community a special opportunity to talk across levels.

The conference was designed to produce a safe and creative environment in which participants could build a partnership to confront their differences, but a larger truth may have emerged.

II. CONFERENCE FOCUS, FORMAT, AND QUESTIONS

The conference was primarily concerned with grant aid provided to Central and Eastern Europe. The sessions focused on certain priority areas as defined by the major donors, notably privatization aid, aid to the private sector, and aid to East European non-governmental organizations (NGOs).

The format chosen was the roundtable. This had both a symbolic and a pragmatic purpose. The successful negotiations between representatives of the Polish Communist ruling elite and Solidarity in April 1989 had after all taken place around such a table. Pragmatically, this layout allowed, even obliged, the participants to face one another, to confront their differences, and to seek resolutions. It also helped to minimize the hierarchical status differences that a more traditional set-up might have emphasized.

To guide the discussions, Janine R. Wedel and John Harper prepared a set of questions for the opening and closing sessions and for each of the three thematic sessions. These included inquiries into the different ways in which donors structure and implement aid projects and how this affects aid outcomes, as well as questions about the degree of integration of the projects into local political, economic, and social structures. The complete list of questions is presented in Appendix C.

In each session, a designated moderator acted as the director of the debate. The three thematic sessions, Privatization Aid, Aid to the Private Sector and to East European Nongovernmental Organizations and Institution-Building Efforts, and Applications to the Former Soviet Union, were moderated by Ambassador Ralph Johnson of the U.S. Department of State, Alan Mayhew of the EU's PHARE program, and Ambassador Darryl Johnson of the U.S. Department of State, respectively. John Harper moderated both the opening session, Introduction of the Issues, and the final session, Policy Directions for Aid Priorities and Strategies.

At the opening session, each of the participants presented the issues and topics that he or she judged most pertinent to the conference. Although this process took nearly two hours, the result was an agenda built on the needs of the participants and one in which participants felt a sense of ownership. The concluding session took the form of a two-hour discussion to identify the priorities and options for future policy decisions.

In each session, the moderator called on the presenter of the discussion paper to introduce his or her ideas in 10 to 15 minutes. Scott Thomas, head of the NIS Unit of the Center for Cooperation with Economies in Transition at the Organization for Economic Cooperation and Development (OECD) in Paris; Joanna Regulska, Associate Professor of Geography, Director of the Local Democracy in Poland Program, and Director of the Center for Russian, Central, and East European Studies at Rutgers University in New Brunswick, New Jersey; and Raymond J. Struyk, Senior Fellow at The Urban Institute in

Washington, D.C., delivered the three discussion papers. The role of the presenter was to stimulate discussion.

Following the presentation of the discussion papers, respondents were allowed 5 minutes to put forward their arguments. Their role was to add other facts and points of view or to criticize what had been said.

When these remarks were complete, the moderator opened the session to all participants. The remainder of the group—all those who were not presenters or respondents in that particular session—were encouraged to offer their experience.

A discussion of each of the conference's three thematic sessions follows. The conference's opening and closing sessions, as well as its general conclusions, are summarized in the final section of this report.

III. PRIVATIZATION AID

Opening the session on privatization aid, Scott Thomas delivered a discussion paper on "Grading U.S. Aid to Central and Eastern Europe: The Example of Privatization." The paper was based in part on his experiences as AID's economist for Central European countries from 1990-92, during which he helped to design the privatization aid program for the region.²

According to Thomas, in Central and Eastern Europe, American officials came very close to achieving a complete convergence of the two objectives of foreign aid programs: engendering economic growth based on sound policies of growth in the middle class and serving as an instrument of foreign policy. With this convergence, there was a sense that quickly supporting the reformers in the post-Communist economies would soon bring about positive results. In this regard, AID responded quite well, particularly given its legal and institutional constraints.

Nevertheless, this optimism was soon replaced by an understanding that the economic transition would be long and painful. This was not the result of poor initial response by aid programs but of growing understanding of the dire economic straits of the target countries. In fact, AID "had gotten it about right" in its decisions about how to allocate assistance in Central and Eastern Europe (for example, in choosing to allocate assistance to the Hungarian and Czech privatization programs ahead of the Polish one).

Thomas cited the following lessons to be learned from assistance programs in Central and Eastern Europe vis-à-vis aid strategies for the former Soviet Union: economic programs, not particular regimes, should be supported; stabilization must be one of the earliest goals of the economic transition; and mass privatization programs may not be the most effective place to spend aid money, at least not without the infrastructure necessary for successful privatization.

Response to Thomas's talk from the other participants centered on these points:

- **Approaches to privatization.** There is no one right way to achieve privatization in all contexts. "We should not be afraid to admit we don't know the answer. . . . We are still learning," remarked one participant. "Scientific socialism has failed. How will scientific capitalism fare?" remarked another.

Some participants juxtaposed the mass privatization model with investment in the small, independent sector and stressed the need to develop new industries and to encourage small- and medium-sized enterprises, rather than to focus on privatization of large state-owned companies.

- **Barriers to and consequences of privatization.** Some participants pointed out that privatization could be hastened if tariffs, quotas, and all trade barriers

were lowered, thus allowing Central and East European countries to compete on equal terms.

Other participants noted the damaging effects of privatization in creating economic and social inequalities. For privatization to become a reality, the advantages and benefits will have to be "sold" to the affected people and to the politicians who make decisions about aid allocation within countries. Therefore there is an urgent need to invest in welfare infrastructure and in reinforcing local community and family networks. A kick-start for privatization requires money and investing in people through training programs where new skills and knowledge are imparted.

Several participants suggested that privatization has not always had the intended effects in terms of the restructuring of targeted firms. Many newly privatized firms have absorbed the shock of privatization and failed to restructure.

The limits of privatization aid. Aid itself cannot produce privatization. Privatization requires a change in cultural and mental outlooks. Aid agencies have a role to play in helping the rethinking process and providing the relevant information and training. One participant who has been involved in the evaluation of privatization aid projects said he has concluded that aid is better off focusing on *privatization processes* rather than on *specific companies*.

Some donor representatives reported that privatization aid has met with mixed results in Central and Eastern Europe. As one representative stated, "We're beginning to question how much benefit we're deriving from the activity of privatization." He added that "We have found that we put privatization teams in place where there hasn't been a market for them. . . . In some places where we found advisers weren't being well used, we pulled them out." Another donor representative remarked, "We've all had our fingers burned with privatization."

With reduced aid resources on the horizon, the task is "how to make the best possible use of the resources we have got." Privatization aid may not invariably be the best use.

IV. AID TO THE PRIVATE SECTOR AND TO EAST EUROPEAN NONGOVERNMENTAL ORGANIZATIONS AND INSTITUTION-BUILDING EFFORTS

Joanna Regulska delivered a discussion paper on "Building Local Democracy: The Role of Western Assistance."³ The paper was based in part on her experiences as a director and developer of AID-funded projects to work with local governments and to encourage local initiatives.

Regulska examined the role of foreign assistance in the growth of local initiatives, the local institutional capacity-building process, and the emergence of NGOs. "While a certain sense of accomplishment is certainly justified," she said, "there have been and continue to be limitations to the success of assistance." Her paper made five major points:

- 1) Early on there was lack of commitment in support of local democracy which has delayed the strengthening of civil society and undermined the transition.
- 2) Central and Eastern European NGOs have been asked to fill the void left by central governments and also to take on new responsibilities as they arise. Yet their political, legislative, and financial positions have remained ambiguous. Their roles and their ability to play those roles have yet to be sufficiently outlined.
- 3) The philosophy of assistance is to give aid where there are concrete outcomes. Yet the nature of local democracy necessitates a certain lack of quantifiable outcomes or a freedom to learn and to discover goals as the process is taking place.
- 4) How aid is provided and who is providing it can work against local initiatives. Often aid is given in large sums that tend to benefit groups above the local level. In addition, those providing the aid frequently rely on consultants who have little local knowledge and thus little reason to direct aid to local initiatives.
- 5) Those who have been most marginalized by the transition--women and youth--have also generally been overlooked by aid organizations.

The following points were emphasized in the discussion that followed:

- **Partnerships for sustainable development.** Sustainable democratic practices are more likely to be achieved when full recognition is given to the tensions that exist at a local level among the NGOs (often not politically legitimized), local government (which sees NGOs as competitors), and small- and medium-sized enterprises (which pay taxes to the local government and expect

benefits). Establishing a partnership among the three sets of actors which would enable them to work as a team with the central government and aid providers would ensure a basis for sustainable development.

- **Democratization.** Top-down reforms tend to lose their momentum without local, grass roots commitments to keep the energy and motivation alive. It is often difficult to avoid a growing feeling of powerlessness to influence decisions at the local level. Several participants stated that aid given "too late and often on too large a scale" had inadvertently encouraged resistance to change, disaffection, and polarized perceptions. High unemployment among women and young people has serious long-term consequences for the next generation, who will be responsible for carrying forward the reforms. Aid programs should also focus attention on giving resources to meet the needs of these groups.

The promotion of democratic values is a long-term project requiring a clear strategy. It will not happen as a result of ad hoc opportunistic policies. Education and training are essential. The main ingredients for building a political democracy include establishing locally based projects that are connected to the center, entrusting citizens to take political and economic decisions for which they are accountable, and ensuring that results are visible and capable of being sustained.

- **NGOs.** NGOs clearly have a major role to play in both economic transformation and political democratization. In any policy formulation, it is important to clarify the different aspects of the roles of go-between, broker, initiator, provider, stimulator, gap-filler, pressure group, and profit and nonprofit maker. It also is important to ensure that there are well-established, transparent linkages between local and central governments.

NGOs have an important role to play in developing social networks and support systems, nurturing economic business activity, and in acting as brokers in negotiating cooperative or partnership agreements between government and local businesses. Cross-cultural fertilization through NGOs is important. Horizontal, not just vertical, exchanges are critical for transferring knowledge, savoir-faire, and skills

- **Implications for assistance.** Participants emphasized the importance of investing in local government reform by encouraging citizen involvement in decision making, establishing systems of local accountability, and creating transparency in relationships among donors and recipients.

To this end, aid advisers need to be assigned over a longer term so that they can be more knowledgeable of the country context, credible in the eyes of the

local people, and aware of the integral links between economic aid and political democratization.

Infrastructure projects, whether small, such as paper or telephones, or large, such as highway networks, are essential not only in terms of practical utility, but also to create an atmosphere of confidence and goodwill among the recipients toward restructuring processes.

Some participants suggested that donors have misunderstood indigenous social organization and falsely think that by funding local initiatives they are encouraging the growth of "Mafia," "clan," and "fiefdom-" type systems. Yet, according to these participants, such systems are more inclined to flourish where there is a "social vacuum" between the central and the local levels. (The social vacuum theory envisages an "atomized" society, its mediating institutions destroyed by war and imposed revolution. There is a harsh dichotomy between the family and the state, one in which an overgrown public sphere presses heavily against the private.⁴) To counter any development of "Mafia," "clan," and "fiefdom-" type systems, the participants said NGOs and both horizontal and vertical links should be encouraged, not neglected.

V. APPLICATION OF CONCLUSIONS TO THE FORMER SOVIET UNION

It is important to consider the relevance of conclusions drawn for Central and Eastern Europe to parts of the former Soviet Union that are receiving (or are about to receive) aid. It has been five years since the first programs to aid Central and Eastern Europe were set in motion. Poland, Hungary, and the former Czechoslovakia were considered models of transition--the most likely to succeed among the transitional countries. But in the aid game, Central and Eastern Europe have only been training for the real Olympics of foreign aid, which will be held in Russia, Ukraine, and the other former Soviet Republics, generally a much more difficult aid situation. That is where the stakes are highest and where the West has the most to win or lose. Although the conference concentrated on Central and Eastern Europe, participants also had a contribution to make in considering how their conclusions might play out farther east. If the aid story is not understood in the "model" nations, the problems in these nations might be repeated elsewhere.

To open the session, **Raymond J. Struyk** delivered a discussion paper entitled "Lessons on Delivering Technical Assistance."⁵ The paper was based in part on his involvement in an AID shelter reform project in Hungary and currently as resident director of the AID-sponsored Housing Sector Reform Project in Russia.

Struyk's paper outlined four major conclusions for delivering technical assistance in Eastern Europe and the former Soviet Union:

First, if at all possible, define the work program jointly with host country officials in advance of naming the long-term advisers and recruit individuals to accomplish the tasks that are most prominent in the program.

Second, resident advisers should be specialists, not generalists, in their fields. Having true experts present on site is essential to a quick start to gaining the confidence of counterpart officials and experts and to responding efficiently to "unscheduled" requests for help.

Third, build a truly integrated team of foreign and local professionals. Give the local professionals significant responsibility; use their contacts in government and research institutes; and heed their advice, especially on political issues.

Fourth, do not quit too soon. If a demonstration program has worked well, go the extra mile to push its replication so that the likelihood of its widespread adoption is measurably enhanced. In shifting to the replication stage, change the mode of

operation away from the intense concentration of resources on the next pilot to a more limited but broad-based approach.

Obviously, the success of any particular technical assistance effort depends largely on the personal skill of the team providing the assistance, the receptivity of the client government, and other factors. Nevertheless, I believe adherence to the points just outlined can appreciably improve the probability of success in providing assistance in this part of the world.⁶

Struyk emphasized the importance to a successful outcome of "building partnerships at all levels" by knowing the country and the culture, learning the language, and soliciting support from within. This requires that the donor be realistic about the conditions set. (Are they feasible? If not, set ones that are.) It is helpful to construct broad and strong support across all government departments and to have a long-term presence of two to three years. Donors need to be fully aware that no project is "purely technical," allocate "the right people for the right job," and recognize that small, well-focused partnership projects with joint accountability can be very cost effective.

Donors should be aware that the way in which local people view aid consultants and projects can affect the implementation and effectiveness of aid. A congressional staff member elaborated on a list of complaints regarding Russian aid he said had often been heard on Capitol Hill:

- Decisions are already made in advance by donor governments
- Skills and business training often fall outside the prerogative of structured programs
- Contractors are of poor quality
- High-priced consultants don't know the local conditions
- Consultants and aid workers have inadequate language skills
- Advisers behave arrogantly and patronize the people they are advising

Delivering effective technical assistance requires having a planned entrance and exit strategy. Ad hoc, reactive responses usually fail.

The key points of an entrance strategy are:

- Selecting in advance properly qualified people whom you can trust and joint participation between local people and project organizers in the selection of tasks;

- Using local people, local resources, and local networks wherever possible (Struyk stated that if the consultant or project can't find suitable local people, they shouldn't be in the aid business);
- Ensuring local ownership by giving a clear description of the responsibilities, the evaluation criteria, and the rules for accountability; and
- Training the local players in advance so that they have the relevant skills and know-how for carrying out their tasks.

The key points of an exit strategy are:

- Transferring training to committed local institutions and developing the cascading principle of training through training-the-trainer programs; and
- Embedding in the local institutions and culture new learning from the project.

Struyk set forth some general characteristics of the former Soviet Union that need to be considered and taken into account in all aid projects:

- Resistance to change, which can be strong
- High levels of confusion about the transition process
- Lack of local experience in running projects
- Considerable suspicion about Western aid agencies
- Unanticipated events and crises that can inhibit progress
- The close intertwining of politics and business

Respondents added that economic development in the former Soviet Union should start from the recognition that there is already a mixed market economy, albeit complex and not always official; that there is a healthy private sector capable of responding to changing circumstances; and that realistic expectations, not just idealistic hopes, exist among Russian businessmen. There is a danger of overfocusing on the large, former state enterprises and assuming that all institutions behave in the same change-resistant manner. There is a creative challenge to donor governments to devise projects that are made up of a mixed portfolio with short- and long-term goals built into the plan as a way of supporting the healthy institutions.⁷

VI. DISCUSSION HIGHLIGHTS AND CONCLUSIONS: POLICY DIRECTIONS FOR AID PRIORITIES AND OPTIONS

Aid objectives. As it has been in many discussions of aid to Central and Eastern Europe and the former Soviet Union, the Marshall Plan, the program for rebuilding Western Europe after World War II, was brought up at the conference. As a blueprint for aid to the region, it often means massive balance-of-payments and macroeconomic support. One participant from Eastern Europe said a Marshall Plan needs to be adapted for the whole region if wholesale transformation is to remain in focus. Failure to provide adequate help, both financial and technical, has very high social and environmental costs, such as enforced migration, ethnic tensions, nuclear risks, and environmental pollution.

The prevailing sentiment of the conference, however, was that the "Marshall Plan mentality" was not realistic in the current political and economic climate, especially that of the United States. One West European participant pointed out that the Marshall Plan, a useful model, consisted of 80 percent grant aid. By contrast, less than 20 percent of OECD aid to the region is grant aid. Most OECD assistance consists of export credits and debt relief.

Because the U.S. aid budget is now being seriously scrutinized in Washington and likely will be cut, participants concerned themselves with how to make sure that the money available is well-targeted and effectively spent. Congressional staff representatives stated that the most important thing that they could take from the conference to Capitol Hill would be suggestions about where to target limited resources.

In this regard, the EU's objective--to integrate Central and East European countries into Europe--is different from that of the United States. To this end, the EU has begun to supply capital investment, not only technical assistance. Responding at least in part to political considerations following the Copenhagen summit in June 1993, the EU is beginning to supply more capital assistance to finance trans-European network projects in the form of railway lines, roads, and border infrastructure.⁸ Several participants pointed out that the way in which Germany, a dominant European player, approaches reform and integration into the EU will be critical to this discussion.

Several participants noted that, on the recipient side, there were overblown expectations and misconceptions, at least initially, about how to define "aid." Should it be foreign investment, transfers, projects, or programs? A participant from the region asked why Western countries think they have to assist Central and East European countries and what the assistance amounts to, given that it is neither money nor loans. These participants suggested that recipient countries hadn't really known what to expect from the donors. This sometimes had resulted in their asking for aid that was inappropriate. Another East European participant who has worked in an aid coordination capacity reported that a government ministry received a letter from a donor agency asking what kind of aid was

needed. This ministry sent the letter to other ministries for their responses. As a result, the donor received a long shopping list of unprioritized needs that it could not possibly fulfill.

Partly because of U.S. congressional input emphasizing the scarcity of aid and limited aid budgets, there was a pervasive sense of the prevailing economic and political realities at the conference. This limited proposals for high-cost solutions for the completion of the transformation programs in Eastern and Central Europe. Scarcity of resources, lower levels of tolerance for "the slow-to-change society," and greater emphasis on "value-for-money" projects became live ingredients in the debates about aid budgets and specific programs. The economic and political/social goals of aid were set forth as follows:

- **Economic goals of aid.** The long-term goal of aid should be to help the Central and East European countries become active members of the international economy with access to financial and banking institutions—in short to become self-sustaining. In this regard, it is important to emphasize that assistance is only one determinant of the transformation process. Political and economic integration into the EU; opening of markets; greater openness of information networks; and access to education, training, and technology would all contribute considerably to the transformation.

The short- and medium-term goals should be to focus on helping to create the internal structures and initiatives that are the basis of a market economy, such as taxation, banking, and regulatory systems. Finance is clearly important, but so is the transfer of all forms of resources—technical, human, and know-how. One challenge facing the donors is how to choose the "winners"—the people, businesses, and institutions that can best capitalize on aid investments.

Many participants agreed that aid needs to be given to the private sector and that donors should focus on small- and medium-sized businesses and also encourage transnational approaches by large businesses. Some participants, including some donor aid officials, reported that privatization aid has met with mixed results in Central and Eastern Europe. For further details, see the earlier section of this report entitled "Privatization Aid."

- **Political/social goals of aid.** There was a general feeling that an overemphasis on economics per se has obscured the role of politics and of building local democracy "on the ground." The development of local democracy, local government, and social equity and justice is the key to success in achieving democratic rule. Yet local governments and institutions are often overlooked in assistance efforts and should receive a higher portion of aid. Some participants emphasized the importance of paying attention to the nature of the recipients. Donors work with people who represent different segments and different interests in society, although they almost always exclude rural participation.

The long-term goals of aid should be to help establish a "civil society" in which rights and obligations are encoded, practiced, and protected by the law and to foster strong local democracy in the form of local governments capable of counterbalancing the central government. Political empowerment is crucial to the transformation process. The short- and medium-term goals should be to develop awareness of the value and importance of local democracy in the minds of both donors and recipients.

Participants generally agreed that success requires both a bottom-up and a top-down approach and that the relationship between the two is important. It is critical to examine the various interfaces needed between NGOs and the central government. Government-to-government aid should not preclude government-to-NGO aid and government-to-local group aid. In order to achieve this mix, agencies will have to listen to local needs and be aware of the relationship between the NGO base and local economic development. What is required is a mixed portfolio.

Needs Summary

Major Areas:

- | | |
|--------------------|--|
| <u>General</u> | <ul style="list-style-type: none">• human capital development |
| <u>Educational</u> | <ul style="list-style-type: none">• education--preparing the next generation of leaders• skill training--needs assessment |
| <u>Industrial</u> | <ul style="list-style-type: none">• technical assistance for viable, long-term industries |
| <u>Social</u> | <ul style="list-style-type: none">• health and welfare programs• developing pension programs (needs of the elderly) |
| <u>Environment</u> | <ul style="list-style-type: none">• pollution |
| <u>Financial</u> | <ul style="list-style-type: none">• banking, finance, and fiscal infrastructure, access to free trade• business education |
| <u>Political</u> | <ul style="list-style-type: none">• NGOs and local democracy (education in "civic society") |

Conclusions

Aid priorities. Even within the context of a limited approach and limited resources, participants generally agreed that a good deal of improvement could be made in aid programs, which could have important impacts in Central and Eastern Europe. Participants emphasized the importance of targeting, focusing, and coordinating aid programs to avoid the "scattered seed approach" common after 1989. This involves clarifying the differences between loans, grants, government projects, and joint ventures; specifying aims and expectations of aid; and deciding who are the actual recipients and beneficiaries. It requires integration of economic and political objectives and the formulation of an entrance and exit strategy.

One participant asked how to deal with the fact that meaningful aid activities take longer than a year and wondered how to reconcile the fact that the payoff is always long-term, but the project cycle is short. Transformation is a long-term process, requiring investment in human capital as well as in financial and technical programs. Effective long-term assistance demands a focused and shared strategy. Yet this is often absent. A delicate balance must be struck between continuing to provide short-term aid for urgent needs and not losing sight of the medium- and long-term strategy that encourages self-sustainability and growth from within.

The participants concluded that training the next generation of leaders in an entire range of skills, including vocational education and transferable and citizenship skills, may have the most long-term payoff. The emphasis that they placed on training and education is especially noteworthy because no session was devoted specifically to these issues.

Differences among recipient countries. Although donor agencies often treat the region as a uniform whole, participants emphasized the differences among the Central and East European countries. These include exposure to and experience with the West, the developmental starting points of the countries, the differences in the reform courses undertaken, and the extent to which there was a grass-roots, wholesale transformation that attempted to replace one system with another.⁹

Further, the way in which aid programs are received and evaluated also varies from one place to another. There are many factors on the recipient side that might enter into the responses to aid, including the size of the aid presence in the recipient country, the expectations that recipients have of the West, and their prior experience with specific donor countries.

Organizational barriers to success, flexibility, and risk-taking. Participants generally agreed that although successful aid programs require informed risk-taking and flexibility, administrative and evaluation procedures tend to discourage, rather than encourage, risk-taking. They dampen enthusiasm for innovation.

Contacting procedures can be unnecessarily complex and time consuming to complete, thereby undermining motivation. One donor aid official described the following Catch-22 dilemma of contracting procedures. He said that bureaucracy puts all sorts of obstacles in your way to prevent you from reaching your political objectives and then criticizes you for failing to meet those objectives.

Indeed funding agencies tend to be bureaucratic in their responses, inflexible, and otherwise tied to the donor's economic constraints and political expectations. One underlying problem is that "success" is often evaluated simply in terms of spending. As one congressional staff member put it, "AID is supposed to move the money. That's what managers in Washington look at, that's what Congress looks at."

Several participants wished that decisions by agencies could be speeded up and streamlined. "Too much, too late" reflects the frustration with delays and an absence of felt or actual participation in needs assessments.

Participants agreed that there needs to be better coordination among the various agencies of government involved in aid because there is a lot of project duplication. Donors should look at what has already been done on the ground before sending out a Request for Proposals. Time and money is wasted by requiring recipient governments to relate to a wide variety of agencies, each with its own procedures and criteria.

International cooperation. One donor official said that "we know that G-24 cooperation was a flop." One recipient official pointed to competition for projects by bilateral donors. Some participants, however, suggested that coordination among donors can work when donors work together, even sharing costs, on specific large and complex projects.

Moving beyond foreign aid to open markets, free trade, and full membership in the major international financial institutions requires the major donors, particularly the United States, the EU, and Japan, to work together to agree on common policies or, more likely, to be much more aware of each others' different policies and strategies. For instance, what are the EU's policy intentions toward Central and Eastern Europe and over what period of time?

What is U.S. government policy likely to be toward the former Soviet Union? How does Japan see its role in investing in Central and Eastern Europe?

Partnership responsibilities and accountability. The recurring message about reducing organizational constraints centered on building partnerships by involving local people in assessing needs at an early stage; agreeing on goals, measures of success, and evaluation criteria; and developing plans with the relevant people, ensuring they receive the appropriate knowledge, technology, and resources to achieve the goals. For aid projects to be effective, the recipients must be actively involved in designing, implementing, and evaluating projects. Only then will they truly "own" them. This is critical for long-term success and sustainability.

It was suggested that "hosts" and "guests," rather than "recipients" and "donors" is a better way of understanding *effective* aid. This relationship needs to be dynamic and business driven, which requires targets, openness, mutual respect, setting time schedules, cross-fertilization between projects, and developing learning networks.

Several participants pointed out the importance of establishing authentic, not artificial, paper-only, partnerships. Partners on the recipient side must be genuinely interested in working with those on the donor side, not just in taking their money.

Related to this is the danger of creating or fomenting local disinterest in aid programs and projects as a result of distance and distrust between donors and project workers in the field. One complaint from Central and East European participants was that foreign advisers frequently don't know the particular needs, circumstances, and situation of the recipient. One participant from the region stated that foreign advisers sometimes failed to take into account the level of infrastructure rebuilding that was necessary. Another participant said that "foreign advisers come here and tell us what to do" and that technical assistance is designed to absorb unemployment in the West.

Successful partnerships are related to ownership and require all parties to carry out the agreement. Responsibilities in partnerships must be clearly and openly defined at the outset; adequate supervision and control must be built in; and accountability criteria must be enforced. Where contracts are failing or breaking down it is important to take decisive action after full and frank discussion and analysis with all concerned. This may result in terminating projects, rewriting contracts, or simply reordering priorities. Generally speaking, there is a need for greater transparency in dealings between donor and recipient governments. To help achieve this, one participant suggested

that two types of consultants are needed on the ground--technical experts and area specialists.

Project monitoring and evaluation. One participant involved in evaluating AID projects reported that the following problems often arise in projects and that they can become major obstacles to effective aid:

- . It is not always clear who the client is. The AID Washington office? The AID field office? The local ministry?
- . There is confusion about the criteria for success of the project and what constitutes success.
- . There is confusion about what the time frame is or should be.

Participants agreed that monitoring methods often are misguided. One reason is that these methods often try to quantify the results (numbers of workshops held, number of participants) instead of assessing the quality of the workshops (whether the purpose makes sense and was fulfilled, whether participants could make use of the material presented). One participant commented that when a contractor says "2,000 people have been trained," this could mean that 2,000 people went to lunch.

One East European participant working in an aid coordination capacity stated that he had difficulty obtaining information from the local representative of the donor agency with which he is supposed to work. Participants agreed that recipients need to be involved in the evaluation of aid projects and in the measuring of outcomes, not just inputs.

The conference conclusions can be categorized into macro (policy/administrative) issues and micro (processes/operational) issues, as follows:

Macro

Director of Aid
Measurement
Human Capital
Special Equity
Leadership
Risk Management
Time Scales
Entry and Exit Strategies
Political Participation
"Top Down/Bottom Up" Mix
Sustainability

Micro

Coordination
Communication
Participation
Partnerships
Reciprocity
Building from the Ground
Consensus
Transparency
Transferability
Accountability
Empowerment

NOTES

1. Glen Fisher, *Mindsets: The Role of Culture and Perception in International Relations* (Yarmouth, Maine: Intercultural Press, 1988), 125.
2. This paper was prepared specifically for the conference and presented on 18 April 1995. The views expressed are solely those of the author.
3. This paper was prepared specifically for the conference and presented on 19 April 1995. The views expressed are solely those of the author.
4. The "social vacuum" theory was articulated by the late, eminent Polish sociologist Stefan Nowak. See Janine R. Wedel, *The Unplanned Society: Poland during and after Communism* (New York: Columbia University Press, 1992), 9-19.
5. This paper was presented on 19 April 1995. The views expressed are solely those of the author.
6. Excerpted from Raymond J. Struyk, "Lessons on Delivering Technical Assistance," 8-9.
7. For further analyses of aid to the former Soviet Union, see recent assessments published by the U.S. Library of Congress, particularly John P. Hardt, *Economic Issues for Summits in Moscow and Kiev*, CRS Report for Congress (Washington, D.C.: Library of Congress, Congressional Research Service, 25 April 1995); and Curt Tarnoff, *The Former Soviet Union and U.S. Foreign Aid: Implementing the Assistance Program*, CRS Report for Congress (Washington, D.C.: Library of Congress, Congressional Research Service, 18 January 1995).
8. *Conclusions of the Presidency*, a document from the Copenhagen Summit, 21-22 June 1993 (Brussels: European Union) states on page 14, "Part of the resources under the PHARE programme may be used for major infrastructural improvements."
9. See Janine R. Wedel, *U.S. Aid to Central and Eastern Europe, 1990-1994: An Analysis of Aid Models and Responses* (Washington, D.C.: Joint Economic Committee, Congress of the United States, November 1994), 301-302.

APPENDIX A
CONFERENCE AGENDA

WESTERN AID TO CENTRAL AND EASTERN EUROPE

*What We Are Doing Right, What We Are Doing Wrong,
How We Can Do It Better*

Conference Agenda

April 18 **Roundtables on Aid to Central and Eastern Europe**

Session I **Introduction of the Issues**

Welcoming Remarks: John R. Lampe

Overview of German Aid Efforts: Dieter Dettke

*Overview of Aid Efforts and Donors' Priorities and Strategies and
Introduction of Topics:* Janine R. Wedel

Participants' Identification of Critical Issues and Roundtable Discussion

Moderator: John Harper, Sussex European Institute

Session II **Privatization Aid**

Moderator: Ambassador Ralph Johnson, U.S. Department of State

Discussion Paper: Scott Thomas, OECD (10-15 min.)

"Grading U.S. Aid to Central and Eastern Europe: The Example of
Privatization"

Response: (5 min. each)

Charles Bell, Louis Berger International; **Ivo Bičanić**, Zagreb University; **Gerald Creed**, Hunter College; **Zdeněk Drábek**, GATT; **Steven Ebbin**, Institute for International Education; **Jarmila Hrbáčková**, National Bank of Slovakia; **Kornel Kovats**, Hungarian Assistance Coordination Secretariat; **Mark Medish**, U.S. Agency for International Development; **György Matolcsy**, Budapest Institute for Privatization Studies; **Herbert Wilkens**, Deutsches Institut für Wirtschaftsforschung; **Louis Zanardi**, U.S. General Accounting Office

Special Guest Speaker: **Thomas A. Dine**, Assistant Administrator for Europe and the New Independent States, U.S. Agency for International Development

"U.S. Policy and Aid to Central and Eastern Europe"

April 19

Roundtables on Aid to Central and Eastern Europe (continued)

Session III

Aid to the Private Sector and to East European Non-governmental Organizations and Institution Building Efforts

Moderator: **Alan Mayhew**, PHARE Program, European Union

Discussion Paper: **Joanna Regulska**, Rutgers University (10-15 min.)
"Building Local Democracy: The Role of Western Assistance"

Response: (5 min. each)

Renata Frenzen, National Economics Research Associates; **John Hardt**, U.S. Library of Congress; **David Kideckel**, Central Connecticut State University; **Leighton Klevana**, Slovak American Enterprise Fund; **Christopher Kojm**, U.S. House International Relations Committee; **Krzysztof Ners**, Institute for East West Studies; **Kevin Quigley**, Woodrow Wilson International Center for Scholars; **Pavel Rozsypal**, Czech Center for Foreign Assistance; **Wolfgang Schaefer**, Georgetown International

Session IV

Applications to the Former Soviet Union

Moderator: **Ambassador Darryl Johnson**, U.S. Department of State

Discussion Paper: **Ray Struyk**, The Urban Institute (10-15 min.)
"Lessons on Delivering Technical Assistance"

Response: (5 min. each)

Stephen Biegun, U.S. Senate Foreign Relations Committee; **Colin Bradford**, U.S. Agency for International Development; **Steven Ebbin**,

Institute for International Education; Charles Flickner, U.S. House Foreign Operations Subcommittee; Clifford Gaddy, Brookings Institution; Mark Gage, U.S. House International Relations Committee; John Hardt, U.S. Library of Congress; Richard Kaufman, Bethesda Research Institute; Nancy Lubin, Tides Foundation; Peter Stavrakis, The Kennan Institute for Advanced Russian Studies; Michael Uretsky, New York University; Louis Zanardi, U.S. General Accounting Office

April 20

Conclusions

Session V

Policy Directions for Aid Priorities and Strategies

Moderator: John Harper, Sussex European Institute

East European Studies Noon Discussion

**"Appraising Western Aid to Eastern Europe:
A Conference Report"**

Dieter Dettke, John Harper, John R. Lampe, and Janine R. Wedel

APPENDIX B
LIST OF PARTICIPANTS

WESTERN AID TO CENTRAL AND EASTERN EUROPE

*What We Are Doing Right, What We Are Doing Wrong,
How We Can Do It Better*

American Participants

Charles Bell
Director, Development Economics Group
Louis Berger International
Washington, DC

Stephen Biegun
Senior Professional Staff Member
Senate Foreign Relations Committee
Washington, DC

Colin Bradford
Assistant to the Administrator
Bureau of Policy and Program
Coordination
U.S. Agency for International
Development
Washington, DC

Gerald Creed
Assistant Professor
Department of Anthropology
Hunter College
New York, NY

Steven Ebbin
Vice President, Science and Technology
Institute for International Education
Washington, DC

Charles Flickner
Staff Member
U.S. House of Representatives
Committee on Appropriations
Subcommittee on Foreign Operations
Washington, DC

Renata Frenzen
Manager, International Projects
National Economic Research Assoc., Inc.
Washington, DC

Clifford Gaddy
Senior Fellow
Brookings Institution
Washington, DC

Mark Gage
Staff Member
U.S. House of Representatives
Committee on International Relations
Washington, D.C.

John Hardt
Associate Director
Congressional Research Service
Washington, DC

Ambassador Darryl Johnson
Deputy Coordinator for U.S.
Assistance to NIS
U.S. Department of State
Washington, DC

Ambassador Ralph Johnson
Coordinator for East European Assistance
U.S. Department of State
Washington, DC

Richard Kaufman
Director
Bethesda Research Institute
Bethesda, MD

Western Aid to Central and Eastern Europe

David Kideckel
Chair
Department of Anthropology
Central Connecticut State University
New Britain, Connecticut

Leighton Klevana
Director
Slovak American Enterprise Fund
Bratislava, Slovak Republic

Christopher Kojm
Staff Member
U.S. House of Representatives
International Relations Committee
Washington, DC

John R. Lampe
Director, East European Studies
Woodrow Wilson International Center
for Scholars
Washington, DC

Nancy Lubin
Director
Project on Reform of Aid to the NIS
Tides Foundation
Bethesda, MD

Mark Medish
Special Assistant
Bureau for Europe and NIS
U.S. Agency for International
Development
Washington, DC

Kevin Quigley
Guest Scholar, East European Studies
Woodrow Wilson International Center
for Scholars
Washington, DC

Joanna Regulska
Associate Professor of Geography
Director, Local Democracy in
Poland Program
Director, Center for Russian, Central, and
East European Studies
Rutgers University
New Brunswick, NJ

Peter Stavrakis
Deputy Director
Kennan Institute for Advanced
Russian Studies
Woodrow Wilson International
Center for Scholars
Washington, DC

Ray Struyk
Senior Fellow
The Urban Institute
Washington, DC

Scott Thomas
Principal Administrator
Head of NIS Unit
Center for Cooperation with
Economies in Transition
OECD
Paris, France

Michael Uretsky
Professor
Department of Information Systems
Leonard N. Stern School of Business
New York University
New York, NY

Janine R. Wedel
Associate Research Professor
in Sociology and Anthropology
The George Washington University
Washington, DC

Louis Zanardi
Assistant Director
International Affairs Issues
U.S. General Accounting Office
Washington, DC

European Participants

Ivo Bićanić
Professor of Macroeconomics
Department of Economics
University of Zagreb
Zagreb, Croatia

Dieter Dettke
Executive Director
Friedrich Ebert Stiftung
Washington, DC

Zdeněk Drábek
(former Aid Coordinator
of the former Czechoslovakia)
Senior Advisor
General Agreement on
Tariffs and Trade
Geneva, Switzerland

John Harper
Senior Research Fellow
European Institute
University of Sussex
Brighton, Sussex, U. K.

Jarmila Hrbáčková
(formerly of the Department of Foreign
Assistance, Ministry of Foreign Affairs,
Slovak Republic)
National Bank of Slovakia
Bratislava, Slovak Republic

Kornel Kovats
MIT Assistance Coordination
Secretariat
Budapest, Hungary

Marek Kozak
Director General
Polish Agency for Regional Development
Warsaw, Poland

Alan Mayhew
Principal Advisor
Commission of the
European Communities
PHARE Operational Service
Brussels, Belgium

György Matolcsy
Director
Institute for Privatization Studies
of the Property Foundation
Budapest, Hungary

Krzysztof Ners
Director
PECAT
Institute for East West Studies
Warsaw, Poland

Pavel Rozsypal
Director
Center for Foreign Assistance
Prague, Czech Republic

Wolfgang Schaefer
President
Georgetown International
Washington, DC

Herbert Wilkens
Manager of Cooperation Bureau for
Economic Research on Eastern Europe
Deutsches Institut
für Wirtschaftsforschung
Berlin, Germany

APPENDIX C
DISCUSSION QUESTIONS

WESTERN AID TO CENTRAL AND EASTERN EUROPE

*What We Are Doing Right, What We Are Doing Wrong,
How We Can Do It Better*

Discussion Questions

by Janine R. Wedel and John Harper

The following questions were put together as guidelines to indicate the kinds of issues the organizers wanted to see discussed. All conference participants had an opportunity to add their own questions and agenda. Although their attention was particularly invited to the questions that related to the session(s) in which they were listed, in order to maximize continuity all participants were requested to take part in all sessions.

FOR SESSION I AND ALL SESSIONS: GENERAL QUESTIONS

- **Overall Policy:** To what degree do the various donors have a discernible, coherent, overall policy and strategy for assisting Central and Eastern Europe? Was aid by a particular donor designed as long-term or short-term, and what consequences did that have for aid planning, effectiveness, and response by recipients?
- **Working Relations:** To what extent do donors respond to feedback from recipient parties and how does this inform donor policies? For the recipients, what feedback, formally and informally, do you offer donor representatives and agencies? How far is the aid transaction seen as a joint partnership, with donors and recipients carrying out mutual responsibilities, including monitoring the project? How would you describe the ideal type of relationship between recipients and donors? What are the major obstacles and what works well? What mechanisms are there for resolving misunderstandings? How important are cultural factors in facilitating or frustrating projects?
- **Government-to-Government Aid Relations:** To what extent have the various donors established government-to-government assistance agreements, and what implications does this have for the implementation and effectiveness of aid programs?
- **Degree of Donor Concentration on "Private" and "Independent" Sectors:** To what degree do the various donors assist the *private* and *independent* sector (e.g., through loans to businesses and support of nongovernmental organizations) and to what degree do the donors concentrate on assistance to

the recipient *governments*? What are the relative merits of these approaches?

- **Location of Decision Making:** At what level and where (at their headquarters or in the field) do the various donors make critical decisions? To what extent is input from field representatives integrated into decisions at headquarters, and how does this affect the allocation of resources and recipients' responses to aid?
- **Regional vs. Country-specific Approaches:** Is aid conceived and administered relative to a unitary region, or is it country specific? What are the advantages and disadvantages of these approaches for donors and recipients?
- **Contracting Procedures:** How do administrative regulations and procedures governing consulting contracts affect assistance delivery? How do the various procedures affect recipients' responses?
- **Giving and Receiving:** What are the expectations surrounding aid transactions in both donor and recipient communities? What are the ways in which giving and receiving are understood and practiced in your country?

FOR SESSION I: GENERAL QUESTIONS FOR RECIPIENTS

- What expectations did you (and do you) have of foreign aid, specifically of technical assistance?
- What are your primary sources of information about aid, including aid programs, allocations, decision-making procedures, implementation, and coordination at the working level? What contacts and working relations have been established with local aid representatives?
- Do you conduct any monitoring of aid programs? What kind?
- How would you describe your institutional capacities for handling Western assistance? Have your capacities for handling aid changed since 1989-90? If so, how? What about your experience in dealing with foreign aid representatives and agencies?
- How far do aid programs strengthen the legal, regulatory, and communications infrastructures that will make possible more effective governance? In what ways do aid programs provide support that will enable government agencies to function more effectively once the support is

withdrawn?

- What have been the political and social implications and responses to foreign aid in your country? What has been the local response to foreign advisers and consultants?
- What is the historical and cultural role of advisers in your country? How do present-day outside advice and advisers relate, if at all, to those of the past?

FOR SESSION I: GENERAL QUESTIONS FOR DONORS

- What changes took place within the donor community when helping Eastern Europe became a priority (e.g., in reorganizing of donor institutions and management and in reassigning of personnel and resources)?
- To what extent were Third World assistance models seen as applicable to Eastern Europe? To what degree and in what ways were aid efforts in Eastern Europe treated differently from those in the Third World (e.g., in donors' expectations, goals, urgency, mix of technical and capital assistance)?
- To what degree did donors treat the various Central and East European recipients differently? Which ones and why?
- To what extent did aid-paid contractors in Eastern Europe have prior experience as aid contractors in the Third World? To what degree was "transition" in Central and Eastern Europe seen as the task of the Big Six accounting firms?
- To what extent is there pressure from legislators and policymakers to achieve quick results and how is this felt at your level? Does this pressure affect your ability to implement programs effectively?
- How do your aid programs differ from those of other donors? For example, what are the similarities and differences among EU, U.S., German, and British assistance with respect to long-term versus short-term approaches, recipient input, contracting procedures, aid implementation, and the degree to which there is an overall coherent strategy or policy? What are the consequences of the differences?

FOR SESSION II: PRIVATIZATION AID

- **What was the privatization strategy of a particular recipient country? How far did donor technical assistance strategies support the specific country strategies? What was the effectiveness of both? If the donors played a role, did they facilitate or frustrate recipient efforts?**
- **How far was/is privatization seen as the most important task of the "transition" to market economies and democracy? By whom?**
- **What information and assumptions did donors make about privatization in specific countries? To what degree were the Big Six accounting firms seen by donors as the primary agents of privatization assistance? What was the process of decision making?**
- **What should be the measures of "success" in evaluating privatization aid? How do the measures chosen affect perceptions and conclusions?**
- **How are technical assistance efforts organized vis-à-vis the relevant Central and East European government ministries. For example, are ministry officials included in the choice of consultants and informed (when and by whom?) once the decisions are made? Do consultants report to the ministries directly and do officials have the opportunity to monitor the consultants' work?**
- **How have Western consultants approached the process of imparting advice—as a matter of "technique" and as a set of objective transferable skills—or as a core element inseparable from deep-seated social transformation? How have East European managers and officials, by definition key agents in the assimilation of technical assistance, adapted the advice to their situations (e.g., by incorporating or circumventing such assistance)?**
- **How was privatization aid regarded and received in the recipient countries?**
- **To what degree have public relations firms that conduct "public education" helped to further privatization efforts?**
- **What are the limitations and possibilities of technical assistance in privatization?**

**FOR SESSION III: AID TO THE PRIVATE SECTOR
AND TO EAST EUROPEAN NONGOVERNMENTAL ORGANIZATIONS
AND INSTITUTION-BUILDING EFFORTS**

Democratization and Nongovernmental Organizations:

- What kinds of nongovernmental organizations (NGOs) and local initiatives have developed in the past five years in Central and Eastern Europe? What has the role of Western funding been in these initiatives? How have Central and East European NGOs changed, and in what ways has external funding shaped these changes?
- On the donor side, what relationships exist between governmental and private (e.g., foundation) aid efforts? Which efforts are more helpful and in what target areas? Is there any division of labor, and to what degree do public and private donors exchange information and cooperate?
- What is the nature of "foundations," "associations," and other NGOs in Central and Eastern Europe? What differences exist between East and West, and what implications does this have for misunderstandings between donors and recipients about the nature and potential of Central and East European NGOs?
- What objectives do donors have in funding Central and East European NGOs? To what extent are NGOs capable of achieving these objectives, and do donors help them to do so? To what degree does outside funding intensify long-standing patterns of patronage that an open society was intended to modify? Does the funding underwrite the scattering of effort among small groups, or does it encourage an integrated movement?
- Does the funding of NGOs encourage public service activities, or does it foster personal and political activities? What implications does this have for how the assistance is viewed on the recipient side? Is aid being used to develop in-country expertise, contacts, and other capacities?
- On the recipient side, to what extent are there working relationships between NGOs and government agencies that have related responsibilities? What influence does Western funding have on these relationships?

Private-sector Economic Initiatives:

- What non-technical know-how is necessary to promote the growth of new enterprises (e.g., management skills and organizational systems)? What role has assistance played in filling these gaps?
- How much support do aid programs give to grass-roots, "bottom-up" business initiatives, for example in setting up cooperatives and community-based activities?
- What new forms of business are emerging and what is the pattern of development? To what extent is aid involved in shaping that development?
- What is the record of loan programs that provide financing to small- and medium-sized enterprises (e.g., the U.S. Enterprise Funds and the EU's Struder program)? How do the programs fit the needs of specific countries in terms of the degree of risk they take, the need for them under the country's financial conditions, and their level of adaptation to local conditions? Are such programs in the aid business, or are they in business, period? Which is preferable?
- How far has aid to the private sector stimulated business activity among small- and medium-sized businesses? What criteria should be used for assessing the impact of this aid? What other indirect effects do these loan programs have (e.g., on training of local people, foreign investment, joint ventures)?

FOR SESSION IV: APPLICATIONS TO THE FORMER SOVIET UNION

- To what extent are aid models and programs tried in Poland, Hungary, and the former Czechoslovakia applicable farther south and east in Russia, Ukraine, and the other republics of the former Soviet Union? Why or why not? What difference should different starting points in development and different reform courses make in donor efforts?
- How might effective aid efforts be extended and ineffective ones corrected?
- To what extent did strategic and political considerations render aid to Russia and Ukraine a different discussion (e.g., U.S. Nunn-Lugar money was targeted toward eliminating a threat)? How should strategic and political considerations be reconciled with developmental ones? (For example, the

U.S. Enterprise Funds in the former Soviet Union were set up both under U.S. AID and Nunn-Lugar.) What are the differences in terms of policy questions that should be addressed?

BIOGRAPHICAL NOTE

BIOGRAPHICAL NOTE

John Harper is a Senior Research Fellow in Cross Cultural Organizational and Management Studies at the University of Sussex European Institute in Brighton, Sussex, United Kingdom. His current research focuses on the impact of national cultural differences on joint ventures and mergers. He has been Project Coordinator for two European Union-funded COMETT programs involving the design and delivery of management development training for business managers working throughout Europe and has served as a partner member on other inter-European projects funded by the European Commission. In 1994 he was elected to the Language and Educational Mobility Board of the European Association for International Education (EAIE).

Janine R. Wedel, MacArthur Fellow, is an Associate Research Professor in Sociology and Anthropology at The George Washington University in Washington, D. C. A three-time Fulbright scholar, National Science Foundation fellow, and former East European Studies Research Scholar at the Woodrow Wilson Center, she has studied Eastern Europe's evolving economic and social order for nearly twenty years. She has published two books, *The Private Poland* (1986) and *The Unplanned Society: Poland during and after Communism* (1992). Her four-year study analyzing aid to Eastern Europe, Russia, and Ukraine has resulted in testimony before congressional subcommittees and articles for scholarly journals, the Joint Economic Committee, the Atlantic Council, the Organization for Economic Cooperation and Development (OECD), the *New York Times* and *The Wall Street Journal*. She is currently writing a book on the topic.