NISPAcee
THE NETWORK OF INSTITUTES AND SCHOOLS OF PUBLIC ADMINISTRATION IN CENTRAL AND EASTERN EUROPE

# THE STORY BEHIND WESTERN ADVICE TO CENTRAL EUROPE DURING ITS TRANSITION PERIOD

Iwona Sobis & Michiel S. de Vries

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Central Europe during its transition period

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# Preface

Since 1989 – when the Berlin wall fell, the Communist system collapsed and the Soviet Union lost its control over the Central and East European countries – the progress of the latter countries has been enormous. The question how they could make such progress so rapidly is often answered by pointing to the Western aid and the technical assistance provided. Between 1990 and 2004 approximately 40 billion US $ went to these countries in the form of technical assistance. Why was this assistance given? Was it effective and, if not, what were the reasons for that? Was there someone to blame, as is said in so many other books on foreign aid, or is it possible to go beyond blame?

Those are the questions this book tries to answer. Was the development possible thanks to this help, or despite the assistance? This book argues that the development occurred despite the assistance, and it tries to find out why this was so. Our reasoning leads eventually to the assessment that the reason for the flaws was not to be found in a lack of professionalism, but rather in a shift in the interpretation of professionalism, induced by the organizational and institutional structure of the aid-chain. It is a shift towards, what Brint called expert professionalism, which is emotion-free, a way of making money and keeping up appearances, from what is called a trustee-professionalism in which it is crucial to show empathy, having the clients' interests in mind and not misrepresenting oneself.

We believe that the ramifications of this conclusion go beyond the specific cases investigated. The problems with regard to technical assistance we heard about are also heard in Africa, Asia and Latin America. Many books have been written about that. The novelty of our investigation is that we follow the money and the blame, bringing us from recipients, through advisors and donor organizations, to the governments that eventually decide about the amount of money provided and the target countries to receive that money. The research is also novel in that it does not stop at blaming, but seeks within the causes also a solution for the problems encountered. Hence, it is not a cynical research undertaking but a hopeful one, in the belief that such processes can change for the better.

This investigation shows that various stakeholders have quite different opinions about what was going on and why. Nonetheless, in the end all agree that the

process of technical assistance could have been conducted much better. Some of those involved even try to do it better nowadays. At present, assistance similar to what was given to CEE countries previously is now provided to the states in Central Asia (Kyrgyzstan, Turkmenistan etc.). The advisors and donor organizations involved tell us that they learned from the mistakes made in CEE countries.

We believe that the ramifications of this research go beyond the historical: What is there to learn? This book presents the results of extensive data-gathering and analyses on the process of technical assistance provided by Western advisors to CEE countries during their transition process. It tells the story, or rather the stories, of those involved in the technical assistance, including local policy-makers who were the recipients, the foreign advisors, donor organizations and governments who provided the assistance, and puts these data and stories in a framework making it possible to pinpoint the flaws and learn from them.

This book could not have been written without the help of many people. Our chief debt is to all our respondents who offered their valuable time and from whom we have learned most about the chain of Western assistance to CEE countries.

We are greatly indebted to the organizers of the NISPAcee conferences who allowed us to present our preliminary results in the general session of those conferences and in the last two years in the Panel on Public Administrative Reform, and to our colleagues who participated in the NISPAcee conferences each year when we presented a new piece of the puzzle in the general session and panel. They always gave us some interesting comments and asked questions that advanced our research. Especially to be mentioned is Frits van den Berg who, as a consultant, was rather disappointed with our first results criticizing the consultants in general. He was, however, kind enough to invite us for a cup of coffee after each NISPAcee conference and made us pursue matters further, and pointed the direction to go. Thanks, Frits, for your valuable opinions, friendship and good company during those years.

There were also the colleagues at the Radboud University of Nijmegen, especially Berry Tholen, who always found time to discuss initial concepts of the texts.

Behind our book, there are the families of both authors. They deserve special warm gratitude, because they helped us by supporting and creating the conditions at home to make us productive. So Lies on the Dutch side and Ryszard on the Swedish side, we could not have done it without you.

Last but not least, there was the Internet. This book is written in cooperation between a Swedish and Dutch scholar, who because of budgetary limitations – reading the book will make clear why nobody wanted to finance this research – were only able to communicate through email. The chapters are the result of an interaction process in which one of the authors wrote a first version, the other adapted it in such a way that the first one hardly recognized anything from the first version, and

this was repeated until a fourteenth version or so, when both authors could agree on the end result and it could be presented as a conference paper. It was amazing that this did not result in quarrels or awkward arguments, as is so often the case in such collaboration. This was the case because the subject is very relevant and the outcomes of each investigation were always quite unexpected.

Readers might say after reading the book, 'Oh, I knew all this'. We want to challenge those readers to predict the outcomes after reading the introduction to each chapter and before reading the remainder thereof. To us it was surprising how rarely our preliminary ideas conformed to the outcomes presented in each chapter.

*Skövde, Sweden/Nijmegen, Netherlands, August 2009*

# 1. What This Book is About


## Abstract

This introductory chapter presents the theoretical and empirical puzzle with which this research into the technical assistance to Central and Eastern European countries began. How could it be that while everyone wanted the Central and Eastern European countries to move towards the Western camp, and huge amounts of money were spent on technical assistance to make this come true, the effectiveness of that help was nevertheless disappointing?

The problem of the ineffectiveness of technical assistance is not a widely discussed problem, unlike the umbrella under which it is usually classified – foreign aid. We explain why our approach and findings are rather different from those of others who have investigated the effectiveness of foreign aid in general. It is argued that underlying the debate about the effectiveness of foreign aid are four assumptions. The outcomes of this research debunk these assumptions as myths.


## 1.1 The aim of this research project

Our project arose in part from rumors. After attending international conferences in Central and Eastern Europe for some years, at which scholars and practitioners in public administration were present, we heard several rumors about the transition process going on between 1991 and 2004. First, we were told about the progress made and the eagerness of their governments to join the European Union.

When the participants at these conferences came to know each other better – and to be honest, after some vodkas – one heard the more troubling stories. Those stories were about so-called advisors who were sent to these CEE countries by the EU, the USA, and individual countries within the EU. We heard about their failures, and about all the mistakes that such 'advisors' were not supposed to make, but made nevertheless. We heard about the money involved and the huge differences between the expectations of the recipients of such help and the disappointing reality of what they actually got. We were told stories about advisor-reports just being copied from country to country and being applied in countries these reports never referred to.

We heard of 'advisors' hired to give advice on municipal policies, only appointed because of their language skills. Some of them had studied the Polish or Russian language, but had never been inside a city hall except to apply for a passport. We also heard about contradictory advice given by, for instance, French and US advisors regarding the need to centralize or decentralize, leaving the recipients in a kind of despair about what to do.

What went on during this transition period in the CEE countries that made the revolutionary transformation, from centrally steered economies under the protection of Big Brother Bear to the free-market economies under the protection of Uncle Sam and his sweet sister, the European Union, so difficult? Did the technical assistance from this new family amount to real "help"? What explains what went on and what does this say about the use of expertise and technical assistance in general? Those are the questions addressed in this book.

Before starting this research, some hurdles had to be overcome. The first one was that, as the proverb goes, "nobody should look a gift horse in the mouth". One should be thankful and not be too choosy or ungrateful when one receives a gift. One does not measure the value of something received for free. The expertise that the CEE countries received was certainly a huge gift. Between 1991 (the date the Soviet Union lost its grip on CEE countries) and 2004 (the date eight CEE countries became members of the European Union), a total of somewhat over 60 billion US $ was provided by OECD countries and others in Official Development Assistance Disbursements to these countries (source: OECD DAC).

We reflected on this saying, and came to the conclusion that it might be wise to disregard it. First of all, as scholars, we did not receive the gift. Second, perhaps the assistance was a gift, but as we repeatedly heard, it was for the most part not particularly gifted and, as this book will show, neither was it for free. Third, the 60 billion US $ spent was a lot of money, especially given the fact that the exchange rate of the dollar to the euro in those years was much higher than at the time of writing this book. Anyway, this book could never have been written if we had adhered to the saying. We took the rumors seriously and investigated whether there was any truth in them. Therefore, we went to all those involved and came up with as many stories.

More important than these considerations is that the process investigated presents a serious theoretical and empirical puzzle. Western countries were, to say the least, very pleased with the developments in Central and Eastern Europe after the fall of the Berlin wall in 1989. For them it implied a reduction of Communist power and a reduction of military threat that had dominated during the Cold War, but it also implied the potential that the CEE countries offered for the West's own economic markets. Perhaps, too, some feeling of emotional involvement played a role, given the historical and cultural ties especially between those countries close to EU countries and the Western European countries. This unanimity in the judgment

of the developments taking place in CEE countries brought about a general feeling that, if one could bring these countries into the camp of those countries which saw themselves as superior in being democratic, liberal and dedicated to free-market economics, it would be necessary to provide them with some assistance. From the recipients' side, the same eagerness could be witnessed – for instance, to catch up with more affluent Western countries and to do everything needed. It was a shared feeling present in most of the receiving CEE countries.

Therefore, everybody seemed to be inclined to give the best help available and there seemed to be no conflicts of interest. But in practice the help was not so effective. Listening to the stories of Central and Eastern European officials revealed that, although there were also positive stories, in general there existed a huge gap between the assistance needed and the assistance offered. Given the importance of the transition for every country involved, and assuming that well-educated "masters" in relevant disciplines were sent to the countries in transition, one would not expect such a gap.

This could just have been problems of some lousy advisors sent to these countries, and the assistance was adequate in general. However, the number of rumors increased as our investigation proceeded. Every time we presented our research findings, more remarks were given in which the critical findings were supported. This convinced us that we were not just looking into incidents, but that there existed a structural problem with the expertise provided. Because of that, we thought of many titles for this research project and came up with such cynical phrases as "Transition despite technical assistance" and "Advisors messing up", besides more ironic ones like "How the West did its Best – to help itself by sending its worst advisors to CEE countries".

This book argues that the effectiveness of technical assistance suffers from the understandable and righteous actions of separate organizations which try to accomplish their own objectives, but whose objectives together are incoherent. As will be argued, every organization involved blames other organizations for making the achievement of those goals and objectives a near-impossibility.

Departing from a quest to understand the underlying causes of the problems experienced by local officials in CEE countries, and the disappointing outcomes of technical assistance which all stakeholders took seriously, some colleagues suggested that the results of our investigations can be compared with a Greek tragedy: Everybody in the theater of technical assistance did what the audience expected them to do, but still the final outcome is heartbreaking.

However, in those tragedies there is always a lot of plotting and scheming, especially among the gods, which we did not find in our research. The results of our investigations compare better with the technical sound performance of such a play which nonetheless does not move anybody. It is like the performance of children in a musical at elementary school. Every one of those kids obediently does what is

expected of him or her, but regrettably always at the wrong moment, and with the unavoidable tumbling and stuttering. Of course, the parents are pleased afterwards, because no real accidents happened, and in their view, their own child at least did a better job than others. But still, for bystanders, the performance was embarrassing.

Given this point of departure, the structure and the main message, this book takes a quite different position from others in the discussion of the (in)effectiveness of foreign aid, which normally also covers technical assistance. As will be argued below, the criticism of foreign aid does not capture the problems present in processes of technical assistance.

## 1.2 Technical assistance within the poisoned debate about foreign aid

It was in Vilnius, Lithuania, in 2004 that we went to a Public Administration conference (NISPAcee) and met an Albanian governmental official. We had a very nice conversation about the Western assistance during the transition period in Central and Eastern Europe after the breakdown of the Soviet Union. She told a story which we could not get confirmed, and we still do not know whether it was a pastiche or real, but it was revealing.

At the end of the 1990s, Albania started to get foreign aid from the USA Agency for International Development [USAID]. It was not the aid they expected, namely money or equipment. Instead, they were provided with technical and training assistance. Numerous "advisors" from the USA came into the country to advise the Albanian government how to rearrange the institutional infrastructure in such a way that Albania also would become eligible for massive foreign investments. The American advisors were not rookies, but experienced. They had previously done similar advisory work in Bulgaria and Macedonia. Of course, the advisors did what they were expected to do. They listened, asked questions, held interviews, involved the local officials, traveled the country, looked everywhere – and after three months of data gathering and analyzing they produced a report, a plan of action, so to speak. "It was only a pity," the Albanian official said with an understatement and a smile, "that the advisors had systematically forgotten to change the name of the country addressed, from Macedonia into Albania in the final report."

One knew of similar stories, concerning aid to relieve poverty in Africa, of which the journalist Graham Hancock (1989) gave awful examples. For instance, about shipments of electric blankets that were sent to the Dark Continent; medicines whose expiry date was long overdue; meat that was sent, but was rotten before it could be distributed; and tent camps in Egypt that were built by international aid agencies, but remained empty because they were guarded so heavily that none of the aid-worthy could enter the camp. Michael Maren (1997) wrote similarly about his own experiences in Somalia. He talked about "the road to hell" and the ravaging

effects of foreign aid and international charity. He argued that aid does more harm than good and the best thing to do is to remain silent.

Such accounts make one ask a question: "Is this what the rich countries mean when they talk about foreign aid as help, altruism, and reducing poverty?" And: "Is this what makes people in economically advanced countries feel good?" Alternatively, does one have to interpret such stories just as exaggerated exceptions that serve the purpose of the storyteller, namely that giving aid is a waste of taxpayers' money and should be diminished if not ended totally?

When reviewing the recent literature on foreign aid, it shows that the debate about it is poisoned. There is an increasing radicalism and polarization concerning foreign aid. One of the first to radicalize the debate was Hancock (1989). He suggested removing all the mediocre men (and there were no others in his view) from the aid industry. His conclusion was that nobody really cares for the recipients and all involved only cared about their own income. However, others see his views as extremely one-sided. George Guess (2005, p. 13), for instance, asked cynically whether Hancock was put on the list of incompetent consultants before his book was written.

David Sogge (2002) also criticized what he called the aid commerce, and the aid-chains, which according to him are systems of power where questions are framed at the top, power is concentrated at the top, and the blame, if something goes wrong, is transferred to the lower level echelons. He, as well as many others, depicts the aides as money-makers, because approximately only half of the revenue reaches those for whom it was meant and the other half remains inside the chain, being used for advertising, overhead and administration (Sogge, 2002, p. 87). His conclusion, and that of others, is that an aid industry has evolved, taking care of its own interests, but not of those of the recipients. His solution is to give responsibility for aid only to organizations that hold membership in social movements aimed at improving emancipation, in which aid would involve the downward redistribution of resources, where there is public action instead of private pre-emption, with a movement toward block transfers instead of agency involvement, and in which the aid institutions' preference for their own personal projects and hobbies is brought to a halt (Sogge, 2002, pp. 205–8). We also see scholars opt for the complete abandonment of putting taxpayers' money into ineffective and even harmful foreign aid, and to let aid be governed completely by free-market mechanisms. They tell us, in emulation of James Scott (1998), that it is the fault of planners and that any kind of planning should be abandoned in favor of searchers who ask market prices for their goods and services (cf. Easterly, 2006). We hope they imply stopping only a specific kind of planning, because we cannot imagine any infrastructure being built without planning.

On the other hand, there are scholars with experience in the field who argue that we do not give enough aid, such as Sachs (2005). The argument is that the

aid provided until now is very small compared to the GNP of the rich countries, and that it is given in a form that offers little long-term help (Sachs, 2005, p. 337). Sound economic (monetary) theories, put into practices at the right time, can make and have made a major contribution to the development of countries like Bolivia, Poland, India, and China. His plea involves a (personal) commitment to end poverty, to develop plans of action, and to strengthen the United Nations [UN], International Monetary Fund [IMF] and World Bank, in order to promote sustainable development (Sachs, 2005, pp. 365 ff).

The debate is awkward, because the assumptions are at least disputable. Among economists and econometrists, it is customary to look just at the amount of aid and relate this to the varying socioeconomic development of recipient countries, without taking the contents of the aid into account – which does not, of course, result in positive correlations, as we will see below. Their argument is that the amount of aid is provided by the taxpayers' money and it should be spent effectively. This implies that a visible improvement should be seen in the one goal that can be measured, namely economic growth, or else aid should not be provided at all. It assumes that quantity as such, irrespective of the quality, should make a difference, and perhaps even that quantities alone matter.

Critical research and researchers seem eager to blame someone. If something does go wrong, and plenty of examples are available, some actor should be held accountable. The journalistic stories often blame the inefficiency on the aid industry, 'Development Incorporated' as they call it (Easterly, 2006). It is seen as one coherent organization, in which all actors involved conspire, perhaps not to prevent aid from becoming effective, but first and foremost to preserve the continuation of their jobs and preferably to increase the money in their own bank accounts. This assumes that nobody really cares for more than their own selfish interests. The donor organizations and governments have understood this very well. In order to hinder that criticism, they have invented many precautions against fraud and corruption, and against inefficiency within the aid-chain. Every project now has to be defined in terms of measurable comprehensive objectives, operative goals, instruments, personnel, costs, and output. When accepted, every ticket, bill, and expense should be accounted for by the ex-pats. One foreign advisor told us: "One of the major problems nowadays is how to deal with e-tickets. They do not provide enough proof that the expenses were really made." The output is to be measured, for instance, by audit offices, who use standard forms in which foreign aides and projects have to achieve at least a couple of 'A's' (very effective) if they want to continue to the next assignment. The assumption is that simplicity, morality, accountability, responsiveness and transparency – i.e. being *smart* within the aid-chain – will automatically increase effectiveness.

In this way, the aid organizations try to improve the process of aid provision. They suggest new procedures and programs to counter the critique of inefficiency.

In 2002, the US president George W. Bush proposed what he called the Millennium Challenge Account. Its main aims were greater selectivity in the number and kind of recipients, and a fundamental change in US foreign assistance programs. Steven Radelet (2003) commented on this program and suggested a procedure for approving projects and programs in which control, results, benchmarking, monitoring and evaluation are central: "Proposals would be expected to spell out the actions that the recipient would take and the benchmarks by which success would be measured, pushing recipients to establish concrete goals over a specific timeline. The proposals have to spell out the contributions that the recipients would make to the project, including financing personnel and material" (Radelet, 2003, p. 80) and "it will depend heavily on strong monitoring and evaluation systems to guide the allocation of funds" (Radelet, 2003, p. 91).

Carol Lancaster, a previous deputy administrator at USAID (2000a; 2000b), sought the solution in a new institutional arrangement, new agencies, combination of agencies, a division of labor between bilateral and multilateral aid and, of course, a new small advisory working group to develop a blueprint of the policy and organizational changes it plans to seek in US foreign aid (Lancaster, 2000a, 2000b, p. 94). She seems to tell us that if we change the organization and management of the aid providers in Washington D. C., the effectiveness of aid in countries like Nepal, Somalia and Ecuador will automatically improve.

Michael Klein (2005), the vice president for private sector development of the World Bank, seeks the solution in competition among donors to improve performance, innovation, experimenting and evaluating. We need "credible tests that will tell us what we need to know to improve aid projects" (Klein, 2005, p. 6) and "credible ratings of aid agencies, measures of effectiveness of different types of aid, rigorous randomized trials of specific programs…. One thing seems certain, though: with more choices available, taxpayers, private givers, recipients, and others are all going to ask increasingly keen questions about the performance of different aid agencies" (Klein & Hartford, 2005, p. 131).

Often such scholars want the strict conditions for other reasons also, namely because the beneficiaries are lacking in morale, or are corrupt (see also Calderesi, 2006). They want to restrict aid to those countries that prove to have replaced corrupt leaders, are no longer indifferent to poverty, and do not offer only lip service to the alleviation of the gravest health and education problems.

It is assumed that putting new public management procedures into operation would remove the problems and make aid much more effective. However, what they are really doing is blaming the recipients and the organizations involved in aid for the faults, and they assume that if the aid organizations bring in more New Public Management [NPM] principles everything will change for the better.

As we will argue, the four assumptions, of (1) an indifferent and (2) coherent aid industry that can be made more effective just by (3) optimizing procedures and

(4) the quantity of aid, are one-sided and false. In the process of making foreign aid more effective, something important is forgotten, namely content, care and trust. Partly due to the ongoing debate, partly due to the "rotten apples" which were there, foreign aid has concentrated on amounts, interests and controls, restrictions and regulations rather than on facilitation. According to us, this has resulted in the opposite of what was aimed for. The criticism and cynicism regarding foreign aid, and the reactions of governments, donor organizations and foreign aid workers, have put *input, process* and *output* variables to the fore, forgetting that outcomes and feedback are just as important and perhaps more important.

In our research on foreign aid involving the provision of technical assistance by Western countries that financed foreign advisors to assist Central and East European countries in their transition process, we did not take these four assumptions for granted, but took them as hypotheses. We interviewed many insiders, analyzed many reports and read many books on the subject. We still think quality matters, that people providing foreign aid do care, that effectiveness needs more than just internal controls, and that there are many actors involved instead of one aid organization. Many things went wrong in the cases investigated, but we feel there is something else going on that gets worse and worse, and is directly related to the poisoned debate about foreign aid in general.

## 1.3 Explaining the inefficiency of foreign aid by managerial factors

The question about the effectiveness of foreign aid and whether the amount thereof had any positive effects, or was just a waste of taxpayers' money, has resulted in a lot of research. This research addresses managerial factors, such as the organization of aid provision, the form in which aid is given, e.g. projects or programs, and the amount of aid. Despite the fact that many talk about a confirmation bias in this research – the officials only hear what they want to hear and see what they want to see – it has had a large political impact. This is because the question behind such research is a serious one. Did the economically developed countries do enough and did they do it in the right way, to alleviate poverty, to reduce infant mortality, to make poor countries a little more well-off, or must one conclude that the 2.3 trillion US dollars that are estimated to have gone into foreign aid through time were wasted?

### 1.3.1 Is it the amount of aid that matters?

This question resulted in empirical research trying to answer questions such as: "Is there a relation between the amount of foreign aid a country receives and its economic growth?" The case of Western Europe after the Second World War and the economic take-off that became possible because of the European Recovery Pro-

gram, the aid given by the Americans at the late 1940s and better known as Marshall Help, seemed to justify the assumed existence of such a relation (Rostow, 1971; Sachs, 2004). Therefore, also Latin American, African, and Asian countries should be given aid in a similar way. The idea was that because of a lack of capital, no large-scale investments were made and an economic take-off remained impossible. The logical solution was to provide that capital. However, when asking the question about the effectiveness of such aid for Latin American, African and Asian countries, the answer was in most cases a clear: "No. The aid was ineffective." (Cassen, 1986; Riddell, 1987; Krueger et al., 1989; Griffin, 1970, 1987; Lappé, 1980.) Aid did not contribute to economic development (Griffin, 1987). Aid could even have a negative impact. This was found for the political instability in Somalia (Maren, 1997). Keith Griffin (1987) writes e.g. about the negative effect on domestic savings, while Steve Knack (2001) explains the increase of corruption by the aid provision. When comparing Third World countries that received varying amounts of foreign aid, this aid does not explain the variance in their economic development. Only some Asian countries such as China, India, Korea, Singapore, and Taipei, and in Africa the rare example of Botswana, could be mentioned as positive illustrations of the effectiveness of aid. Nevertheless, these countries are exceptions rather than the rule, and of Botswana it is said that they only succeeded because they "sent the IMF packing".

The available literature on the subject teaches us that the amount of foreign aid *per se* does not add much to our understanding of the effects in terms of economic development or poverty alleviation. That is why William Easterly (2006) talks about the legend of the big push.

### 1.3.2 Does the form in which aid is provided matter?

Later research has pointed at intervening factors, namely the occurrence of disasters. Whether it is a flood, a long draught, a civil war, an earthquake, a tsunami, or a hurricane, the effects are always disastrous. In the long run, such disasters seriously disrupt economic development, but it is especially in the weeks just after such a disaster that they are monstrous in their human impact. That is why such disasters often result in massive emergency aid – not intended to bring economic growth, but just to relieve the victims from the most serious impacts of such a disaster. It is aid in order to provide shelter, to prevent famine, and to prevent the spread of cholera and/or other diseases. The relation between the amount of aid and economic growth is difficult to establish, because countries experiencing disasters or stagnant growth are likely to get more aid because of that. Therefore, the relation between aid and economic development is inversed. Taking this factor into account in the research model results in a multivariate model, with disasters and stagnation being the third factor explaining the absence or even negative relation between economic growth and foreign aid.

Therefore, the second question in research on foreign aid became, "Is there a relation between providing foreign aid and economic development if we control for the emergency aid a country receives when it faces a disaster?" The answer was unfortunately still a clear "No". Aid did not bring about such an effect even when one took the disaster variable into account (cf. Rajan & Suramanian, 2005).

The perceived ineffectiveness was one of the reasons at the beginning of the 1980s to reduce foreign aid and change the nature thereof, namely in favor of tied aid. Aid was given to countries under the condition that the aid should be beneficial to the industry of the country that provided the aid. American industry should profit from the aid given by the USA. The Dutch required that their companies should be hired to build the necessary infrastructure in recipient countries. The 'gifts' from before were now transformed into loans. This worsened the situation in the recipient countries, because loans have to be paid back. When the money had not been spent effectively, the loans became a burden even heavier to carry for the poor countries.

A new development came about when some wise guys (among others, Brunetti et al., 1997; Chibber, 1998; Burnside & Dollar, 1997, 2000) proposed that the nature and policies of the governments in the recipient countries and their policies might explain whether aid could be effective or not. Giving aid to countries with a corrupt government makes it likely that (a large) part of the money will end up in the bank accounts of the high officials, instead of in the economy of those countries. One started to expect more from recipient governments than just opening up markets, deregulation of the banking sector and promoting *laissez-faire*, as suggested 15 years earlier in the Washington consensus. Possibly governments should be effective in what they do, sustain strong institutions, be free of fraud and corruption, and protect the economy.

Hence, the research continued, this time with a fourth and fifth variable, namely public integrity and sound policies. The first was indicated by dubious indicators like "Was the government elected or not?" Indicators on inflation, budget deficits, and the existence of an open economy indicated the variable "sound policies". Depending on whether particular countries were seen as outliers or as part of the sample, the research resulted either in positive outcomes (Burnside & Dollar, 2000; Rana & Dowling, 1988, 1990; Dalgaard & Hansen, 2001) – in which case the research was embraced by donor organizations and donor states – or in conclusions that were still skeptical about the effectiveness of aid (e.g. Rajan & Subramian, 2005), in which case it was embraced by critics with a neo-conservative or leftist origin.

The donor organizations following the positive research saw a new opportunity to spend their money effectively. They turned to conducting programs instead of projects. The preliminary research outcomes pointed out that single projects could not succeed if the context wherein such projects were conducted was unfavorable.

Increasingly, aid was accompanied by conditions and restrictions. This refers, for instance, to conditions about the improvement of the institutional infrastructure. Many donor countries insisted on a reform of the public sector according to the principles of new public management, in the form of decentralization, deregulation, deconcentration, devolution, privatization, using performance management tools, downsizing government, a retreat of the public sector in favor of the free market, bringing in elements of free-market competition, changing the jurisdiction, enhancing the protection of property rights, and training and advising public officials during the process. The adage became: send in people to help the recipient countries to improve the conditions under which aid is given. Send in foreign advisors. They should help to reform, advise about management issues, improve institutional structures and regulations, and adapt policy programs to improve the effectiveness of projects, train local and national officials and advice about how this can be done.

This type of aid became a completely new market. It was estimated that during the 1990s such technical and training assistance, on average, accounted for approximately 17 billion US dollars per year, or about 34 % of foreign aid. Taking the overhead, accounting, and personnel costs within the donor organizations into account, some suggest that about half of all foreign aid was provided in the form of foreign advisors (Sogge, 2002, p. 82).

Evaluation of this kind of aid, however, also resulted in pessimistic outcomes (Wedel, 1998; Sogge, 2002). The foreign advisors were often inexperienced, they took a top-down approach instead of a bottom-up approach, the type of donor organization better explained their plan of action by whom they worked for than by the needs of the recipients, and they neglected indigenous knowledge.

### 1.3.3 Does the organization through which aid is provided matter?

Recently a new kind of research has evolved, in which the organization through which aid is provided is seen as the crucial factor explaining the aid's ineffectiveness. Although this had been an issue before, nowadays this seems to be a completely new research field. Previously it was pointed out that there could be a difference between bilateral aid and multilateral aid. The former would be instigated because of political reasons, while the latter were not.

Others pointed at the lack of coordination between donor organizations and the lack of coherence in aid provision. Therefore, the study of the organizational structure has become a central subject for research (Meltzer, 2000; Sogge, 2002; Stiglitz, 2002).

Partly, these scholars criticize the fact that most of the money remains within this complex organizational structure, and that only a very small amount of aid remains for the recipients, when all the overhead, administrative costs and personnel costs for all agencies involved are subtracted from the total amount of money

available. They give depressing examples on the question of how many cents on a dollar given through charity actions actually were used to provide aid. The solution of this problem is to simplify the aid-chain, to diminish the number of agencies, and to make the organizations more efficient, if not less corrupt.

The second criticism involves the resulting top-down form in which foreign aid is provided, that is, from the top of the aid-chain – where the goals are set – to the bottom thereof, where the aid is provided. The resulting recommendation from this criticism is to change aid into bottom-up-provided assistance, looking for what people need and want instead of superimposing a previously designed plan (Easterly, 2006).

The third criticism is about the bureaucracy involved. William Easterly (2006) talks about the 2,400 reports or so per year that the Tanzanian government had to send to the donors in order to justify the spending of the aid the country received. Others depicted this number to be a myth. It would be this many reports if Tanzania had to write a report on all the projects in its country. But the problem is not only administration and chapter-shuffling, it is also the complexity. Who is accountable and who is held accountable seem to be as problematic to discover as it is to find the causes of the ineffectiveness of foreign aid. However, empirical research concludes that the organizational context does not make the difference as expected. There seems to be no difference in the effectiveness of bilateral aid, compared to multilateral aid (Rajan & Subramian, 2005).

Furthermore, there is a huge variance in the effectiveness of aid projects conducted by the same organization (Cassen, 1986), which at least partly reduces the explanatory power of the organizational setting. Also, the same people who complain about the money that remains inside the aid-chain present figures that show huge differences between aid organizations, regarding the cents on the dollar that actually reach the recipients.

### 1.3.4 Do the individuals involved matter?

Organizations are filled with people, and there is much literature on the dubious motives and incompetence of individuals in the aid business (Anderson, 1999). Problems mentioned in this respect include the following: The aid workers would just be in it for the money. They would have a one-sided focus on starting new projects and neglect the maintenance of existing or past projects. Their focus would be on developing new projects instead of continuing existing projects. They are arrogant, only telling local people what to do and hardly paying attention to what some call indigenous knowledge or the local cultural characteristics. Instead of going bottom-up and listening to what is needed, they are said to act in a top-down, paternalistic fashion. Finally, they are often hardly qualified for the work they are supposed to do.

Anderson (1999, pp. 55 ff) mentioned the implicit ethical messages sent by aid workers in addition to delivering goods and services. Implicit ethical messages are sent when aid workers hire armed guards, when they fail to cooperate among one another, when they show off with their resources, when they show incapability to change a situation and blame this on their organization, and when they act provocative or paternalistic.

Such problems occur especially when mediocre aid workers are sent in, perhaps only recruited because they had been on holiday in the country, because they know the language, or because they could not get a job in their own country. They are 'advisors' who have no idea what to do, but who are still paternalistic towards the local people. Moreover, a serious problem is that the foreign advisors sometimes act as if they are in their home country, applying just the things that they know from their home country. This is about the US advisors who tell other countries how good it would be to have local taxes, to decentralize and downsize government, just because they do it this way in the USA – and about French advisors who tell just the opposite, because that's the way it is done in France, leaving the recipients in an awkward situation especially when advisors from these countries come simultaneously, as happened in Romania and Poland.

### 1.3.5 Does the content of aid matter?

The last factor to be mentioned here is that the content of aid might make a crucial difference for its effectiveness. This could explain why, for instance, the probability of success for aid programs of the World Bank in the 1990s was almost fifty-fifty (Meltzer, 2000).

The well-known saying is that we should teach people how to fish instead of giving them fish. Nowadays, this statement sounds paternalistic, because such an approach assumes that the recipients do not know how to fish, that there is no meaningful indigenous knowledge, that Western countries do know how to fish, and that Western countries can just transfer their technology to countries with a rather different culture and history. Especially Maren (1997) warned against such aid. The question is whether the content of aid matters. Proponents and adversaries illustrate their arguments with vivid examples of aid that was effective because of the bright idea behind it. William Easterly (2006) wants searchers, Jeffrey Sachs (2005) wants advisors using and applying sound theories, C. K. Prahalad (2005) wants aides to become innovative, and Michael Klein and Tim Hartford (2005) want to apply those instruments that have proven to be effective in rigorous evaluation. However, research investigating the impact of the content of aid in a systematic way is severely lacking.

## 1.4 The research approach

The above concise review points to two types of factors as causes for the ineffectiveness of aid: managerial and substantive. It also indicates that much more research is done into the impact of managerial factors than into the effects of substance. In our research, we considered both factors, leaving it open which of them is the most important. The two factors reflect the framework in which we did our research on the Western aid given to the Central and Eastern European countries during the transition process after 1989.

We tried to conduct our research in the best traditions of Public Administration, as among others seen in the wonderful study on the forest ranger by Kaufman, the study on Oakland by Pressman and Wildavski pointing out that expectations in Washington are dashed in the problems of implementation, and the study on New Haven by Robert Dahl, asking the question who governs that city. Although this work does not compare to those books of extraordinary quality the approach is rather similar. We depart from general theory, and dive deep into one particular case, resulting in a novel conclusion about what is amiss in the process of international technical assistance.

Our research also differs from research done before in several respects. First, we address a specific kind of aid, namely the aid provided by foreign advisors who were sent into the CEE countries to assist in the transformation process. It is technical cooperation, with the aim to augment the level of knowledge, skills, and technical know-how in the recipient country, especially by providing technical services (Cassen, 1986; Szirmai, 2005). Within this category, we were especially interested in the role of Western aid in the transformation of the public sector in CEE countries. Whether that kind of assistance is different from development aid in general is investigated in Chapter 2.

Second, our research does not concern the poorest countries, but relatively well-developed industrial countries in Central and Eastern Europe between 1991 and 2004. These countries were in a transition process, whether or not aid would be provided. Coming from being part of a Communist system with centrally led economies, they moved to a capitalist, free-market system. This implies that the problems faced by these nations were quite different from those in the poor regions in Latin America, Africa, or Asia. It was not problems like famine and lack of education, housing or health care that were the most serious, but problems of socioeconomic development and institutional change that were most pressing. In fact, our research starts in the Polish big textile-industrial city of Lodz, the second city after Warsaw in terms of population. We have found there the theater of the Greek tragedy. The local officials in this city were asked to give their opinion about the technical assistance they received from Western countries during the process of transition. The characteristics of Lodz are presented in Chapter 3.

Third, we went to the actors, the insiders, to get more information about the content of technical assistance given to CEE countries. The views of these actors are presented like a case study in Chapters 4 to 7. Initially we went to the recipients of aid, in our case the local officials of Lodz, who received a lot of aid to transform the social security system in the framework of bilateral agreements between Poland and various European governments and the assistance provided in the framework of the PHARE program prepared by the EU. We asked the municipal officials about their opinion on the kind of assistance they got and the effectiveness thereof. This is described in Chapter 4. Next, we went to the foreign advisors to hear their view (Chapter 5), subsequently to representatives of donor organizations (Chapter 6) and, last but not least, to representatives from government, those having decision-making power in government in the given time-period (Chapter 7).

The book ends with Chapter 8, which gives a reconstruction of the findings, a reflection on the outcomes compared to the four myths described above, and conclusions and recommendations.

## 1.5 A note on methodology

As to the methods used, these vary for different parts of this book. We simply used all the information we could get our hands on. Sometimes this involved doing a kind of quantitative, econometric research, as in Chapter 3, where the differences between technical assistance and development aid in general are given. This part is based on the OECD DAC database in which the amount of money is given that was spent on aid over the years, and in which one can distinguish technical assistance. In the case study, as presented in Chapters 4 to 7, we depended largely on the gathering of personal stories of those directly involved, but also on personal diaries, white chapters, policy documents, and minutes provided by organizations. In every chapter it will be explained how the conclusions were derived.

Hence, we used a multi-method approach letting the kind of analysis depend on the kind of information we could obtain and the question at hand. This implies that statistical information is used where possible, but that we did not discard from key actors' narrative stories about their involvement in the transition process in the post-socialist countries, or the roles of the representatives of the donor organizations and donor governments. Neither did we neglect the contradictions between the comprehensive objectives presented within the official documents and regulations of the donor organizations and the operative goals of Western aid addressed to the CEE countries presented in the governmental documents and regulations.

Even if we cannot generalize the results of this part of the research, we believe that we provide readers with a better understanding of the Western assistance to CEE, especially at the beginning of the transition. We have documented a small part of European history that in a short time will be forgotten and difficult to re-

construct. We began our research with those at the bottom of the aid-chain and we closed it after investigating those at the top. The sequence in which this research was conducted also had other reasons, which will become clear later, namely that the opinions received from one organization almost automatically induced us to go to the next.

The information gathered from the recipients made it possible to distinguish between foreign advisors who did a relatively good job and those that really messed up. We did not go to those advisors who messed up completely, but to those who did a relatively good job. These were foreign advisors from Sweden. In the literature on foreign aid, Sweden is perceived to be one of the countries not having geo-political goals. The country is charitable for its own good and does not make the awful mistakes made by other countries. Next, we went to the Swedish donor organizations and finally to members of the 1990s' Swedish government. In this way we tried to get information based on the experiences from what are called "the best qualified, most honest and really humanitarian actors in the field of foreign aid". At the end of this book, we will return to the question whether they were really worthy of these classifications.

# 2. Technical Assistance Within the Context of Foreign Aid


## Abstract

This chapter describes technical assistance as a part of foreign aid and the trends in technical assistance that flowed to the CEE countries during their transition process. It shows that the amount of foreign aid as well as technical assistance received by CEE countries during their transition period was huge. Furthermore, it investigates whether there is a difference between trends in foreign aid in general and the one component that is central in this study, namely technical assistance. It also answers the question of what determines the flow of money involved in foreign aid in general and technical assistance in particular. First, it will be argued that it would be profitable for empirical analyses if one were to look at the components of aid separately. Second, it will be argued that the level of aggregation determines the amount of information revealed. The more one disaggregates the data, the richer the analysis. This is the justification for the research approach to be presented in the next chapters.


## 2.1 Introduction

After the fall of the Berlin wall in 1989, a huge amount of money was given to be used for technical assistance to CEE countries. It was, among other things, given to modernize national and sub-national government and to establish what is now known as the conduct of good government, that is, good governance. This chapter argues that, notwithstanding the fact that technical assistance is usually headed under foreign aid, it is in reality something rather different.

This chapter gives a broad overview of the volume of aid provided to CEE countries and the role of technical assistance within that aid. The main goal of this first part of the research is to answer a simple question: which trends are seen in the development of aid to CEE countries since the early 1990s? It investigates whether there is a difference between trends in foreign aid in general and the one component

central in this study, namely technical assistance. Second, it answers the question of what determines the flow of money involved in foreign aid in general and technical assistance in particular.

This investigation, therefore, follows the money. Where did the developmental aid within Central and Eastern Europe go between 1991 – the year many CEE countries became independent – and 2004, the year in which ten of them joined the European Union?

What patterns were visible? What are the probable explanations? Are there differences in the determinative factors behind foreign aid and technical assistance, and therefore in the understanding of the provision of technical assistance and foreign aid?

These questions are important not only in the light of the discussion about the four assumptions given in the previous chapter, but also in another sense, namely in order to reflect on the best way to conduct research into the workings of technical assistance. This chapter will show, among other things, that technical assistance is something to take seriously in view of the amount of money involved, and that the more the level of analysis is disaggregated the more information about the actual workings and determinative factors of technical assistance is revealed. This finding has serious consequences for the remainder of this research, which is presented in subsequent chapters.

We proceed from simple time-series to multiple regression analyses at an aggregated level in order to be able to make the points (1) that technical assistance has a more substantial rationale and is less dependent on political factors than foreign aid in general; (2) that it is not informative to analyze trends in foreign aid as such, because it consists of too many different components, which have their own specific rationale; and (3) that the provision of technical assistance is a serious business, not only because it involves a lot of money, but also because it seems to be a much more sustainable form of cooperation between countries than is the case with foreign aid in general.

The original idea behind this chapter was to remove all ambiguity from the concepts and to remove all doubts about the features of what it is we are investigating, namely technical cooperation. Nevertheless, it can already be told that this chapter ends up with the conclusion that even at the most disaggregated level of investigation, the concepts of foreign aid and technical cooperation remain fuzzy.

The structure of this chapter is as follows. First, we give the definitions of foreign aid and technical cooperation as well as some examples of the latter. Subsequently we present the data used to give insights into the trends of both foreign aid and technical cooperation over the years. The well-known OECD DAC data on developmental aid are used (http://stats.oecd.org/wbos/). These incorporate the volume of developmental aid for donors and recipients since the early 1960s until

2005. These data are well suited for our purposes. They enable a distinction between official foreign aid in general and technical assistance in particular. The fourth section addresses the question of what explains why one country receives more money than others. What explains the variation in theory? We will point at geo-economic factors such as size, wealth, and economic growth. We will also point at political-strategic factors, such as the direction the recipient country took in the process of transition, the civil liberties, and political freedom.

After it is clear what could explain foreign aid and technical cooperation in theory, we will analyze the relations empirically. Luckily, there are well-known reliable databases that can be used for measuring the factors that are deemed important in theory. The underlying economic factors (GNP per capita, human development, economic growth) are derived from data from the IMF, and the political factors like wars, parliamentary and presidential elections, civic liberties and political rights from the website of Freedom House, which measures every year the degree of civil liberties and the political freedom in countries all over the world.

In the conclusions we will reflect on the findings and argue that even an analysis at the most disaggregated level the comparative data allow obscures much relevant information about trends in foreign aid and technical cooperation.

## 2.2 What is technical cooperation?

Nowadays technical cooperation is known under several labels, such as technical assistance, training, human resource development, capacity building, capacity development, and institutional reform, that is, 'making the capability to perform functions more effective'.

The World Bank describes technical cooperation as "those activities within foreign aid that include both (a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisors and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and program expenditures, and not separately identified as technical cooperation in statistics of aggregate flows".

Such assistance can take many forms. It can be the assistance for local governments to set up an administrative system for the registration of unemployed. It can be the help in preparing wastewater projects such as in Krakow, or the training of local officials in NPM.

**Box 2.1**
An example of technical cooperation

The European Bank for Reconstruction and Development [EBRD] helping to modernize Poland's railways.

The Bank has been cooperating with Poland's national railway company (PKP) in supporting the modernization of the railway sector for a number of years, starting in 1996 with provision of financing for track maintenance machinery and upgrading of selected railway stations along the E-20 (Berlin-Warsaw) route. It had been urging the adoption of an accelerated reform program and a greater participation of the private sector in core railway operations, particular freight transport. Following the adoption of the new Railway Law in 2000, the Bank supported its reform-oriented implementation through two loans to the PKP SA – the holding company of the Group. The first of the two loans financed part of the successful labor restructuring program prepared in full cooperation of the workforce and the trade unions. The second loan allowed the Group to settle specified historic financial and trading debts allowing newly created PKP Holding subsidiaries to commence independent operations in October 2001 with 'clean' balance sheets. In addition, in March 2004 the Bank provided a non-sovereign loan to one of the PKP Group subsidiaries, PKP Energetyka, to finance cost saving investment in network maintenance.

It can also be training in the artificial insemination of sheep, or training in fish-farming techniques, in oilseed and wheat-research programs. It can also be the assistance in building laboratory or project preparation assistance, studies design, implementation assistance, system development, and institutional strengthening development of technical skills through training programs and international events.

In the public sector, it can be the training in management techniques and the assistance in modernizing laws and developing public policies. Assistance is also included in developing or implementing child care policies, programs to assist in structuring welfare-programs, programs or projects to increase the capacities of teachers, or to transpose EU directives in national regulation, and in general to enhance the capacity of local, regional or national government and the conduct of government, that is, governance. UNECE, the UN branch on the economic development in Europe, which is especially directed toward transition countries, mentions as its tasks:

> *The prevailing ways and means employed for the implementation of technical cooperation services have been capacity building workshops, seminars, study tours, and training aimed at assisting recipient countries to adopt and implement international legal instruments, norms, standards and regulations, as well as other*

*policy advisory services (reviews and assessments such as housing profiles, Environmental Performance Reviews, knowledge-based economy reports) carried out at the request of interested countries (UNECE, 2004).*

**Box 2.2**
Example from the homepage of the EBRD

The European Bank for Reconstruction and Development, for instance, was according to its homepage (www.ebrd.com) established in 1991 when communism was crumbling in central and eastern Europe and ex-Soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in countries from central Europe to central Asia.

The EBRD gets its funding mainly from developed countries and IGO's such as Austria, Belgium, Canada, Central European Initiative, Czech Republic, Denmark, European Union, Finland, France, Germany, Global Environment Facility, Greece, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taipei China, Turkey, United Kingdom, and USA.

As the organization tells the Technical Cooperation Funds program (TCFP) provides funding to improve the preparation and implementation of the EBRD's investment projects and to provide advisory services to private and public sector clients. It is funded by governments and international institutions and managed by the EBRD. Each year the program provides about €80 million to finance the activities of a wide range of consultants and other experts. As well as supporting the EBRD's investment program, the TCFP promotes institutional reform and the highest standards of corporate governance.

According to the OECD Puma Department (2008), technical assistance can take over the following roles:

1 *Institutional barriers to evaluation* such as internal resistance can be reduced through consultation that aims to create mutual trust.

2 *Training and professional dialogue* will lead to competent evaluators, well-informed commissioners, and enlightened and enthusiastic users all of whom contribute to an evaluation culture.

3 Development of evaluation skills in different organizations ensures the necessary *range of evaluation methods and perspectives* (e.g. drawing from both internal and external evaluators), and that each evaluation is designed in accordance with its unique set of issues related to objectives, focus, credibility and intended use.

4 *Special funds* to finance evaluations can serve as an important incentive for evaluating public policies and thus generate demand.

5 Using an IMES for the *comparison of different (donor or country) approaches* may help to identify good and best practices and thus assure mutual learning. (Institutional monitoring and evaluation studies on Decentralization]

According to the UNDP in the middle of the 1990s, technical cooperation aimed at:

1 First, **training and education**: effective performance of any function requires a well-trained human resource base of managerial, professional and technical personnel. This involves both specialized training and professional education, and in-service training needed for role-specific activities. This dimension is concerned with how people are educated and trained, and how they are attracted or directed to careers within particular organizations. Of the five dimensions, training and education has been best supported under conventional approaches to technical cooperation. The other four dimensions have often been underemphasized in the past.

2 Secondly, **organizations and their management**: effective performance requires the utilization and retention of skilled people. Thus, capacity development must include the organizational structures, processes and management systems, in particular the personnel management systems, which make the best use of skilled human resources, and which ensure their retention and continued motivation.

3 Thirdly, **the network and linkages among organizations**: there is a need to consider the network of organizations or institutions that facilitates or constrains the achievement of particular tasks. The accomplishment of many tasks requires the coordinated activities of a range of organizations and any particular organization may belong to several task networks. How these networks function, and the nature of formal and informal interactions among them, are important aspects of organizational performance. These networks will often straddle the public and private sectors even where primary responsibility for a function rests with a public sector organizational unit.

4 Fourthly, **the public sector environment**: the policy and institutional environment of the public sector is a major factor that constrains or facilitates organizational activities and affects their performance. This includes the laws, regulations and policies affecting the civil service, including hiring, promotion, salary structures and operating procedures, the budgetary support that allows organizations to carry out their tasks, the definitions of responsibilities among ministries or agencies, and the nature of the policy environment that supports or impedes the performance of functions.

5 Fifthly, **the overall context**: it is important to consider the broad action environment of the organization, beyond the public sector. This refers to the economic, social, cultural and political milieu in which organizations operate, and the extent to which conditions in this broader environment facilitate or constrain the functional capacity of organizations. For example, the level and rate of growth of output, changes in international markets for major imports and exports, and changes in aid policies of major donors are key economic factors that can constrain or facilitate capacity development. Politically, factors affecting capacity development include the degree of stability, the legitimacy of the government, the extent to which government actions are transparent and accountable, and the involvement of representative institutions and associations in debate and dialogue (UNDP, 1995).

Such technical assistance is financed either by national, mostly OECD governments (bilateral) or by international governmental or non-governmental organizations (multilateral). Such international organizations include the EU, the EBRD, the Asian Development Bank, ILO, and the UNDP United Nation Development Program, but also many other UN organizations and specifically for Europe UNECE, the World Bank, and the OECD.

Bilateral aid is mostly divided through national donor organizations like the US Agency for International Development [USAID], the Swedish Agency for International Development Cooperation [SIDA] (Sweden), Cordaid (Netherlands), Canadian International Development Agency [CIDA], Department for International Development [DFID] (UK), the International Development Research Centre [IDRC] (Canada), JICA – the Japan International Cooperation Agency, GTZ – the Deutsche Gesellschaft für Technische Zusammenarbeit, and the Norwegian Agency for Development Cooperation [NORAD].

The donor organizations in turn hire consultants, advisors, and advisors to do the actual work. These can be individual consultants, or employees from small organizations or large organizations, like McKinsey, Price Waterhouse Coopers, the Canadian Bureau for International Education, or Sigma. Such advisors may have a counterpart in the recipient country with which they work together, or may work alone. In fact, this process points to the existence of an aid-chain, explicitly addressed before by Sogge (2002).

Ideally, in this chain a government or multilateral organization has a budget to provide technical cooperation to other countries. It has a donor organization that is responsible for the efficient and effective distribution of this fund. In the recipient country, there is some organization which could use assistance to solve an urgent problem and therefore applies for it. When it is approved, the donor organization sends some advisors or consultants. They do the job and the problem is solved.

However, as mentioned before, things do not always go as they ideally should. If we may believe the stories about technical cooperation, they hardly ever do. This has made many recipients doubt the motives behind foreign technical assistance. They are not the only doubters. Scholars in politics and other disciplines have identified several possible motives, of which being effective in bringing about positive change is only one and, according to many, not the most important one.

## 2.3 Theories about the reasons for giving aid

Why do the rich countries give aid to the poor? Is it because they care, or are other motives in play? Szirmai distinguishes four motives for giving aid: moral motives, mutual interests, commercial motives, and political and strategic motives (Szirmai, 2005, p. 382). The goals for which aid is provided can have an impact on the effectiveness of aid, because some goals are indicative that the aid is not directed at poverty reduction, or at improving the socioeconomic conditions in the recipient countries, but primarily at protecting the interests of the donor country and its home industry. This is not to say that one motive is better than another. Recently, for instance, Prahalad (2005) argued that self-interest might be a better motive for finding innovative solutions than morality or altruism. Thus, what are the main motives for giving aid?

Firstly, there is a *moral obligation* to reduce poverty, malnutrition and unacceptable living conditions, a moral need to reduce the gap between rich and poor, and a responsibility to repay past debts from the colonial era. Such moral motives are especially seen when disasters occur and money is needed to alleviate the victims in a short term. In such situations, humanitarianism proves to be still in existence. There are different views about the prominence of humanitarian motives. McKinlay and Little (1979, p. 243) concluded somewhat cynically that there are 'no grounds for asserting that humanitarian criteria have any significant direct influence' on the allocation of aid by the US. Carol Lancaster (2000a, 2000b), however, argued that the traditional goals of US foreign aid – promoting US security and fostering development in poor countries – are no longer as pressing after the Cold War. Washington must revamp its approach to aid and address new, urgent priorities: shoring up peacekeeping efforts in such places as the Middle East and the Balkans; easing the transition to globalization; tackling transnational environmental crises and diseases; and improving the quality of life for the world's neediest (Lancaster, 2000a, 2000b). According to a normative approach (see e.g. the Collier-Dollar allocation rule, 2002), optimal aid allocation would favor countries with high levels of poverty, low per capita incomes and sound policy regimes. However, this is not always the case in practice.

This is because of a second motive in giving aid, namely mutual interest or even self-interest. There is a *mutual interest* in giving aid, for instance, in order to

avoid international conflicts, and to deal with global problems of the environment and migration. Nowadays, even neo-conservatives plead for support that transforms weak states into strong states that are capable of doing what they are supposed to do (e.g. Fukuyama, 2004). Weak states present a danger for the environment, peace, and the spread of terrorism. When nations are devoid of a strong state, developmental aid might be useful to make stronger states. In France, governments have sought to promote the maintenance and spread of French culture and the French language as well as the preservation of French influence, among other things, through the provision of foreign aid. In the USA, national security considerations often influence foreign-aid decisions. During the 1980s, Cold War considerations caused a sharp escalation in US aid to Central America and the Caribbean, even as aid to Africa declined. More recently, concern over Middle East instability has made Israel, Egypt, and Jordan the largest recipients of US foreign aid (Virtual Developing Country, 2005). The same goes for Germany. As McKinlay argued, while there is evidence of a quasi-humanitarian influence, the German aid program is premised primarily from the perspective of German "vital interests" (McKinlay, 1978).

Thirdly, development creates *new markets*. It can be the way out when subsidizing one's own industry is restricted by regulations, but is still needed because an industry fails to sell its products. In those cases, one can give tied aid – money that has to be spent by the recipient on contracting firms from the donating country – and thereby subsidize one's own industry. The UK, for instance, made Egypt buy Rolls Royce gas turbines for electricity generation in the 1980s. The Dutch gave much aid with the restriction that it should be used for the improvement of infrastructure, naturally to be ordered from and delivered by Dutch companies. The Swedes contributed to developing a banking system in Estonia and Latvia similar to the one in Sweden, just to make the regular trade cooperation among the companies and enterprises in these countries easier. Anne Krueger (1986) has done research into the economic effects of aid and the relationships among private capital flows, official flows, and concessional assistance.

Finally yet importantly, aid can be given for *political and strategic goals*. Alfred Maizels and Machiko Nissanke (1984, p. 891) conclude that 'bilateral aid allocations are made … solely … in support of donors' perceived foreign economic, political and security interests'. During the Cold War, aid was given to get nations on the side of the provider and to prevent them from allying with the other side. Nowadays such motives still play an important role. It was the American president Richard Nixon who said in 1968: "Let us remember that the main purpose of aid is not to help other nations but to help ourselves" (Hancock, 1989, p. 71).

Gordon Crawford (2001) argues that the linkage of development aid to the promotion of human rights, democracy, and good governance was a striking departure in the post-Cold War foreign policies of Northern "donor" governments (Crawford, 2001). The Japanese are also known for giving aid only to those coun-

tries that support them in international organizations, and for giving such a kind of aid that Japanese firms profit from it. It would be especially the effectiveness of bilateral aid that suffers from such political motives. Fin Tarp (2000) states that political ideology, foreign policy and commercial interests to stem the spread of Communism have been very important, as has also been economic development as a goal in itself and as a necessary condition for the realization of other developmental goals such as poverty alleviation, spread of democracy, gender issues, social development and the expansion of markets.

There is also research that concludes that the political reasons for giving aid have diminished in prominence. Based on econometric research, Anne Boschini and Anders Olofsgård (2003) find aid to be positively related to military expenditures in the former Eastern bloc, and that the substantial drop in these expenditures can indeed explain the reduction in aid in the 1990s. Those results suggest in their own words that the aid allocation has become less strategic in the 1990s. Contrary to this position is the opinion of Peter Burnell (1997). According to him, the 1990s have seen the most systematic attempt yet to influence directly the government and politics of sovereign aid-receiving states. Aid's conditionalities now include political as well as economic dimensions. The proclaimed objectives include democracy, human rights, and good governance, but the old politics linking aid to donors' security and commercial interests has, according to him, not disappeared.

Several scholarly research papers and books point to the relation between the volume of aid and the change in policies in the recipient country. Svensson, for instance, found that foreign aid is partly disbursed according to the needs of the poor, and the anticipation of this adversely affects the recipients' incentives to carry out policies that would reduce poverty (Svensson, 1999).

Of course, the reasons are not either-or reasons. Jean-Claude Berthélemy (2006) presented an empirical assessment of the motivations of ODA given by rich countries, and concluded that aid motives combine self-interested and altruistic objectives (Berthélemy, 2006).

## 2.4 Data (OECD DAC data)

In this chapter, we use the OECD DAC data. These are the most widely used data and are constructed by the OECD. Inside the OECD, the Development Assistance Committee [DAC] deals with development cooperation matters.

DAC statistics provide comprehensive data on the volume, origin, and types of aid and resource flows to over 180 aid recipients. The data cover official development assistance (ODA), other official flows (OOF), and private funding (foreign direct investment, bank, and non-bank flows) from members of the Development Assistance Committee, multilateral organizations, and other donors. This organization has the most comprehensive dataset on Official Development Assistance

[ODA]. ODA is defined as Grants or Loans to countries and territories, which are: (a) undertaken by the official sector; (b) given with promotion of economic development and welfare as the main objective; (c) on concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 %]. In addition to financial flows, Technical Cooperation (q.v.) is included in aid. Grants, Loans, and credits for military purposes are excluded. For the treatment of the forgiveness of Loans originally extended for military purposes, see Notes on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted.

Obviously this ODA is an aggregate of quite different forms of aid. It includes loans, that is, Transfers for which repayment is required. Only loans with maturities of over one year are included in DAC statistics. Data on net loans include deductions for repayments of principal (but not payment of interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net ODA over the life of the loan is zero. ODA also includes tied aid credits, official or officially supported loans, credits or associated financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries (or CEE/NIS countries in transition, cf. partially untied aid). Tied aid Credits are subject to certain disciplines concerning their concessionality levels, the countries to which they may be directed, and their developmental relevance so as to avoid using aid funds on projects that would be commercially viable with private finance, and to ensure that recipient countries receive good value.

Disbursements involve the release of funds to or the purchase of goods or services for a recipient – by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost of the donor. Export credits are loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees, and this includes technical cooperation as defined in section 2.2.

## 2.5 Time series on the aid and technical assistance to CEE countries in general

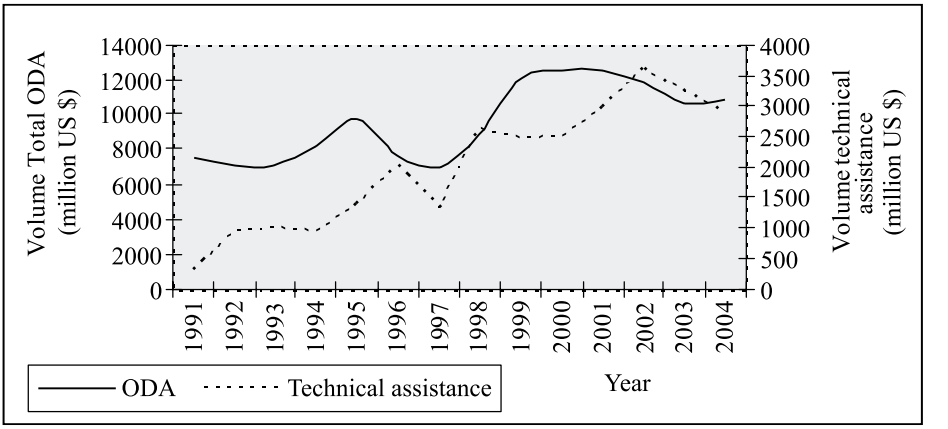
This section discusses the trends in the provision of foreign aid and technical assistance to CEE/CIS countries in the period 1991–2004. First, the trends are analyzed on an aggregated level. How much aid did go to the countries in transition in total during the 14 years of investigation, and how much money was given for technical assistance? Subsequently the time-series for four regions are analyzed. We distinguish Central Europe, Eastern Europe, The Balkans, and Central Asia. Finally we present the analysis at a further disaggregated level, namely the country level. These

three types of analysis will result in a number of preliminary conclusions or hypotheses to be tested in the remainder of this chapter.

### 2.5.1 An aggregated picture of aid and technical assistance to CEE countries

In Figure 2.1, the total sums of aid and technical assistance given to CEE countries in the period 1991–2004 are presented (OECD DAC). In total an amount of approximately 133 billion US $, with an average of approximately 10 billion US $ a year, was provided in this period on foreign aid – of which somewhat more than 28 billion was provided in the form of technical cooperation, that is, approximately 2 billion US $ a year. Whereas the foreign aid fluctuated around the 6 billion dollar a year throughout the period, the technical assistance slowly increased from less than a billion in 1991 to more than 3 billion in 2004, with a peak around 4 billion dollars involved around 2002.

**Figure 2.1**
Offical aid and Technical Assistance to CEE/CIS countries




Note that the actual values for ODA are found on the left y-axis and the values for technical assistance on the right y-axis.

The figure also shows that the trend in technical assistance provided seems to be relatively more stable than the trend in total foreign aid. This is also shown in some statistics on the yearly differences in aid provided to each country separately. These figures are given in figure 2.1.

To be noticed is that the yearly differences in total aid flow towards all CEE countries show much less stability than the yearly differences in technical assistance provided. This is shown in the mean of both variables as well as in the kurtosis. The

kurtosis of a variable is a measure of the extent to which observations cluster around a central point. For a normal distribution, the value of the kurtosis statistic is zero. Positive kurtosis indicates that the observations cluster more and have longer tails than those in the normal distribution, and negative kurtosis indicates that the observations cluster less and have shorter tails (SPSS manual in SPSS for Windows 15). In normal words, when looking at time-series on the yearly differences in the volumes of aid in general and technical assistance in particular, the kurtosis tells us whether the differences show stability or large differences.

The average yearly differences in the technical assistance provided are much smaller than those in the total aid provided. Even if one takes into account that the technical assistance is on average only one third of total aid, one sees a difference in Central Europe of 0.39 (indicating very small differences over the years) compared to a mean of 22.8for total aid (indicating large yearly differences)

Of course there might be important differences for different CEE regions. Splitting up the analysis between the total aid and technical assistance given to Central European countries, East European Countries, the Balkans, and Central Asia, reveals that the differences between total aid and technical assistance are visible in some regions and absent in others. In Central Europe the technical assistance is least peaked, but the average differences in the technical assistance given to those countries are the smallest.

**Table 2.1**
Data base divided in countries in CEE

| **Distinguished regions** | | | |
|---|---|---|---|
| Central Europe | Central Asia | Balkans | Eastern Europe |
| Bulgaria | Armenia | Albania | Belarus |
| Czech Republic | Azerbaijan | Bosnia-Herzegovina | Ukraine |
| Hungary | Georgia | Croatia | Moldova |
| Latvia | Kazakhstan | FYROM-Macedonia | Russia |
| Estonia | Tajikistan | Serbia Montenegro | |
| Lithuania | Turkmenistan | Slovenia | |
| Poland | Kyrgyz Republic | | |
| Romania | Uzbekistan | | |
| Slovakia | | | |

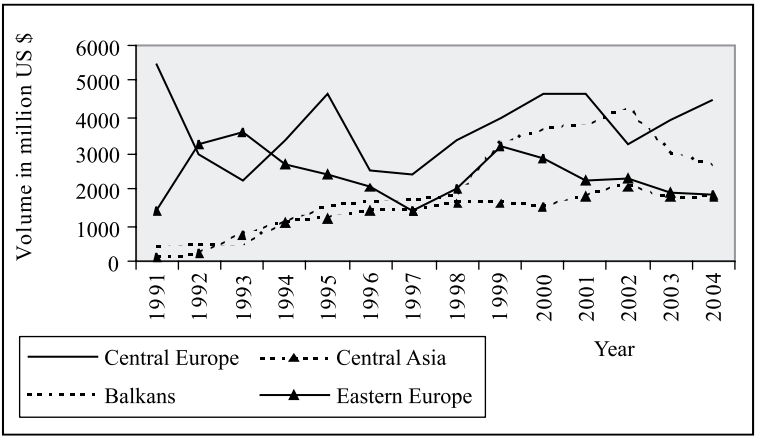
### 2.5.2 Disaggregating the figures: Aid to different regions

There might be differences between separate regions in the CEE CIS area. In Table 2.1 we divided the database in countries in Central Europe (such as Poland, the Baltic states, Czech Republic, Slovakia, Hungary, Rumania and Bulgaria), Eastern European countries (such as Belarus, Russia, Moldova and Ukraine), countries in

the Balkans (such as Albania, Bosnia-Herzegovina, Croatia, FYROM-Macedonia, Serbia Montenegro, Slovenia), and Central Asian states (such as Kazakhstan, Kyrgyz Republic, Tajikistan, Armenia, Georgia, Turkmenistan and Uzbekistan).

In Figures 2.2 and 2.3 it is shown that, especially with regard to foreign aid as such, it makes sense to distinguish between the regions in CEE Europe. For Central and East European countries the volume of foreign aid as such fluctuated heavily over the years. It was especially high during the first turbulent years of transition. In the Balkans and especially in Central Asia much more stability is seen. This trend is contrary to the trends in technical assistance to these same countries, which increased in Eastern Europe during the period under investigation and which remained relatively stable for Central European countries during the same period. In both figures 1996, the year in which eight Central European countries applied for EU membership, seems to have been the turning point. Just after 1996, the foreign aid as such decreased sharply and the volume in technical assistance stabilized after being rather unstable previously.

**Figure 2.2**
Total aid to four regions

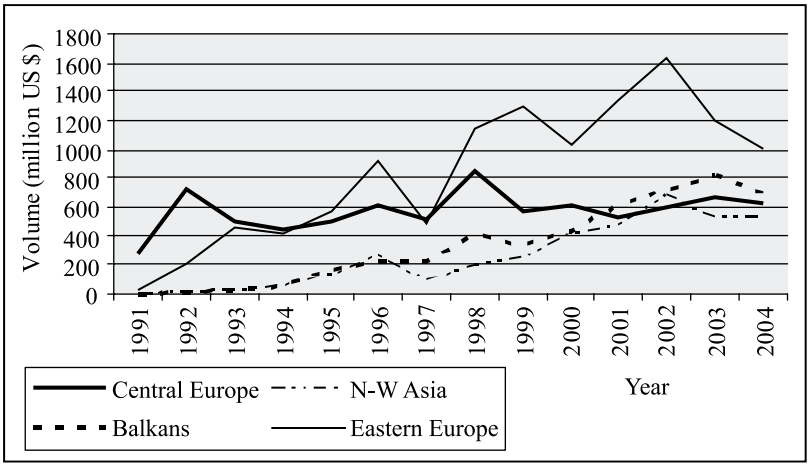



In the Balkans over the years, foreign aid increases as well as the technical assistance provided. Especially after 1995, when the Dayton agreement was signed and the Yugoslav wars came to an end, and again after 1999, when Milosevic was succeeded as president in Serbia and president Tudjman in Bosnia-Herzegovina died, both forms of aid increase. In both years a significant increase of foreign aid and technical assistance to the region is seen.

The most stable trends in foreign aid and technical assistance are found in those provided to the Central Asian countries south of Russia. From a Western perspective, not so much changed over there. In many of these countries within a

hardly changing regime, one and the same president was in power during the whole period from 1991 to 2004.

**Figure 2.3**
Technical assistance to CEE countries



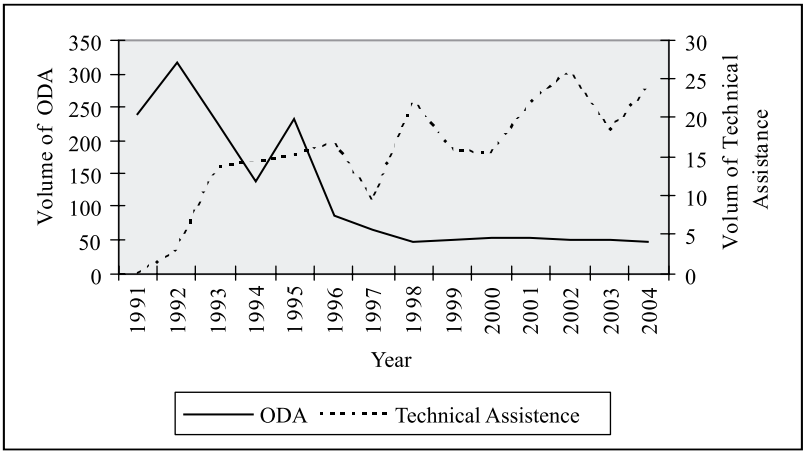

### 2.5.3 Disaggregating the data further: Aid and technical assistance to specific countries

When disaggregating the data to a still lower level, some striking developments in specific countries can be seen. This is done below.

#### *2.5.3.1 A special case in Eastern Europe: Belarus*

Among the Central European countries Belarus is a deviating country. The trends in both kind of aid are given in Figure 2.4 When one looks at the trend in foreign aid to Belarus, one can see how changes in the volume of official development aid follow developments in the Belarusian government. After 1989 the government came under attack from within and because of the fall of the Berlin wall. Until 1993 there were clear signs of democratization, which were favored by the West. One of the main criticizers of corruption by the Communist party, the then hardly known 'Lukaschenko', was elected as chairman of the anti-corruption committee of the Belarusian parliament. His criticism of corruption and the tendencies in Belarus toward more democracy were supported by the West. The West supported the developments in Belarus until in 1994 Lukaschenko was elected president in the first general presidential elections. His policies afterwards were, however, not pleasing to the West. In the eyes of Western observers, he did not proceed with democratization, but with expanding his personal power.

**Figure 2.4**
Aid and Technical assistence to Belarus




See note under figure 2.1.

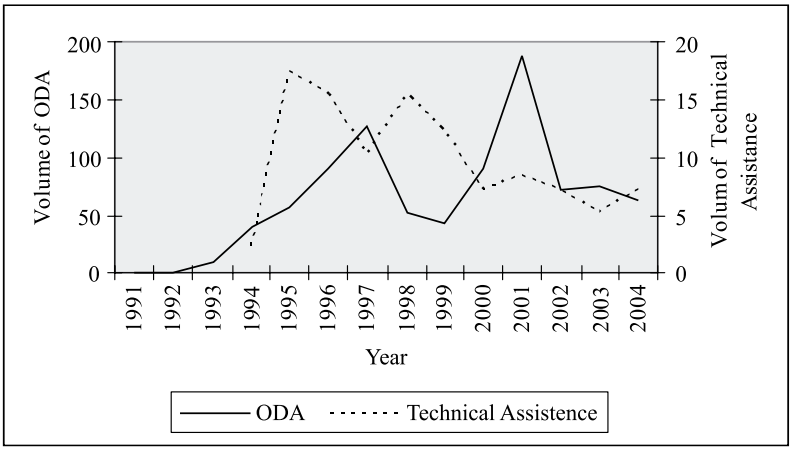
In 1995 Lukaschenko was accused of corruption and anti-democratic acts. Especially after his seizing complete power in 1995–1996 and his disbanding of the Supreme Soviet, one sees that the West reacts immediately by significantly reducing ODA. The trends in the political position taken by Lukaschenko are reflected by the foreign aid given to Belarus. However, the technical assistance programs as such show much more stability and are much less affected by the political developments inside the country. Belarus is one of the main examples that foreign aid as such is far more affected by political developments than technical assistance is.

### *2.5.3.2 A special case in the Balkans: Slovenia*

In the Balkans, Slovenia is a special case. It became an independent country relatively early and without having to go into an ongoing war with Serbia. After one week of military show-off, Yugoslavia accepted the independence of Slovenia. The foreign aid started almost immediately. Whereas the official aid and technical assistance to most Balkan countries only started after 1997, for Slovenia the aid started early, namely in 1993 whereafter it sharply increased until 1996.

Geographically Slovenia was seen as the buffer state between Yugoslavia and the EU. As a newly independent state, it got much support from the West, which was in conflict with Yugoslavia, i.e. Milosevic. As soon as the Yugoslav wars ended, the foreign aid was minimized. However, the trend in technical assistance runs much smoother. It starts in 1993 and increases until 1995, and it only slowly decreases afterwards. Its volume is much less affected by the political military developments in the region.

**Figure 2.5**
Aid and Technical assistence to Slovenia




See note under figure 2.1.

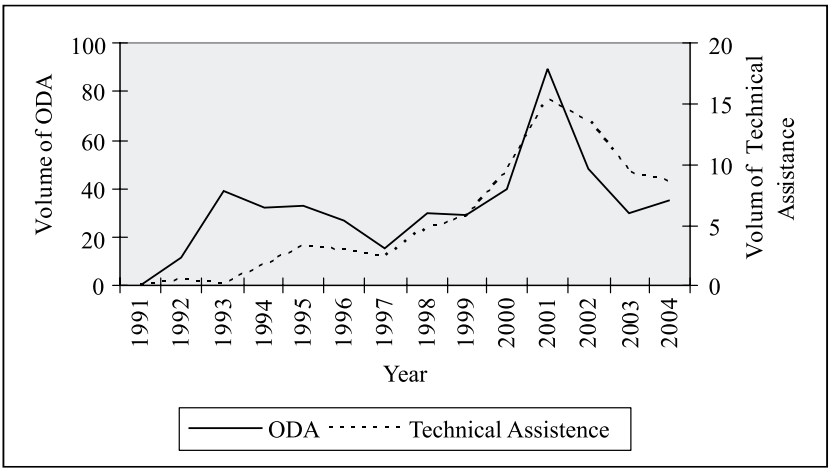
### *2.5.3.3 A special case in Northwest Asia: Turkmenistan*

Turkmenistan gained its independence in October 1991. In 1992 there were presidential elections and Niyazov came to power. At first his policies were to become more independent of the Soviet Union. These policies were favored by Western countries and supported by increasing the foreign aid, which peaked in 1993. Soon afterwards the politics of president Niyazov became, in a Western view, dictatorial. His term was extended in 1994 for a period of another eight years, and soon all power was concentrated in the hands of the president, who was head of state and head of government. To be noted is that the foreign aid drops to low levels of less than 1 dollar per capita in 1997. From 1997 to 2000 almost all aid to Turkmenistan was technical assistance.

This situation lasts until 2001 when the foreign aid suddenly increases. This is mainly due to increased aid from the USA (from the 7.4 million in 2000 to 15 million in 2001). The only reasons for this increase can be found in the strategic position of Turkmenistan in relation to its neighbors in the south, Iran and Afghanistan. This became especially important after 11 September 2001. Turkmenistan, being a predominantly Muslim country, chose nevertheless the side of the USA. Former President Niyazov condemned the terrorist attacks on New York and allowed military over-flights to Afghanistan and the passage of troops through their territory. The foreign aid increase can only be explained by these developments in its foreign policies. Internally the situation in Turkmenistan did not improve. Political liberties and civil rights, according to the Freedom House indicators, remained at the lowest level (7) throughout the period under investigation. Furthermore, in 1999, Niya-

zov had appointed himself president for life. This is indicative for the international political-military motives behind the foreign aid to this country.

**Figure 2.6**
Aid and Technical assistence to Turkmenistan




See note under figure 2.1.

### *2.5.3.4 A special case in Central Europe: Poland*

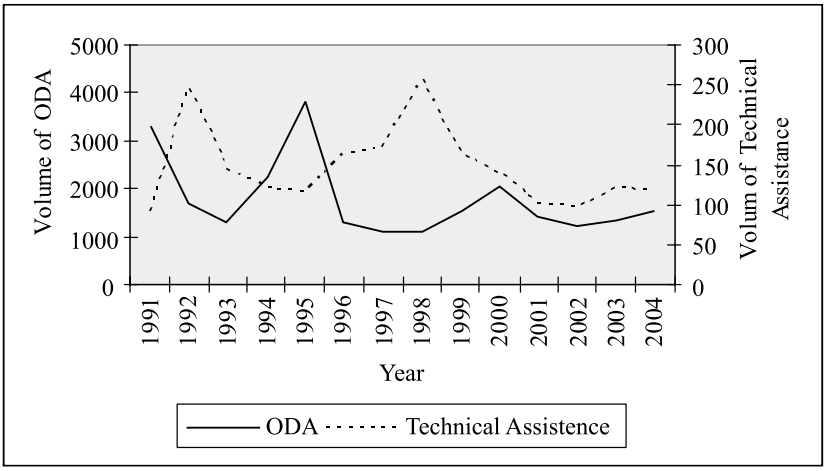
The trends in the foreign aid and technical assistance in Poland are presented in Figure 2.7 Of all the aid recipients Poland has gotten the most. As can be seen, until 1999 there are two peaks in the foreign aid provided and one in the technical assistance, with a decline in volume afterwards. The fact that foreign aid to Poland was so high at the beginning was due to the Polish frontrunner status with regard to the collapse of the Soviet empire. In 1991, Lech Walesa was elected president until 1995. It is noticeable that especially in the first part of his term he is heavily supported, but quickly the foreign aid diminishes to more normal levels. The same is seen after 1994. Poland applied for EU membership and there were new presidential elections in 1995, in which Aleksander Kwasniewski defeated Walesa by a narrow margin – 51.7 % to 48.3 %.

The volatility of the aid can also be explained in this case by the peculiar developments in Poland, which was a test case for the transition from a centrally planned to a free-market state.

The transition in Poland was also very abrupt and intended to develop very fast. It started already in 1989 when a commission under the Polish minister and economist Leszek Balcerowicz was formed to introduce a shock therapy. The plan

was backed by the Soros foundation, and one of its members was Jeffrey Sachs, later renowned because of his position in the World Bank and his book on poverty.

**Figure 2.7**
Aid and Technical assistence to Poland




See note under figure 2.1.

Until 1992 this shock therapy had serious side-effects, namely huge unemployment and negative growth of GDP. This was partly compensated by the huge foreign aid and, when the economy seemed to have recovered in 1992, this aid diminished again.

Despite the deep polarization brought about by his election, and opposition fears that a Kwasniewski presidency would signal a return to Communism, these fears proved groundless and he proved a surprisingly popular leader. His political course resembled that of Walesa in several key respects, such as the pursuit of closer ties to the European Union and NATO, and the transition to a market economy and the privatization of state-owned enterprises.

The fears make the foreign aid increase, especially the aid provided by the USA. This lasts until 1999 when Poland becomes a full member of NATO. In Western eyes, from that moment on its position is secured within the Western camp.

The sudden peak in technical assistance can be explained by the application for EU membership in 1994 together with Hungary. This is supported by a sudden sharp increase in the technical assistance provided to Poland, through PHARE.

A third reason why the aid to Poland was so volatile at the beginning is that it was bilateral aid coming from 24 different countries as well as multilateral aid mostly from the EU. The decisions made by these countries and organizations resulted in

the provision of 2.32 million US dollars in foreign aid to Poland in 1990. This went up to 10.2 million in 1991, 178 million in 1992 and dropped to a mere 6 million in 1993 after which it remained stable at that low level. In total over the 14 years it gave 263 million US dollars. This aid is central in the next chapters.

The dependence on bilateral aid, e.g. the altruism of individual donor countries, seems to have its downside in heavily fluctuating flows of foreign aid. A further argument for this statement is that the more stable development after 1995 goes hand in hand with a growing part of multilateral aid in the total aid for Poland. In 1994 this part is still less than 10 %. In 1995 it rises to 33 %, becoming over 70 % after 2000. Primarily the EU provides this multilateral aid.

## 2.6 Hypotheses following from the time-series analysis

The time-series analyses presented above point to a number of preliminary conclusions, that is, hypotheses:

1. The volume of foreign aid and technical assistance flowing to the (post-)Communist countries was substantial.
2. At an aggregate level calculated over 28 (post-)Communist countries that were faced with the consequences of the decline of the Communist block after 1989, the foreign aid received was much more volatile and susceptible to political changes than the technical assistance provided to them.
3. The more the level of analysis is disaggregated, the more information on differences and peculiarities becomes visible.
4. For the 28 countries under investigation, it makes sense to distinguish four regions, Central Europe, Eastern Europe, the Balkans and Central Asia.
5. Countries in Central and Eastern Europe received especially much aid and technical assistance in the first turbulent period before 1996. This period ended when at first eight and later 10 of the Central European countries applied for EU membership.
6. Countries in the Balkans received most aid after 1996, with an increase again after 2000. In 1996 in the Balkans, the Yugoslav wars ended, and by 2000 the key persons in these wars (i.e. Milosevic, Tudjman) had been succeeded. Both events resulted in an increase in the volume of aid.
7. In the Central Asian countries a slow and stable increase is seen in the foreign aid as well as in the technical assistance provided.
8. At a still lower level of aggregation, namely the country level, it is seen that there is a clear difference between the foreign aid provided and technical assistance, which is normally seen as one of the components thereof. The volume of foreign aid is much more susceptible to sudden changes in volume.

9. Such sudden changes, in the volume of foreign aid a country receives, seem largely due to political-military considerations.
10. This appears to be the more true if it concerns bilateral aid from Western countries, and less so if the aid comes from multilateral sources.
11. These hypotheses are tested in the remainder of this chapter.

## 2.7 Explaining the total volume of foreign aid provided to CEE countries

This section will present the outcomes of regression analyses of foreign aid and technical assistance. The goal is to test the hypotheses given above. First, we will test the dependent variables by using demographic data. This results in a new dependent variable on foreign aid and technical assistance controlled for population. The analysis tries to explain the trends in the flows of money involved in foreign aid and technical assistance that deviate from the volumes that could be expected given the size of the country. First, we show that foreign aid as such shows much stronger fluctuations than technical assistance. Second, after 1998 the Central Asian countries and the East European countries got much less aid than the Central European countries and the countries in the Balkans. Subsequently we will present the outcomes of a regression analysis at a disaggregated level.

### 2.7.1 Correlations

The first thing to be noticed about aid and technical assistance to countries is that the volume depends heavily on the size of the recipient countries in terms of population. Especially the flows of money involved in technical assistance are strongly correlated with the population of the recipient country. Large countries receive more aid on average ($R^2 = 0.62$), and especially the technical assistance received is a direct function of the size of the population ($R^2 = 0.80$).

Therefore, it makes sense to make a basis model of population on aid and technical assistance and to take the residuals as the dependent variable in the explanatory model.

When we now look at the four regions distinguished, we see that the countries in the Balkans start to receive relatively much aid, compared to their size after 1998, when the leaders responsible for the atrocities in the Yugoslav wars disappear. Together with the Central European countries they get, relative to the size of their population, the largest amounts of foreign aid. The aid given to the Central and Eastern European countries is however, volatile with a dip around 1996–1997 and they receive their aid in two waves. Compared to these fluctuations, the trends in aid for Central Asian countries are quite stable. All through the period the aid they receive is less than in other regions.

**Figure 2.8**
Relative amount of ODA given the size of the population

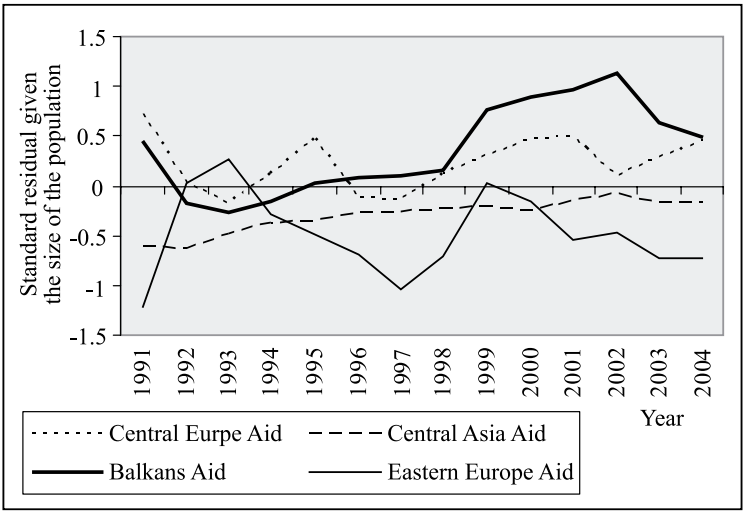
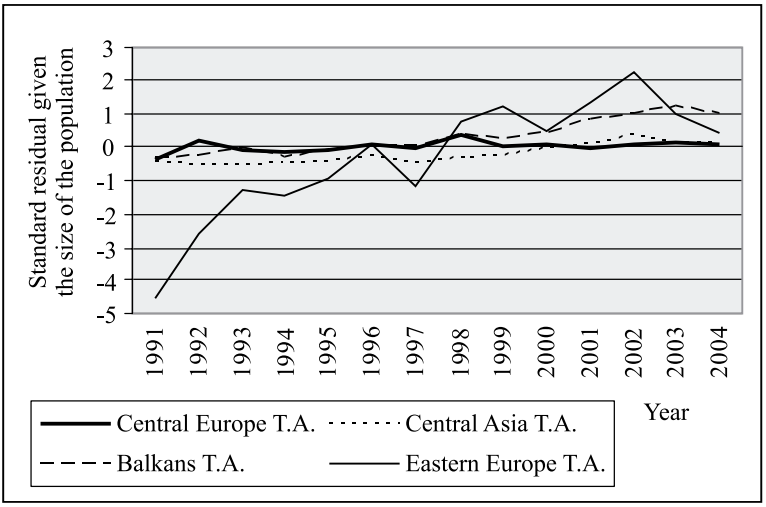



**Figure 2.9**
Relative amount of Technical assistance given the size of the population




In Figure 2.9 the trends in technical assistance after controlling for the size of the population are presented. Compared to the fluctuations seen above in Figure 2.8 with regard to foreign aid in general, the trends in technical assistance to the four regions are very stable. There are minor fluctuations in Central European countries

and in Central Asia. The largest changes are seen in the East European countries. Before 1998 these countries get comparatively less, and afterwards they get more, technical assistance. However, we have to take into account that these are still aggregated trends.

### 2.7.2 A regression analysis of foreign aid

Given the high volatility of foreign aid compared to the minor fluctuations in technical assistance, it is to be expected that the former's deviations from the mean can be better explained than the latter's. Looking for instance at the technical assistance given to Central European countries, there is hardly any variance to be explained anymore. This is reflected in the outcomes of the regression analysis: the only factor of influence is GDP/per capita. This can explain an extra 5 % of the variance. The poorer the country, the more technical assistance received.

In Central Asian countries, the amount of technical assistance is also relatively stable. The only factors of additional impact over there are the degree of civil liberties as measured by Freedom House, and whether there is a neighbor country at war. These two factors do explain a considerable 36 % extra in the technical assistance provided to these countries. When the civil liberties increase, the technical assistance also increases (standardized Beta = –0.61), and when the region becomes more unstable the technical assistance decreases (standardized Beta = –0.20).

These civil liberties also play a substantial role in the Balkans ($\beta$ = –0.36, T= –4.12), but there also the election of new presidents ($\beta$ = –0.39, T = 3.40), the application for EU membership, and especially becoming independent (of former Yugoslavia ($\beta$ = 0.74, T= 4.97)) result in increased technical assistance in the same year. In Central Europe, being at war or having a neighbor at war makes the technical assistance decrease. In both the latter regions, this results in an extra 50 % explanation of technical assistance ($R^2$ Adj = 0.51).

As to foreign aid, we are indeed able to predict the deviations thereof from what might be expected because of population. For Central Europe we can explain an additional 20 % of the variance by taking presidential elections, neighborhood of EU and civil liberties into account. In Eastern Europe we can explain an additional 78 % of the variance by taking into account the existence of parliamentary elections, and being at war or having neighbors at war. Especially having a neighbor at war is important, because this makes the foreign aid to be received less (st. $\beta$ = 0.85, T= 9.11)

In the Balkans we can explain an additional 69 % of variance by taking into account the distance of a country to the nearest EU country, whether the country is at war and whether it has become independent.

For the Central Asian countries, civil liberties, especially when a newly elected parliament or president-elect increases them, independence from the former Soviet

Union and wealth play a significant role. With these variables one can explain an additional 70 % of the variance in the foreign aid going to this region.

However, not only what explains variance, but also what does not explain it, is important. On the basis of the outcomes in the previous section, we assumed that the part of technical assistance financed by multilateral aid would be an important factor. However, there is no added value in including this factor in the analysis. This is the only hypothesis we have to reject. On the whole, the regression analysis presented here confirms the preliminary conclusions, or hypotheses, as drawn in the previous section.

## 2.8 Reflections

The analysis presented in this chapter argues firstly that the volume of foreign aid and technical assistance flowing to the (post-)Communist countries was substantial. It amounted to 133 billion US $ in foreign aid of which 28 billion was technical assistance between 1991 and 2004 (the year that 10 CEE countries became EU members).

Second, the conclusion is that there are huge differences between the trends and the explanations for these trends with regard to foreign aid in general and technical assistance in particular. Although in empirical analyses of often-used databases the two are hardly distinguished, this chapter argues that it would be profitable for empirical analyses to consider the components of aid separately.

The differences are seen in the volatility of foreign aid in general versus the sustainability of technical assistance. They are also seen in the greater dependence of foreign aid on political-military factors, such as the election of a new president, a new parliament, being at war or having a neighbor country at war, and the level of civil and political liberties, versus the primary dependence of technical assistance on the size and wealth of the country.

However, one should not exaggerate the differences. The amount of technical assistance a country receives is also dependent on the level of its civil liberties. This chapter came to these conclusions by investigating the trends in foreign aid and technical assistance going to CEE/CIS countries in the period of transition 1991–2004.

A third conclusion is that the level of aggregation determines the amount of information revealed. The more one disaggregates the data, the richer the analysis. Although this is to be expected, in the present case the differences are remarkable. Going from an analysis of the CEE/CIS region as a whole to the four regions distinguished (Central Europe, Eastern Europe, Balkans and Central Asia) revealed many differences between these regions. Disaggregating further to the country level again revealed peculiar differences in the trends in foreign aid and technical cooperation.

We have conducted such country-specific analysis and presented examples of special countries in each of the distinguished regions. This revealed that political changes in such countries have a profound effect on the foreign aid received, but not on the volume of technical cooperation. Technical assistance continues despite political-strategic changes in the recipient country and is less affected by such factors.

This conclusion suggests that further disaggregation, e.g. a case study of the process through which technical cooperation is taking place, that is, through intensive process-tracing, might shed more light on what actually happens in the field of technical assistance. This is the justification for the research approach to be followed in the next chapters. That research starts at the bottom of the aid-chain, at the most disaggregated level imaginable, namely the individual recipients of technical assistance.

In our case, those recipients of technical assistance are public officials in the Polish industrial city of Lodz. The city is located in the Central European country of which this chapter concluded that even the volume of technical assistance was somewhat volatile.

As will be argued in the next chapter, the city was severely harmed by the early transition and the shock therapy by which it had to change almost overnight from a centrally planned economy to a free-market economy. In order to implement the necessary changes successfully, the city requested and got help from many Western advisors and advisors. The latter flooded its offices and offered their assistance. The next chapters will show what happened in that city, what kind of assistance was provided, whether the recipients were content and how this can be explained.

# 3. Lodz – The Promised Land in Transition


## Abstract

This chapter presents the situation on the labor market in Lodz, the Polish textile industry city, during 1989–2003. Lodz is the second city after Warsaw as regards the number of citizens. The city experienced the transition to a market economy with extreme difficulty. In a short time, there were about 86,000 unemployed people looking for work and assistance through the employment agency. The increasing unemployment and the pauperization of society became the new social phenomena, unknown under socialism, which proved to be the major problems necessary to solve for the municipal authority.

From the previous study by Sobis (2002), "Employment service in transition: Adaptation of a socialist employment agency to a market economy. A case study of Lodz, Poland 1989–1998", it has appeared that the employment agency of Lodz received assistance from the Western highly developed countries in the field of labor market and labor market protection. The most constructive aid came from Sweden, Germany and Denmark. However, the statistics of Lodz showed that the unemployment did not decrease until 1998.

In this chapter, the further development of the labor market in Lodz is presented, until Poland became a member of EU. On the one hand, the aim is to investigate the results of the Western assistance in the field of labor market and labor protection from 1998 to 2003. On the other hand, it seems important to describe and give an understanding of factors that are behind the constantly negative development of the labor market relations and growing unemployment in Lodz. The analysis is based on statistics, document and interviews.

The preliminary conclusion is that the changes in industrial development and the demographic structure in Lodz can be seen as the main obstacles to improving the socioeconomic situation of the population and decreasing the unemployment in the city.

## 3.1 The old identity of Lodz

As noted, our endeavor starts in Lodz, which is the second largest city in Poland. Here 55 local officials working in the Voivodship Administrative Board, the Municipal Office, the employment agency, the Welfare Centers, the Social Insurance Institution, Medical Service, and Public Education were interviewed about the help they received from Western countries in the form of technical assistance during the period of transition between 1989 and 2004. This chapter gives an overview of the administrative, demographic and socioeconomic developments in the city since the fall of the Berlin wall.

The city of Lodz had existed for much longer. It acquired municipal rights already in 1423. In the late 18th and early 19th centuries, the city experienced major political, territorial, and economic changes. Rajmund Rembielinski – the Voivode of the Mazovia Voivodship – had an enormous impact on the industrial development of Lodz. The term 'voivodship' means a provincial administration. Rajmund Rembielinski was its chief, with the title of Voivode.

After his visit to Lodz, Rembielinski applied to the Government Committee of Internal Affairs and Police, requesting permission to establish a factory settlement there. He obtained such permission on 30 January 1821, and proceeded energetically to implement the government program (Kobojek, 1997a, pp. 19–25).

The period of greatest economic development of Lodz occurred from 1870 until 1914. The most successful industrialists were Ludwik Geyer, Ludwik Grohman, Karol Scheibler, Izrael Poznanski, Markus Silberstein, and their descendants irrespective of nationality and creed. They built huge factories and donated substantial sums to educational, cultural, and artistic projects, and founded or sponsored public institutions. The city developed as a melting pot of cultures, religions, and national traditions, and became an industrial metropolis, the unquestioned showcase of Polish capitalism. Because of its location, Lodz became a crucially important city for the development of the textile industry in Europe, joining West and East at a halfway point (Kobojek, 1997a, 1997b, 1997c; Budziarek, 1997).

It was a place where large fortunes were made almost overnight, where thousands of people could get a job and thousands from other regions of Poland and from other countries came looking for work and a better life. This was the reason why Lodz was called the "Promised Land". To digress from the subject, many people might associate the city's surname with the film *The Promised Land* made by the Polish director Andrzej Wajda in 1975. The film was based on the book with the same title, written in 1899 by Stanislaw Reymont, who received the Nobel Prize for literature in 1924 for his other work "The Peasants".

After World War I, the course of the city's development was still dominated by the position of the textile industry over all other kinds of productive activities. The armies in Western and Eastern Europe needed uniforms and got them from

Lodz. Textile production and export flourished until World War II and even during the war. The military operations saved the textile industry (Kobojek, 1997a and 1997c).

Following World War II, Poland experienced the political, socioeconomic, and cultural transformation from capitalism to socialism, but the industrial development in Lodz remained the same. The new industrial branches growing in the city were strongly allied to the textile industry. The machine industry produced the textile machines; the chemical industry produced synthetic grain or dyestuff for natural and synthetic woven textiles, etc. Unemployment as a social problem was an unknown phenomenon both in Poland and in Lodz. Under socialism, there was a huge export of commodities to the Soviet market and the Council for Mutual Economic Aid.

## 3.2 The Balcerowicz plan and the first Western advisors

In 1989, Lodz experienced another shock, namely the transition in the opposite direction – now from the Communist regime to a capitalist democracy, and from a socialist planned economy to a free capitalist market economy. This was accompanied by a "shock therapy" executed under Leszek Balcerowicz and invented by the first Western advisors coming into Poland. Balcerowicz's views in this regard are particularly important because he was in charge as the Vice Prime Minister and the Finance Minister of the first non-Communist government of Solidarity origin that came to power by free, democratic election (Balcerowicz, 1995, 1997, 1999). The "sweeping electoral triumph of Solidarity in June 1989" embodied the society's trust in their remedial idea for taking Poland out of depression (Sztompka, 1999, p. 159). The Polish politicians of Solidarity origin prepared themselves long before the fall of Berlin wall to implement a radical reform program.

In 1978, Balcerowicz (1995, pp. 303–305) formed a group of ten young economists to work on a new economic reform program. The seminars at the Central School of Planning and Statistics in Warsaw were a formal activity in the same way as other scientific activities conducted at universities or engineering schools in the world. However, the Balcerowicz team became especially popular after the Gdansk Agreements because of their interest in the reform programs conducted in some Latin American countries in depression. They were particularly interested in reforms that had positive effects for the economy. The imposition of martial law did not suspend the seminars. On the contrary, the members "continued to meet for seminars to discuss various problems of the economic system, including the importance of property rights and privatization" (Balcerowicz, 1995, p. 304). They collaborated with Western organizations and researchers to prepare the reform program, which concerned two spheres: the economy, and the gradual change of politics. This

cooperation has proved easy since 1986; Poland became a member of the International Monetary Fund [IMF] and the World Bank.

In the end of the 1980s, they intensified their informal and formal relations with the upper echelons at the Ministry of Finance and with Western and Polish scholars. Among the foreign advisors were Jeffrey Sachs, David Lipton, Wladyslaw Brzeski, Stanislaw Gomulka, Jacek Rostowski, and Stanislaw Welisz, most of them of Polish origin. Karol Lutowski, Andrzej Stanislaw Bratkowski, Antoni Kantecki, Adam Lipowski, Andrzej Parkola, and Andrzej Ochocki represented the Polish researchers (Balcerowicz, 1995, pp. 303–305). According to Balcerowicz the "remedial" reform took into consideration Poland's specific conditions and legacy after state socialism. However, the Western influences were clear. Behind the preparations of the reform program one could find the informal political activity of the Solidarity members, their supporters, and sympathizers aiming at taking over power from the Communists.

Jeffrey Sachs, a Harvard professor, seems to be another important actor involved in transition. It was him that the still Communist government of Poland tried to approach to design an economic strategy for the country, which faced huge financial problems. Sachs had been successful in Bolivia. Together with a friend working at the IMF, and with the costs covered by the Soros foundation, he started to advise the Polish government after they had legalized the Solidarity movement.

These processes are well described in the literature, although the evaluations of what happened vary greatly. First, there is the autobiography of Sachs himself, "The end of poverty" (2005), which is rather positive about the developments in Poland and gives nice inside information. Second, there is the work by Naomi Klein on the "Shock Doctrine" (2007) which is much more critical and talks about such processes under the heading of disaster-capitalism. No matter whose judgment is the right one, the things both authors tell us about the facts with regard to this advisory process had not shown major discrepancies.

First of all, Sachs appeared to know very little about Poland when he entered the country, although he himself thought differently. He pointed to his credentials, e.g. that he had been in the country 13 years before, in 1976, and that his wife came from Czechoslovakia (2005, p. 110).

Sachs was invited as an advisor based on his experience in quite a different part of the world, namely Bolivia, where he succeeded in stopping the inflation, although at huge social cost. According to Sachs the macroeconomic developments in both countries were similar (huge inflation, large budget deficit, foreign debts and unstable currency), although he also recognized differences in terms of impoverishment, available infrastructure, industrialization, geographic factors, and class tensions (2005, p. 115).

Regardless of these differences, his strategy to get Poland out of its financial crisis was almost completely copied from Bolivia to Poland. It included stabilization, e.g. ending the huge inflation, liberalization, privatization, a social safety net and institutional harmonization, enabling Poland in the future to enter what was then called the European Community (2005, p. 114).

According to Sachs himself, his strategy was written overnight (in exactly one night: 2005, p. 114) and easily adopted by the Polish leaders involved. They just asked, "Will this work?" to which the advisors replied, "This is good. This will work." Critics have argued that the plan was contrary to the original ideas within the Solidarity movement, but that the latter lacked the knowledge to oversee the consequences of the plan. They had not protested against the Communist leaders in order to change the Polish economy into a free-market system, and they wanted a social market system that was neither Communist nor capitalist. However, the huge debts of 42 billion US $ left behind by the previous rulers; the unwillingness of Western countries to help out unless a free-market system were introduced, and the pressures from international organizations like the IMF, forced them to accept what later became known as the shock therapy.

The plan, of course, was not named after its developers, but after the new minister of finance, Leszek Balcerowicz, and hence became known as the Balcerowicz plan. At the end of 1989 the parliament passed 11 laws which were the formalization of the plan. Among them were laws to enable state-owned enterprises to go bankrupt, to end the preferential status thereof, to control the budget-deficit and reduce wage rises, to renew the tax system, to end state monopolies, to freeze the exchange rate of the zloty and, which is important for our research in the next chapters, to regulate the duties of unemployment agencies.

The plan did result in a vast increase in private companies, and limited the state's influence over the economy, but it also resulted in a "minor" side-effect, e.g. that the country for the first time in 50 years became confronted with huge unemployment.

Looking back on these developments, Sachs shows himself to be rather content. According to him, in the years after the plan was introduced inflation was put to a halt, the markets filled again, Polish GDP grew, Foreign Direct Investments grew, and 14 years later Poland joined the EU. According to the man whose name was attached to the plan, Balcerowicz, the plan was the best thing that happened to Poland, because it resulted in the free country Poland is today.

However, the Polish population was less excited. Many of them lost their jobs, lost their income and could not buy the goods in the stores and at the markets, because, as Sachs admits, the price of, for instance, a kilo of meat rose from 1000 zlotys to 5000 zlotys. Another critic is Naomi Klein who mentions that, in 1989, 15 % of the Polish people were living below the poverty line, which increased to 59 % of the population in 1993. These 'side-effects' resulted in massive strikes and protests, and

they made the outcomes of the next general elections in 1993 result in a landslide. The opposition, including the previous Communist party, obtained two thirds of the votes, leaving the Solidarity movement in a shambles.

The Balcerowicz plan, and the reconstruction of the process behind it, gives already a first hint about the role of Western advisors. It points to their role of standard-setters, e.g. imposing Western standards on the recipient countries irrespective of whether this is desired or not by the recipient country; their goal-orientation instead of problem-orientation; the speed instead of thoroughness with which they work; their appointment, not based on knowledge of the country they are supposed to advise, but based on their experiences elsewhere in the world; their eagerness to copy instead of adapt plans, with the idea that "if it works somewhere, it will work anywhere", that one-size-fits-all solutions will work; and their neglect of (unintended) side-effects.

The concise description indicates that the Balcerowicz plan did not only solve a problem, e.g. the financial one, but simultaneously created a new problem, the economic one, because actions had to be taken on behalf of the newly unemployed. Many researchers have shown that the social cost of this economic operation has been very painful for Polish society, especially at the beginning of the transition. Shock therapy worked as an economic experiment, but the results could not be foreseen (Adamski, 1993, 1998; Connor & Ploszajski, 1992; Warzywoda-Kruszynska & Grotowska-Leder, 1993, 1994; Staniszkis, 1999).

Sachs tells us somewhat cynically, "history had cheated them of the training and knowledge for a full lifetime of productive employment" (2005, p. 124), but it can also be said that their interests were largely neglected when adopting the Balcerowicz plan.

## 3.3 The consequences for Lodz

For the city of Lodz, the plan resulted in privatization and a general breakdown of the Russian market, which had large effects on unemployment in the city and on the everyday life of the populace.

Balcerowicz was then a Polish professor of economics, also famous as Minister of Finance. His main objective was to make the Polish currency exchangeable into Western currencies.

One consequence was that the textile industry with its old-fashioned infrastructure, old technology and textile commodities was not wanted any more either by Russia or by the Western European countries. Russia experienced its own socio-economic and political crisis. The Russians could no longer buy Polish commodities with actual prices counted in dollars, which replaced the *transfer rubles* as under socialism. Furthermore, the Western European countries were looking for new mar-

kets either to sell their own products or to establish cheaper production, and made part of the Polish textile industry redundant.

The city of Lodz experienced the implementation of the shock therapy as an extreme hardship. The unemployment level increased rapidly. Lodz's position as compared to other cities in Poland changed for the worse very rapidly. When the Soviet economy collapsed, Lodz with its economic mono-structure broke down as well. Many factories were declared insolvent. As many as 86,000 unemployed stormed into the employment agency of Lodz looking for social assistance and a means to live.

The local authorities and ordinary people did not know what to do, and consequently the office's staff failed to deal adequately with the problems. They had never worked with unemployed persons; they lacked the financial means to pay unemployment benefits, and were looking for inspiration, pragmatic ideas, methods, and patterns to help the unemployed and themselves.

Shortly afterwards, the Lodz Voivodship was placed on the list of the regions most affected by structural unemployment. The pressure coming from the labor market was so urgent that the authorities had to undertake extra remedial measures to combat growing unemployment. The employment agency was well known during socialism for its mediating role between employers and applicants for jobs. After 1989, the main idea remained the same, but the office was charged with tasks and duties of the market economy, such as producing passive and active labor programs to combat unemployment and promote a well-functioning labor market.

Those were the serious problems in the period of transition and, as we will show later, Western advisors came in to provide technical assistance. To understand the problems of their 'help' it is first necessary to present the contextual situation. That is the purpose of this chapter.

## 3.4 Some basic facts about the Lodz Voivodship in 1989–2003

The Lodz Voivodship is the smallest voivodship in Poland that remained a large agglomeration rather than a typical voivodship. In 1989 its area was 15,231 $km^2$ and its population about 1,142,700 inhabitants. The agglomeration comprised the cities of Lodz, Ozorkow, Pabianice, Strykow and Zgierz and their rural areas.

In the urban area lived about 1,063,800 inhabitants, while 93,100 persons lived in the countryside. Lodz is the biggest city in the voivodship, fulfilling the most important institutional and administrative functions in the region. The labor force at that time consisted of 688,900 persons, and 498,400 persons were employed in the national economy of whom 232,000 were employed in industry.

Socially, Lodz belongs to the most feminized cities in Poland because for every 100 males in the city there are about 118 females. In this regard, the situation was stable during the period from 1989 to 2003 and rather characteristic for a city of working women. Looking at the city's population by age, the data show that the share of children and young people clearly decreased in Lodz at the expense of a systematically growing proportion of older people of non-working age (Appendix to Resolution No. XVI/277/99, p. 3; Central Statistical Office 2000, p. 30).

The working women's share was 52.6% (VSO, 1995a, p. 31; Sobis, 2002, pp. 202–204). The average monthly wages and salaries net were 2,044 zlotys, while the average retirement pay and pension amounted to 946 zlotys. All the earnings and prices are in the value of the zloty as given after the denomination that took place in 1994, when 10,000 old zlotys became equal to one new zloty.

The transformation from a socialist to a free-market economy in Poland implied a reluctant trend toward the decentralization of powers and authority from state to local authorities. In line with the Balcerowicz economic program, the main characteristic was that the Polish government had become corporatist. On the one hand, there were the necessary political alliances between actors working at the national and local levels, who were friendly toward the general concept of reforms. On the other hand, there was reluctance to delegate powers to the lower levels.

This latter attitude had a negative effect on the process of decentralization. The division of competences between state administration and the newly created local self-governments were, from the beginning of transition onwards, disputed in many respects, by politicians as well as by ordinary people.

On March 8, 1990, almost overnight, the *Local Self-government Act of March 8, 1990* was established. The Act delegated power to the "third row of Solidarity" in order for them to represent local self-governments in Poland. This procedure was not obligatory but, in practice, most local self-governments were created in this way. There existed no tradition for such activities and everything had to be built up from scratch. The first problem was to recruit staff. One of the respondents explained that this was not the major problem: "it was very easy to choose and employ the most fitting staff because candidates for leading positions were selected through a competition" (Interview 3/1998).

The Act of March 8, 1990 was accepted with satisfaction by the Local Self-government and the active politicians in Lodz, but a second regulation – *The Act of the Territorial Organs of State Administration of March 22, 1990* – turned their contentment into disappointment. The division of tasks between state administration and local self-governments gave far more powers to the state. The Polish government limited more and more activities of local self-governments by introducing *special administrations*, e.g. the Antimonopoly Office, Conservator of Monuments, Employment Service, Curator of Education, etc. These offices, traditionally being in the organizational structure of state administration, were directly under the control

of the respective ministers in Warsaw. About 80 special administrations were created in the country.

When the Local Self-government came to power, the socioeconomic situation in Lodz was terrible. First, the Local Self-government had to identify all the problems in the city. Then it became clear that there was hardly any budget and, at the same moment, the local industry experienced the negative consequences of the Balcerowicz shock therapy (Interview 3/1998; Crane, 1992, pp. 59–73). The unemployment rate increased rapidly and affected the city's socioeconomic development and the private lives of its inhabitants. Whereas it once was the Promised Land, Lodz became the biggest area of poverty in Poland. Every third citizen in Lodz needed some form of social assistance. All structures characteristic of the city of working women, such as cribs, kindergartens, and various clubs for children that were common under socialism, declared insolvency almost immediately in the new economic situation.

The local authorities were expected to solve the abundance of problems. The Local Self-government expected to receive wider competencies and greater independence from the State in order to introduce and conduct privatization and other reforms in the city. They imagined that they would gather taxes and fees from their own citizens and send only a part of these to the State. They wished to save the remaining money for the city's maintenance. It emerged very quickly that the State needed much more money for its own maintenance than local societies needed to satisfy their needs. In fact, the share of the local budgets in the State budget was about 18 % when the local governments came to power in 1990, and this share declined to 12–13 % by the beginning of 1996. Thus, the State took more and more money from local communities. It was also the reason why the State did not want to delegate more power to local self-governments. One of the respondents said:

> *The division of tasks between State Administration and local self-governments set back progress and prevented the Local Self-government from realizing the very radical conception of the civil society in Lodz, which its members themselves advocated. We had all the time to deal with the central distribution of social service, money, competencies, and instructions. In this sense, Poland was still a socialistic state, dependent on representative bodies. It was so until 1998 (Interview 3/1998).*

Hence, the problems were huge. Little autonomy and responsibilities at the local level, and huge demands on local government in the light of the large unemployment, could not but result in large problems.

The Act of Competence Division of 1991 foresaw that local self-governments should carry out *small-scale privatization* and *founding*. Both privatization forms depended on *large-scale privatization*. The large-scale privatization in Poland was the most controversial task after 1989.

The privatization in Lodz could not be carried out immediately. The process started too late. In the respondents' opinion, the privatization would have been completed much earlier if the Local Self-government had acquired sufficient rights to start the necessary processes from the beginning (Interviews: 2/1998, 3/1998, and 4/1998). During the first five years of transition, it was only possible to carry out the small-scale and founding privatization. None of the privatizations covered the "core" of the large state-owned enterprises. The real results of privatization during the first five years of transition were not entirely positive, to say the least. This fact essentially contributed to the increasing unemployment in the city and other negative consequences for inhabitants' everyday lives.

After 1998, the situation of the Lodz Voivodship changed again. The State Government implemented the administrative reform in line with an EU request to create big regions in Europe. This reform had an influence on the area and population of the voivodship. In 1998, the area of the voivodship increased by nearly 3,000 $km^2$ and actually became 18,219 $km^2$. The population of Lodz Voivodship grew to 2,663,608 inhabitants, of whom 1,730,078 lived in the urban area and 933,530 in the countryside. It implied an increase of 840,430 persons in the urban area and 587,378 more in the rural area compared to 1989. The labor force consisted of 1,603,209 persons of whom only 30,100 persons were working in industry and construction. The average monthly gross wages and salaries had grown in the whole voivodship. In 1999, the average monthly gross wages and salaries were about 1,585 zlotys, or 1,722 zlotys in the public sector and 1,440 zlotys in the private sector. The average retirement pay and pensions were 740 zlotys. It was, however, still not much money to survive on.

The city's population decreased by about 72,600 inhabitants between 1989 and 2003. On the one hand this negative development was caused by the emigration of persons who were at productive ages between 30 and 44 years old, and had received higher education. They left Lodz looking for better career opportunities for themselves and better living conditions for their families.

Over the years Lodz lost its attractiveness as the Promised Land, where people could make a huge fortune. The permanent economic recession and poverty had a very negative impact on natural population growth. Already in 1990, the annual change per 1000 persons was –4.8, and gradually the figures decreased further to –7.6 in 1999 and –6.2 in 2003.

The educational level of the Lodzians was rather high compared to the whole region in 1999. However, in a ranking carried out among the big cities in Poland on numbers of people with a high educational level, Lodz reached only the 18$^{th}$ position. This is surprising, because there were seven seats of learning in Lodz: the University of Lodz, the Polytechnic of Lodz, the Academy of Medicine, the Military Academy of Medicine, the Academy of Art, the University College of Music, and finally the University College of Film and Theatre. In Lodz there are about 60,000

students annually, of whom 40,000 are at the University and the Polytechnic. In the agglomeration of Lodz there are five non-public college universities for education in business, humanities and economy. Thus, Lodz has become the largest exporter of people with a high educational level, yet the city suffers a lack of professional elites that could contribute to the city's development.

## 3.5 The socioeconomic structure of Lodz after 1989 in figures

After 1989, the socioeconomic situation of the voivodship changed for the worse in comparison with other large agglomerations or voivodships in Poland. Increasing unemployment, low income, high cost of living, pollution, and neglect of the technical and social infrastructure became the new social problems.

- The share of light industry (mainly the textile industry) in the industrial sector was 54.5 % in the Lodz Voivodship, while in the country as a whole it was only 15.1 %.
- The relatively high proportion of exports to the Council for Mutual Economic Assistance [CMEA] countries from the Lodz Voivodship was 13.7 %, against 5.5 % from Poland.
- The high level of depreciation of the means of production in the Lodz Voivodship reached 53.2 %, compared to 47.7 % in Poland.
- Wages and salaries in the Lodz Voivodship were lower by about 13.6 % than the country's average earnings in industry.

According to Grabowski, primarily economic factors lay behind the increasing unemployment (Grabowski et al., 1994, p. 42).

Many establishments and factories then had to reduce the so-called "social employment" left by the socialist era in order to compete on an export market. Implementation of shock therapy to restructure the economy had affected the Lodz Voivodship and its capital of Lodz especially badly. Unfortunately, a part of the data on these developments is missing. Noteworthy is that during the first two years of the transition, the statistics of the Lodzian labor market were lacking because the Voivodship employment agency and the Municipal Office of Lodz had no time to prepare the reports about the situation on the regional labor market for the Voivodship Statistical Office.

Table 1 below shows the same decreasing tendency in the number of persons employed in the national economy during the period of 1994–2003. The economic activity of the population in Lodz is presented against the whole population of Lodz and the population of working age. This is done to increase the understanding of the very specific situation of the city during transition and shortly before Poland became a member of the EU, i.e. until the year 2003.

In Poland, women from 18 to 59 years old and men from 18 to 64 years old are perceived as the population of working age, which is somewhat different in comparison to Western Europe. The statistics show very clearly that the population of Lodz has systematically decreased during transition. Already in 1989 there were about 851,700 persons living in Lodz. In 1994, Lodz had about 828,500 inhabitants, while in 2003 the city counted only 779,100. The number of persons working in the public sector was clearly declining, while the number working in the private sector was systematically growing until 1999. After 1999, this development changed direction and declined, especially during 2002 and 2003. Probably many citizens left Lodz looking for better opportunities of self-realization and looking for jobs and means to survive.

**Table 3.1**
The economic activity of the population in Lodz, 1994–2003

| Specification (in thousands) | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Population | 828.5 | 823.2 | 818.0 | 812.3 | 806.7 | 800.1 | 798.4 | 791.7 | 785.1 | 779.1 |
| Population at working age (female 18–59, males 18–64) | 505.3 | 504.5 | 504.5 | 504.6 | 505.6 | 505.9 | 510.0 | 510.2 | 510.4 | 510.5 |
| Employed persons in national economy: | 250.1 | 247.4 | 251.5 | 250.6 | 240.3 | 228.8 | 212.2 | 213.4 | 199.3 | 197.1 |
| - of whom females | 132.5 | 129.7 | 131.9 | 131.1 | 124.7 | 118.7 | 111.5 | 111.7 | 104.3 | 103.2 |
| - of whom in industry | 92.8 | 88.2 | 88.9 | 86.8 | 81.3 | 69.2 | 62.8 | 57.0 | 58.8 | 54.0 |
| Employed persons per 1000 population: | 301.9 | 301.0 | 307.5 | 308.5 | 297.1 | 283.0 | 265.8 | 269.6 | 253.9 | 253.0 |
| - of whom in industry | 112.0 | 107.1 | 108.6 | 106.8 | 100.6 | 86.3 | 78.6 | 78.9 | 72.4 | 69.3 |
| Employed persons in public sector | 146.7 | 139.3 | 134.9 | - | - | 110.4 | - | - | 91.8 | 88.8 |
| - of whom females | 83.7 | 80.3 | 78.4 | | | 67.0 | | | 56.4 | 54.6 |
| Employed persons in private sector | 103.3 | 108.0 | 116.6 | - | - | 118.3 | - | - | 107.4 | 108.2 |
| - of whom females | 48.7 | 49.5 | 52.9 | | | 51.5 | | | 47.8 | 48.5 |

Source: (1) CSO, 2000, p. 33, (2) SO, 2006: Tabl.41, (3) Sobis, 2002, p. 204. As of 31/12, data on economic entities where the number of employees exceeds 9 persons and budgetary units regardless of the number of employees, by actual workplace, regardless of main entity localization (excluding individual agriculture).

Looking at Table 2 below, dealing with the national economic entities by sectors during the period from 1994 to 2003, one can observe evident progress in approaching a market economy and development of new offices, firms, business, shops, supermarkets, schools, clinics etc. Unfortunately, there are also missing data here for the period from 1989 to 1993, and sometimes the data are not comparable because the Statistical Office has changed its methods and routines for presenting data in its publications.

**Table 3.2**
National economic entities by sectors and ownership, Lodz 1994–2003

| Specification (in thousands) | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total in Lodz | 72583<br>100.0 | 60812<br>100.0 | 67772<br>100.0 | 71987<br>100.0 | 75859<br>100.0 | 77799<br>100.0 | 80832<br>100.0 | - | 89387<br>100 | 92342<br>100.0 |
| Public sector | 935 | 924 | 932 | 958 | 1097 | 1230 | 1744 | - | 2260 | 2640 |
| Of which | 1.2 | 1.5 | 1.3 | 1.3 | 1.4 | 1.6 | 2.2 | - | 2.5 | 2.9 |
| - State property | 653<br>0.8 | 642<br>1.1 | 454<br>0.6 | 445<br>0.6 | 442<br>0.6 | 321<br>0.4 | 291<br>0.4 | - | 285<br>0.3 | 256<br>0.3 |
| - Municipal property | 262<br>0.3 | 255<br>0.4 | 450<br>0.6 | 449<br>0.6 | 473<br>0.6 | 640<br>0.8 | - | | - | - |
| Private sector | 71648 | 59888 | 66840 | 71029 | 74762 | 76569 | 79088 | - | 87127 | 89702 |
| Of which | 98.7 | 98.4 | 98.6 | 98.6 | 98.5 | 98.4 | 97.8 | - | 97.5 | 97.1 |
| - Domestic property | 68420<br>94.2 | 59185<br>97.3 | 66025<br>97.4 | 70030<br>97.2 | 73639<br>97.1 | 75297<br>96.8 | 77348<br>95.7 | - | 85226<br>95.3 | 87540<br>92.8 |
| - Foreign property | 440<br>0.6 | 594<br>1.0 | 698<br>1.0 | 797<br>1.1 | 868<br>1.1 | 943<br>1.2 | 713<br>0.9 | | 772<br>0.8 | 800<br>0.8 |

Sources: (1) Statistical Yearbooks of the Voivodship Statistical Office from 1989 to 1993 showed that the division of economic units into the public and private sectors did not exist in the official statistics of Lodz. (2) Statistical Office, 1996, p. 103. (3) Statistical Office, 1998, p. 115. (4) Statistical Office, 2000, p. 114. In the data concerning the private sector for the year 1994, one can observe some errors in counting but they are the only available official statistics. (5) Statistical Office, 2003, Table 73 (the electronic sources).

The number of national economic entities in Lodz grew from 72,583 in 1994 to 92,342 in 2003. During that time, there was real progress in the process of privatization. However, one can wonder what kind of privatization it was. In 1994, the national economic entities in the public sector constituted only 1.2 % while for the private sector the corresponding percentage was 97.8. Noteworthy is that

foreign property, about 800 economic entities, was nearly twofold higher in 2003 than in 1994 when the number of economic entities was only 440. The foreign properties thus constituted 0.8 % while the share of the domestic property was 98.2 %. This suggests that the local authorities could hardly attract foreign investors and capital to establish their businesses in Lodz. Domestic capital had grown rather slowly and lacked enough capacity to create new working places for the unemployed. Most of the newly created firms were small and suffered under competition on the market. Not all small firms could survive. Many declared bankruptcy in a relatively short time.

The ranking of the national economic entities by sections in Lodz shows that the most important changes concerned: (1) financial intermediation, (2) public administration and national defense, (3) real estate and business activity, (4) transport, storage and communication, (5) hotels and restaurants, (6) trade and reparation, and finally (7) construction. Oddly enough, the firms dealing with the financial intermediation in Lodz grew rapidly like "mushrooms after rain", from 994 units in 1995 to 2917 in 1999. Concerning the number of public administration and national defense entities, these had doubled between 1995 (51 entities) and 1999 (107 entities). Since 2000, the statistics show the number of employed persons working in the national economy by sectors and by sections, so the data are less comparable (Lodz SO, 2000, p. 115; Lodz SO, 2006, Table 41).

It seems important to stay for the moment with the changes in the industry. The number of manufacturing entities did not change much during the same period. For example in 1995, there were 13,228 entities and they employed about 88,200 persons. In 1999, the number of manufacturing entities was higher, about 13,264 units, but they offered work to only 69,200 persons. Thus, the employment in light industry declined by approximately 19,000 work positions within only four years. This suggests that the "social employment" was abolished. In 2003, there were only 54,022 persons employed in industry, of whom 48,013 were in manufacturing, i.e. approximately 34,178 persons fewer than in 1995. Unemployment was growing in the city.

Concerning the structure of employment by NACE sectors, it is important to present the dynamics of changes therein. Lodz should still be perceived as the industrial city, even if the industry has changed its character.

Some studies have argued that the Lodz Voivodship was a particularly neglected region in Poland. The high rate of unemployment led to increased pauperization of the inhabitants. However, it is impossible to estimate how many people were living under a social minimum perceived as a poverty line (see Warzywoda-Kruszynska & Grotowska-Leder, 1993, p. 115, 1994, p. 136; Puhani, 1999; Sobis, 2002).

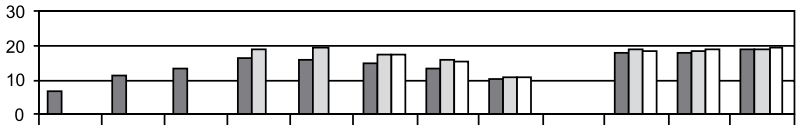
**Table 3.3**
Employed persons by NACE sectors in Lodz

| Specification (In %) | 1995 | 1999 | 2003 |
|---|---|---|---|
| Industry | 59.9 | 30.2 | 50.4 |
| Construction | 8.4 | 5.4 | 6.0 |
| Trade and repairs | 17.3 | 12.8 | 20.2 |
| Transport, storage and communication | 4.8 | 6.8 | 5.6 |
| Real estate and business activities | 5.6 | 7.5 | 12.5 |
| Other sections | 4.2 | 37.3 | 5.3 |

Sources: (1) Statistical Office, 1996. (2) Statistical Office, 2000. (3) Statistical Office, 2007 (the electronic sources).

The structure of unemployment in Lodz might be an important factor for *why the new working methods within the employment service did not work in practice.* Below, the tables, diagrams, and figures show that during the whole period of transition until Poland became a member of the EU, the socioeconomic situation of Lodz was tragic. The presentation of the unemployment structure and even the tabulating of some demographic data could be very useful for understanding what factors and forces lay behind the negative development of labor market relations. The structure of the unemployment is traditionally described by sex, age, educational level, and work seniority of unemployed. Diagram 1 presents the unemployment rate of Lodz in comparison to the Lodz Voivodship and the whole country.

**Diagram 3.1**
The unemployment rate in Poland, the Lodz Voivodship, and Lodz, 1990–2003




| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 2000 | jan-02 | dec-02 | jan-03 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Poland | 6.7 | 11.4 | 13.6 | 16.4 | 16.1 | 14.9 | 13.2 | 10.3 | | 18 | 18.1 | 18.7 |
| Lodz Voivodship | - | - | - | 18.9 | 19.5 | 17.5 | 16.2 | 10.9 | | 18.7 | 18.5 | 19 |
| Lodz | - | - | - | - | - | 17.6 | 15.6 | 10.9 | | 18.3 | 18.8 | 19.3 |

Sources: (1) Wojewodzki Urzad Pracy [Voivodship Labor Office – VLO], 1994: Table 3; VLO, 1995: Table 3; VLO, 1996: Table 3. VLO, 1997: Table 2; VLO, 1998: Table 2; VLO, 2003, p. 6. (2) Glowny Urzad Statystyczny [Central Statistical Office – CSO], 1994, p. 2 and 20–21. (3) CSO, 2000: XXXVI and XXXVIII.

The Lodzians were living in worse economic conditions than the inhabitants of other big cities that had a similar level of urbanization. In general, the supplementary workplaces that could absorb an increasing "wave" of the unemployed

were lacking in Lodz and the Lodz Voivodship. Lodz had the highest unemployment rate, two- or threefold higher than the other biggest cities. There was no chance of decreasing the unemployment rate in a short time. The employment of Lodz was characterized by a mono-structure, because most of the labor force was still employed in the textile industry. Due to the collapse of the big establishments and factories, many people with similar qualifications appeared on the labor market at the same time.

The Lodz Voivodship was recognized in an Act of 24 August 1992 as being the voivodship particularly threatened by structural unemployment. The municipal authority in cooperation with the employment service had to use extra remedial measures to counteract unemployment. However, this situation did not change for fifteen years.

**Table 3.4**
The employment and unemployment in the big cities, 1990–2003

| Specification | Warsaw | Lodz | Krakow | Wroclaw | Poznan |
|---|---|---|---|---|---|
| Population (*In thous.)* | | | | | |
| 1990 | 1655.7 | 848.2 | 750.5 | 643.2 | 590.1 |
| 1992 | 1644.5 | 838.4 | 744.0 | 640.7 | 582.9 |
| 1995 | 1635.1 | 823.2 | 745.0 | 642.0 | 581.2 |
| 1996 | 1628.5 | 818.0 | 740.7 | 640.6 | 580.8 |
| 2000 | 1689.2 | 798.4 | 758.7 | 640.6 | 582.3 |
| 2002 | 1688.2 | 785.1 | 757.5 | 939.2 | 577.1 |
| 2003 | 1689.6 | 779.1 | 757.7 | 637.5 | 574.1 |
| Employed persons (*In thous.)* | | | | | |
| 1991 | 558.7 | 237.7 | 261.5 | 206.1 | 197.0 |
| 1992 | 544.3 | 219.2 | 253.5 | 198.1 | 188.8 |
| 1995 | 727.8 | 247.3 | 282.9 | 214.6 | 233.6 |
| 1996 | 765.7 | 251.5 | 294.4 | 213.9 | 226.3 |
| 2000 | 762.4 | 212.2 | 259.7 | 200.3 | 221.8 |
| 2002 | 740.6 | 198.3 | 238.8 | 181.0 | 219.4 |
| 2003 | 698.7 | 197.1 | 240.8 | 179.9 | 213.7 |
| - Of whom: women % | % | % | % | % | % |
| 1991 | 51.8 | 53.3 | 47.9 | 51.1 | 49.3 |
| 1992 | 51.8 | 53.7 | 47.8 | 50.6 | 49.9 |
| 1995 | 50.4 | 52.4 | 47.1 | 49.6 | 48.9 |
| 1996 | 50.5 | 52.4 | 46.9 | 50.0 | 49.4 |
| 2000 | 50.7 | 52.5 | 47.9 | 49.9 | 49.4 |
| 2002 | 51.6 | 52.0 | 49.2 | 51.4 | 49.9 |
| 2003 | 50.4 | 53.0 | 48.8 | 51.1 | 48.8 |

**Table 3.4**
(Continuation)

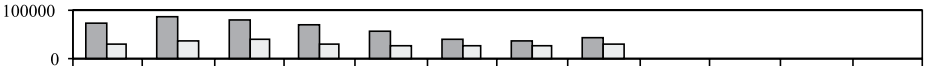
| Specification | Warsaw | Lodz | Krakow | Wroclaw | Poznan |
|---|---|---|---|---|---|
| Registered unemployed (*In thous.)* | | | | | |
| 1992 | 32.9 | 72.6 | 31.0 | 20.5 | 15.7 |
| 1995 | 33.1 | 68.5 | 22.0 | 20.4 | 11.6 |
| 1996 | 25.7 | 57.4 | 17.3 | 17.5 | 8.8 |
| 2000 | 34.0 | 55.5 | 24.5 | 21.7 | 11.0 |
| 2002 | 65.1 | 65.1 | 30.1 | 35.4 | 21.7 |
| 2003 | 62.5 | 65.2 | 29.9 | 37.0 | 21.9 |
| - Of whom: | | | | | |
| women % | % | % | % | % | % |
| 1992 | 58.2 | 47.3 | 57.9 | 60.0 | 57.5 |
| 1995 | 60.0 | 53.0 | 61.4 | 65.4 | 62.3 |
| 1996 | 64.1 | 56.1 | 65.8 | 69.2 | 68.7 |
| 2000 | 53.5 | 53.1 | 57.9 | 58.9 | 58.1 |
| 2002 | 49.9 | 50.4 | 53.1 | 51.6 | 51.1 |
| 2003 | 51.2 | 49.8 | 53.1 | 51.3 | 52.9 |
| Registered unemployment rate* In % in voivodships | | | | | |
| 1992 | 5.9 | 16.4 | 8.9 | 10.1 | 7.9 |
| 1996 | 4.1 | 16.2 | 6.1 | 9.8 | 6.2 |
| Registered unemployment rate* In % in city | | | | | |
| 2000 | 3.3 | 15.5 | 6.3 | 7.3 | 3.4 |
| 2002 | 6.3 | 18.8 | 8.4 | 12.2 | 7.1 |
| 2003 | 6.3 | 19.1 | 8.3 | 12.9 | 7.1 |

* The registered unemployment rate is calculated as the relation of the number of registered unemployed persons to the economically active civilian population, i.e., excluding persons in active military service as well as employees of budgetary entities conducting activity within the scope of national defense and public safety.

Sources: (1) Glowny Urzad Statystyczny [Central Statistical Office – CSO], 1993. LXXXVIII.
(2) CSO, 1997. LVI.
(3) Lodz SO, 2006, Part III.

Consistent with Diagram 2 below, from 1992 onward, the share of the unemployed persons without a right to unemployment benefits showed an increasing tendency in percent. That is, about 40 % of the registered unemployment had no right to benefits in 1992, 43 % in 1993, 48 % in 1994, 43 % in 1995, 48 % in 1996, and 67 % in 1997. The later situation probably did not change for the better, but the corresponding data are missing.

**Diagram 3.2**
The unemployed without right to unemployment benefits, Lodz, 1992–1999




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 72647 | 86309 | 81137 | 69437 | 57393 | 38382 | 36794 | 44562 | | | | |
| 2 | 29497 | 37251 | 38549 | 29699 | 27420 | 25599 | 26939 | 30551 | | | | |

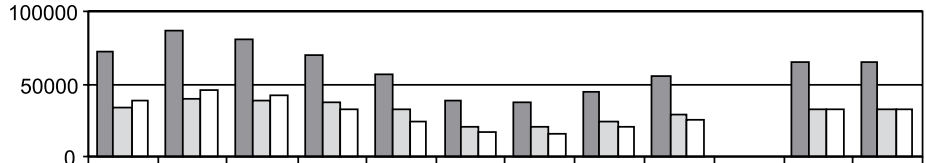
1 – Total number of the registered unemployed persons in Lodz

2 – Unemployed who did not have a right to unemployment benefits

Sources: (1) Wojewodzki Urzad Pracy [Voivodship Labor Office – VLO], 1994: Tables 7, 11, 12, and 13. (2) VLO, 1999: Tables 2 and 22a. (3) VLO, 1993: 150. (4) Urzad Statystyczny [Statistical Office], 1996b, p. 114. (5) Statistical Office, 1998b, p. 132. (6) See also Sobis, 2002, Appendix 5, Tables 5, 6, 7, and 8. (7) Statistical Office, 2000, p. 130.

In Poland, women experienced unemployment first, but Lodz was exceptional in this regard because, until 1994, men dominated among the unemployed. As long the big establishments or factories did not collapse, they needed the female spinners, tailors, and weavers. The situation worsened for women when most factories were declared insolvent around 1994/95. Nevertheless, in comparison with other big cities, women's share among the unemployed was the smallest in Poland. See Diagram 3 below.

**Diagram 3.3**
Unemployed registered by sex in Lodz, 1992–2003




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 72647 | 86309 | 81137 | 69437 | 57393 | 38382 | 36794 | 44562 | 55478 | | 65137 | 65177 |
| Women | 34373 | 40409 | 38820 | 37073 | 32223 | 21342 | 20151 | 23974 | 29520 | | 32820 | 32451 |
| Men | 38274 | 45900 | 42317 | 32364 | 25170 | 17040 | 16643 | 20588 | 25958 | | 32317 | 32451 |

Sources: (1) Wojewodzki Urzad Pracy [Voivodship Labor Office – VLO], 1994: Tables 7, 11, 12, and 13. (2) VLO, 1999: Tables 2 and 22a. (3) VLO, 1993: 150. (4) Urzad Statystyczny [Statistical Office], 1996b, p. 114. (5) Statistical Office, 1998b, p. 132. (6) See also Sobis, 2002, Appendix 5, Tables 5, 6, 7, and 8. (7) Statistical Office, 2000, p. 130.

Most affected were individuals with only a primary or incomplete primary school education. Their share in unemployment was very high, from 41.7 in 1991 to 45.6 in 1997, in comparison with the persons who had a vocational school educa-

tion. Their situation only started to improve in 2003. The unemployment among the persons who had a vocational school education showed an increasing tendency from 17.8% in 1991 to 24.6% in 2003. The unemployment among those with a general and post-secondary school education was relatively "stable" but one can observe a little improvement especially for the persons who legitimated themselves with post-secondary and secondary vocational school education.

**Table 3.5**
Unemployed persons by education level, 1991–2003

| Specification (in %) | 1991 | 1995 | 1996 | 1997 | 1998 | 1999 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| Higher | 5.6 | 3.0 | 2.9 | 3.7 | 3.9 | 4.2 | 6.7 | 6.5 |
| Post-secondary and secondary vocational | 24.0 | 20.0 | 20.3 | 19.8 | 19.5 | 20.7 | 20.6 | 20.2 |
| Secondary | 10.9 | 9.0 | 9.2 | 8.9 | 8.1 | 8.7 | 9.5 | 9.5 |
| Basic vocational | 17.8 | 24.9 | 23.4 | 21.9 | 25.4 | 23.0 | 24.4 | 24.6 |
| Primary | 41.7 | 43.1 | 44.2 | 45.7 | 43.1 | 43.4 | 38.8 | 39.2 |

Sources: (1) Wojewodzki Urzad Pracy [Voivodship Labor Office – VLO], 1994: Tables 7, 11, 12, and 13. (2) VLO, 1999: Tables 2 and 22a. (3) Wojewodzki Urzad Statystyczny [Voivodship Statistical Office – VSO], 1993, p. 150. (4) Urzad Statystyczny [Statistical Office], 1996b, p. 114. (5) Statistical Office, 1998b, p. 132. (6) Sobis, 2002: Appendix 5, Tables 9 and 1, (7) Statistical Office, 2000, p. 127, (8) Statistical Office, 2006: Tables 12 (p. 74).

Concerning the unemployed persons' age, individuals from 35 to 44 years old constituted the largest share of the unemployed until 1998. Later on, it turned out that young people and individuals from 45 to 55 had it worse. Below, Table 6 presents the data for the years 1991–2003.

**Table 3.6**
Unemployed persons by age, Lodz 1991–2003

| Specification (in %) | 1991 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Below 25 years old | 8.1 | 19.2 | 19.9 | 16.4 | 19.2 | 20.8 | 19.7 | 19.7 | | 25.3 | 23.5 |
| 25–34 | 15.3 | 20.4 | 20.1 | 18.1 | 19.5 | 18.3 | 18.2 | 21.8 | | 26.6 | 27.3 |
| 35–44 | 56,6 | 32.9 | 29.5 | 27.1 | 31.5 | 28.5 | 28.7 | 26.5 | | 23.8 | 22.7 |
| 45–54 | 16,7 | 21.8 | 25.2 | 31.0 | 25.5 | 27.9 | 29.5 | 28.2 | | 22.8 | 23.8 |
| 55 years old and over | 3,4 | 5.5 | 5.3 | 6.8 | 4.1 | 4.5 | 3.9 | 2.9 | | 1.9 | 2.5 |

Sources: (1) Wojewodzki Urzad Pracy [Voivodship Labor Office – VLO], 1994: Tables 7, 11, 12, and 13. (2) VLO, 1999: Tables 2 and 22a. (3) Wojewodzki Urzad Statystyczny [Voivodship Statistical Office – VSO], 1993, p. 150. (4) Urzad Statystyczny [Statistical Office], 1996b, p. 114. (5) Statistical Office, 1998b, p. 132. (6) Sobis, 2002: Appendix 5, Tables 9 and 1, and. (7) Statistical Office, 2000, p. 127. (8) Statistical Office, 2006: Tables 12 (p. 74).

## 3.6 Strategy for the city's development

The situation did not turn for the better until 2004, when Poland became a member country of the EU. It is interesting how in this preceding period the Local Self-government of Lodz perceived its role as the city's administrator and how it contributed to the management of the increasing unemployment in the city when approaching a market economy.

Important questions are whether it had any strategy for the city's future development, and if yes, what kind of strategy. Did it have any program to cooperate with employment services, and was it able to counteract the unemployment in the city?

The *strategy for the city* started hesitantly. The first document in this regard constituted the Resolution of Municipal Council No. IV/29/94 of 19 October 1994. Conforming to the powers of the *Local Self-government Act of March 8, 1990* and in order to fulfill the duties coming from the Constitutional Act of 17 October 1992, the Municipal Council accepted the strategy proposal for the city presented by the Municipal Government, but forced the latter to prepare concrete programs in the line with the general assumptions underlying the strategy.

This strategy for Lodz was not very specific. However, this document was perceived as a foundation on which all the economic, organizational, and social undertakings could be built. It was also expected that the strategy for Lodz would unite the political forces working within the Municipal Council and would help them to communicate with the external world. The Municipal Government had identified most weaknesses of Lodz in the Appendix to this resolution. They were the following:

- Neglect of the municipal infrastructure
- Degradation of the municipal material substance, especially the catastrophic conditions of residential housing substance and housing shortage
- Lack of state and local regulations, especially of those which could be propitious to local self-government
- The actual structure of public administration was inadequate to serve the habitants
- The industry, instead of being its main asset, became the city's main weakness and had a negative impact on the economic recession and de-capitalization of municipal wealth.
- Lack of a financial sector, security companies and investment funds
- The demographic structure was unfavorable for the city's development

The Municipal Government also presented some proposals on how to improve the situation at hand. Firstly, they shared the opinion that it was necessary to create the proper climate and mutual trust among the politicians to make them cooperate with each other. Secondly, they were aware of receiving a huge latent munici-

pal wealth that they had to govern properly. This wealth consisted of the national economy entities, budget enterprises, and other assisting unities. They needed well-educated administrators, managers and executives who could manage the wealth of Lodz.

Thus, the aim was to attract professional elites to the Local Self-government. The city's roads and land constituted also latent municipal wealth. To sell land at a profit demanded development of attractive infrastructure, preparation of legislative regulations, and creation of good cooperation with financial institutions. The Municipal Government perceived these issues as the necessary elements of the strategy for the city. Thirdly, it was very important to attract capital to Lodz, both domestic as foreign. Attracting foreign capital aroused many controversial opinions in the city, but all these measures implied that the city had hardly covered the cost of degradation of the municipal material wealth. The city received finances from the state budget. It had its own income – rather passive because money was from taxation, payment of sold property, and bank loans. It was definitely not enough to manage all the problems of the city. Thus, foreign capital was perceived as necessary to the city's future development.

The first resolution dealing with the strategy for Lodz was insensitive to the severe situation on the local labor market and the increasing unemployment in the city. This situation can be explained by the *Act of Competence Division of 1991*. The Local Self-government did not receive any formal rights to combat unemployment. This was the task of the special administration on Employment Service subordinated directly to the National Labor Board in Warsaw.

Two years later, the Municipal Government proposed a second Resolution, No. 710/137/96, concerning the strategy for the city. The Municipal Council passed this document on 8 July 1996. The resolution connected with the Act of 8 March 1990 and the Resolution of Municipal Council No. IV/29/94 aimed at improving and integrating the information system within the Municipal Office of Lodz. Similarly to the first resolution, the second one did not mention any concrete plans about the remedial measures to combat the unemployment in the city.

The Polish government implemented the administrative reform in 1998. They had planned a new division of tasks between state administration and local self-governments. This time the aim was, among others, to delegate the tasks connected with local labor markets to local self-governments. Even before the official decision was made, the Municipal Government prepared itself mentally for its new role. It observed that Lodz still had an industrial character, although the city's functions had changed. Lodz was becoming an important trade, logistic-transportation, service, and conference center. These observations resulted in the preparation of a third version of the strategy for the city, i.e. Resolution No. XVI/277/99 of 2 June 1999. The strategic aims were perceived to be:

- Reinforcement and development of the metropolitan functions of Lodz

- Differentiation of the city's economic structure and reinforcement of the local system of production and its multi-function development
- Development of human capital
- Improvement of the city's internal and external accessibility
- Protection and reinforcement of the ecological system
- Popularizations of complete secondary and vocational secondary education and support for high education
- Creation of consensus and agreement among various political groups concerning the strategic activities that were perceived as important for the city's development and the local community

In the same document, the Municipal Government for the first time formulated some preliminary strategic aims for the local labor market. The representatives knew very well that from 1 January 2000 the city had to take over this policy area from the state administration, including all the tasks dealing with the local labor market. They were expected to counteract the unemployment in Lodz themselves. Among the key tasks, they perceived the creation of new working places, e.g. public and intervening works. The assistance coming from the Work Fund would be directed almost totally to the small and middle enterprises that contributed to creating new working places. In fact, from the beginning of the transition the Municipal Government cooperated with the Employment Service and contributed to the creation of working places in the framework of public and intervening works. However, from 2000 onwards, they had control over such remedial measures to counteract the unemployment and pauperization of the society.

The Municipal Council's resolution No. XXXI/503/04 of 9 June 2004 was the first document in which the Municipal Government acknowledged that it needed consultation and guidance to stimulate the local development and to create new working places in the city by using innovative strategies. It received financial means (4,000,000 zlotys) from the budget to carry out these tasks.

This concise description of the strategy of the city allows an understanding of the change in municipal authority. It changed from an insensitive actor regarding the situation on the local labor market and the increasing unemployment to a more closely involved actor in the city's actual problems, including unemployment.

The change was dictated by the state regulations that created the institutional framework for all human activity at the local level. The actors' insensitivity had nothing to do with lack of good will to implement remedial measures. The corporatist model seems to have had a negative impact on the problem-solving capacity of the cities and communities that were especially affected by structural unemployment.

## 3.7 Reflections

The purpose of this chapter was to describe and give an understanding of the developments taking place in Lodz during the period of 1989–2003. What happened in this industrial place once called the "Promised Land"?

The issue is interesting in the context of this book because the local authorities received technical assistance from foreign countries during a large part of the period described, which introduced e.g. "modern" ways of handling unemployment to the Polish local authorities.

However, it turned out that the rate of unemployment after 1998 was higher than before the implementation of the administrative reform in Poland. To understand why the "modern" working methods within the employment service did not work in practice, and why the help to the employment service was powerless in counteracting the unemployment in the city, is one of the objectives of the research described in the subsequent chapters. Beforehand, many causes can be mentioned that go beyond the influence of either the local authorities or the foreign advisors.

One can point to the climate of uncertainty and the political struggles among the state administration and the newly established Local Self-government. One can also point to the conflict that was *de facto* built into the institutional framework of Balcerowicz's radical economic program. His "shock therapy" did not pay much attention to the regions and local communities in which an industrial mono-structure was dominant. This program was not sensitive to the consequences of privatization that directly led to the structural unemployment in such regions. Probably Lodz and other local communities affected by the high rate of structural unemployment would not have been exposed to so painful experiences, if the process of privatization had been carried out in another way or local self-government taken more seriously.

Despite the urgent problems and the huge amount of foreign technical assistance in socioeconomic matters, the issue of the labor market and counteracting unemployment did not appear in the strategy for Lodz until the end of 1999. The municipal authority focused on other important matters and problems to solve in the city. However, when the Local Self-government became responsible for the management of labor-market relations in Lodz, and when they became the legitimate administrators of communities, the documents indicate that the unemployment became the major problem for the Municipal Government. It appears for the first time in the Resolution of 2 June 1999 addressed to the Municipal County. Then they started to consider creating new working places in the framework of public and intervening works and by stimulating small and middle firms to make them contribute to the creation of jobs.

One can also question the effectiveness of the foreign advice and advisors in this whole process. The circumstances in Lodz were not optimal. Otherwise, for-

eign technical assistance would probably not have been needed. The question is to what degree the foreign advisors had a keen eye for the awkward circumstances and whether they adapted their proposals to the specifics of this context. That question is answered in the next chapter.

# 4. The Role of Outside Advisors in Local Government: The Recipients' View


## Abstract

This chapter addresses the role of advisors in decision-making in local government. Departing from theories about professionals and technocrats in decision-making processes, the question arises of how much influence these advisors have in policy-making processes. The chapter addresses this question and discusses the role of Western advisors in adapting the social security system to EU requirements in a Polish community under the PHARE program. This is a critical case because comparative figures show that local policy-makers in Central and Eastern European countries have a relatively great trust in advisors and that, because of the money involved, the Polish policy-makers were heavily dependent on the advisors. These facts result in the expectation that the advisors' advice would be humbly accepted. The case study shows, however, that many recommendations do not get a follow-up. The degree to which that is the case seems to depend on the contents of the recommendations, the arrogance of the advisors and the degree to which the recommendations are suited to the specific characteristics of the recipient's situation.


## 4.1 Introduction

It was for cities such as Lodz in Poland, which did not automatically transform from centrally planned impoverished cities into affluent free-market places, but rather from a Promised Land into a deserted land, that the Western countries allocated billions of dollars and euros to give technical assistance. That help was meant to alleviate the most severe and urgent problems.

In order to accomplish this, the countries and cities were supported by advisory agencies from different EU countries, which could assist in transforming procedures and programs, partly to achieve the above-mentioned goal and partly to suit to the practices in the European Union.

Often it is assumed that such technical assistance makes policies more rational in a technical-economic way and thereby reduces the problems. In theories of public policy processes, the role of professionals, rationalism, and technocracy has been one of those areas which have been widely debated. The subject belongs to the classic themes in the study of public policy. On the one hand, scholars are seen who promote such professionalism: Lasswell (1948, p. 122), one of the founders of policy sciences, promoted policy studies by pointing to the need of making rational judgments on policy questions. Already in 1945 Herbert Simon published his theory of 'administrative behavior', and he became one of the main advocates especially of procedural rationality, although he recognized the limitations in practice. From the 1960s onward, Yehezkel Dror (1967, 1989) advocated a 'scientific' approach in policy analysis, and Daniel Bell promoted the scientific and rational approach to problem-solving in the 1970s. Anthony Giddens (1990) called the trust in professionals a bargain with modernity, which seems only to increase. Some point at the growing complexity of social problems necessitating such development (Weiss, 1992), and others have investigated the changing role of professionals (Brint, 1994).

On the other hand, arguments that are more censorious were also heard during the whole period. In the 1960s there was the criticism on the rise of technocracy as expressed by Ellul, Dahrendorf, and Habermas, who objected to the possibility of improving policy-making processes by increasing the amount of information. Later on, they were accompanied by famous scholars like Illich, March, Cohen and Olsen, and Dunleavy, who disputed the added value of expertise and pointed to the political and subjective nature of policy processes. Since then, also some case studies have appeared which criticize the role that professionals play in policy processes. In the 1990s books with catchy titles such as 'The tyranny of advisors' appeared and criticism arose around the managerial view of policy-making.

The discussion about the actual, expected and desired role of advisors in policy-making is far from concluded. Are they the powerful forces behind policy changes, or are they just additional instruments in the hands of decision-makers? The next section of this chapter goes into the main theoretical arguments in this discussion. It will be argued that this literature is too general in scope, neglecting that there might be variation in the impact of different advisors. This is seen for instance in the absence of a distinction in the literature between outside (external) and inside (internal) advisors. Although we would have liked to base our research on theories specifically directed at outside/foreign advisors, we have to rely on theories about advisors in general. One of the most important differences between outside advisors and inside advisors is, of course, that the former know less than the latter about the specific circumstances and culture. As we will show, the way these outside advisors deal with this is crucial for their effectiveness.

This chapter addresses the role of outside advisors in the city of Lodz in Poland and argues the specific problems related to their advice and the variance in their ap-

proaches. This raises the question of how to explain the varying impact of advisors. Is it the content of their work that is determinative, or is this a minor factor compared to the nature of the relation between the advisors and the local policy-makers, e.g. the *a priori* trust that the latter have in the opinions of such advisors and their dependence on advisors' advice?

With regard to their reputation, the third section of this chapter presents figures on the trust that local policy-makers in East and West European countries have in the recommendations made by advisors. We use data from an international research project, indicative for the opinions of those people who actually develop and are responsible for local policies. They were interviewed and asked how they judge the desired role of professionals and expertise. This part of the study will reveal striking differences between local policy-makers in different countries. One finding will be that the local elites in transitional countries have much more trust in advisors than local elites in old democracies have. With regard to the degree that local leaders are dependent on the advisors, our case study investigates a policy process in which the money involved and the impact of the outcomes are both indicative of a high degree of dependence. The question is whether even in such circumstances, in which one would expect local policy-makers to accept humbly the advisors' advice, variance in the acceptance of this advice is still visible. If that can be shown, the content of the advisors' advice is likely to play an important role.

Regarding the contents of expertise, there is an increasing literature which explores the actual work that advisors do. The preliminary conclusion to be derived from this scholarly work is that advisors are not so much making recommendations based on an analysis of the problems in the policy at hand, but should rather be seen as so-called "standard-setters" (Brunsson & Jacobsson, 2000). Advisors from the EU, ILO, World Bank and other international organizations seem to be primarily occupied with transforming public policies in order to adapt them and to make them compatible with their standards. The in-depth case study on the developments in Lodz shows that some advisors can indeed be denominated as standard-setters, but that there are also advisors who first listen, investigate the problem at hand and base their advice on the specific situation. They had to assist in order to qualify Poland for entering the EU. It concerns a very large project: over a period of nine years the EU invested 1.7 billion ECU in this project, and a whole army of EU and ILO advisors flooded the country (Sobis, 2002). This made it possible to investigate the style of those advisors and the degree to which Lodz adapted its policies according to the advisors' recommendations. Because of the high reputation advisors have in the new democracies and the dependence on them, regarding Poland's admission as a EU member one would expect every recommendation the advisors made to be acted upon almost automatically. As the case study will show, the real picture is rather more complicated. We finish this chapter with some reflections about the consequences of the empirical outcomes.

## 4.2 The theoretical debate about the role of expertise in policy-making processes

The debate around the role of advisors and expertise in policy-making processes deals with persons and processes, empirical trends and normative judgments about the role of those people whose authority is based on knowledge instead of on the representation of interests and the volume of the groups sharing this interest, as is the case with politicians. Advisors are, in the words of Brint (1994, pp. 131–132), a highly trained professional staff working in central institutional domains, on either a salaried or contractual basis and including also professionals in the surrounding institutional arenas of scientific research, cultural and communication services, social service, medical, legal, and educational organizations. In the debate about what these people do, two subjects are central. The questions are, first, what advisors actually do, and second, what their impact is on policy-making processes.

### 4.2.1 Advisors as standard-setters limiting policy-makers' choices

The debate about advisors results in a prominent question, namely, "what is it that such advisors do?" The most obvious answer is, of course, that they help to improve the situation at hand. Do you have a problem you do not know how to solve? Hire someone who does know and has the answers you do not yet have, that is, an expert. From the advisor's point of view, this is also the only justified answer.

Nils Brunsson and Bengt Jacobsson have given, however, an alternative answer to the question of what advisors do. In their eyes, it is primarily standardization and providing legitimacy that are at stake. They assert that standardization generates a strong element of global order in the modern capitalist countries, because people and organizations following the same standards in the whole world see standardization as a form of regulation and control that allows one to understand "similarity and homogeneity among people and organizations far apart from one another" (2000, p. 1). There are many organizations which refer to themselves as standard-setters. The European Union, International World Bank and International Labor Organization can serve as examples. Jacobsson argues; "Standardization is linked to expertise and is usually motivated by the view that there are some persons who know best. In this way, standardization is given legitimacy" (2000, p. 40). Usually, expert knowledge is stored in the form of rules that are voluntarily accepted by the international multi-standards organizations.

Many decisions in the EU develop through transnational networks involving several different levels and actors in both the public and the private sector. The EU Commission relies frequently on the expert knowledge found in companies, interest groups, the civil service of member countries, etc. There is an extensive interchange of information and views among companies, interest groups, civil servants, and politicians. The explanation for this is partly that efforts to promote integration

in the EU have focused primarily on the economy and creation of an internal market (Jacobsson, 2000, p. 47).

With regard to the EU, Jacobsson argues that its legitimacy in decision-making is derived from the idea of a free market. Consequently, decisions are limited to the essential areas for guaranteeing such a market. The legitimacy of this free market is based on its utility. Advisors who make good decisions in their respective fields justify and authorize that the free market is good for everyone. The legitimacy of the EU decisions is based on the assumption that the sector networks in which these decisions emerge are best at solving the problems that may arise: "It is less important to know who is speaking on behalf of whom than who possesses the necessary knowledge" (2000, p. 47). Thus, decisions are legitimated by expert knowledge, although it is difficult to ascribe neutrality to them. The reason is that in Central and Eastern Europe, on the one hand we can observe an increasingly important role for such professionals, who in fact increasingly have limited the local politicians in their choices by the technical information provided by advisors. This trend can be also explained in terms of "disembedding mechanisms" (Giddens, 1991, pp. 17–20).

There is also an opposite view, namely that advisors are becoming increasingly dependent on the market value of their skills, which in turn is increasingly dependent on the degree to which they can use their skills in order to support the politicians' interests in their service. In the modern nation-state, the state legislators possess hierarchical authority, having the right to regulate certain matters within national borders. In this sense, the state legislators are not the standard-setters but rather the rule-setters. It is the group of international advisors that standardizes. The standardizers differ from the nation-state in many respects:

> *Standardizers cannot claim hierarchical authority, nor can they impose sanctions. They offer standards – which could be described as pieces of general advice offered to large numbers of potential adopters. (…) Since standards are presented as voluntary, standardizers often have to expend considerable effort convincing other people that it is in their interest, either now or in the long term, to accept the standards (Brunsson & Jacobsson, 2000, p. 2).*

"Standards" are understood as "rules about what those who adopt them should do, even if this only involves saying something or designating something in a particular way" (Brunsson & Jacobsson, 2000, pp. 4–8). Many rules and types of advice can be described as standards. Brunsson and Jacobsson distinguish three types of standards: (a) Standards about being something, which classify things or actors in a standardized way, e.g., what a telephone is. (b) Standards about doing something, e.g., how organizations should behave, what should be included in different types of educational program, what states should do about their financial problems etc.

(c) Standards about having something, which refer to things we should have; e.g., a modern state should have democracy, a constitution, and an educational system.

Some standards become institutionalized, if actors take it for granted that they should be followed. Kjell Arne Røvik (1996) defines "institutionalized standards" as follows:

> *Institutionalized standards are prescriptions, but the extent to which they give detailed practical specifications for organizing varies considerably. Some are vague ideas that allow a lot of room for each individual organization to give them its own interpretation. Other institutionalized standards, however, provide more detailed prescriptions for how organizational activities should be carried out (…) Institutionalized standards are not prescriptions for building a completely complex organization. On the contrary, they apply to small parts of the organization and may therefore be regarded as institutionalized "building blocks". Thus, an organization is often also a multi-standard organization because it has usually adapted many institutionalized standards over a period from various institutionalized environments (Røvik, 1996, p. 142).*

Assuming that institutionalized standards are ideas that travel in time and space and "have their day", then "an institutionalized standard is an organizational fashion that has its day" (Røvik, 1996, p. 166). In other words, a fashion which receives a social authorization as the most advanced, effective, rational, and modern method and strategy to organize work, and which is well known in the organizations of the highly developed Western countries, Røvik calls "organizational fashion". Hence, the Western advisors who spread such popular and institutionalized standards might be called "fashion-setters" (Sobis, 2002, p. 36).

### 4.2.2 The influence of advisors

The second question is how successful advisors are in such standard- or fashion-setting. What is their influence in policy-making processes? Scholars seeing an increased influence often talk about technocracy being the dominant form of decision-making nowadays. Because of the increasing complexity of present-day problems, one cannot solve these problems by just deliberating and deciding about a program. Much research has to be done, much information has to be gathered, and many relations between variables have to be taken into account. The interdependence and dynamics of problems have led to an increasing need for expert analysis and consequently for increasing influence by people who are knowledgeable and able to conduct such analysis, that is, advisors (see e.g. Bell, 1960; Giddens, 1990; Weiss, 1992). Such professionals possess a quality not found among policy-makers themselves, and the latter often hardly comprehend the technical details or the im-

pact of the choices they have to make. Therefore, they increasingly rely on and thus become dependent on people they assume do know, who have had the scientific education to know and/or work in an organization specialized in the problems at hand. In the eyes of these scholars, this resulted in the rise of what is called 'technocratic decision-making' or the meritocracy in which the most highly educated form the elite (cf. Young, 1958).

Some judge this development to be positive because it disposes of the irrational, ineffective and inefficient decision-making processes that characterize many policy-making processes in the past, and the possibility to relegate the ideological conflicts by using the tools available to do better (Bell, 1960, p. 1). Others point to the negative side-effects of this development in terms of decreasing possibilities for democracy and the fading primacy of politics in which conflicting interests and power are central (Ellul, 1964).

Irrespective of the moral judgment, scholars seem to agree that the trend towards technocracy is real and irreversible. The arguments are based on the increasing number of people educated at universities and polytechnics, the growing number of advisors working in and around government, the influence of think-tanks and advisory committees being composed of professionals, the increasing dominance of problems related to so-called 'organized complexity' (Bell, 1960, p. 29), and the visibility of this influence in the many, chunky and, for non-advisors, often incomprehensible technical reports accompanying policy processes. Such reports are becoming more important not only because of the complexity of issues, but also because of the emergent need for impact assessments, performance measurement, and in general the need for transparency. The technological advancements in the last couple of decades have made possible what, in the early days of scientific management, could only be done in a very limited way, that is, to rationalize policy processes and in the end to rationalize society.

Regardless of the persuasiveness of this argument, not everyone seems to be convinced. Recently a growing body of literature has appeared that points to a diminishing role of advisors and expertise. Lakof, for instance, tells us, "Professionals lack political resources to exercise determining influence. In no actual society, scientific or technological knowledge is considered to be a sufficient source of moral or legal authority" (in Brint, 1994, p. 137). Nelkin (1992) concludes that technical analysis is not likely to change anyone's mind and that major events are more likely to affect opinions than technical scientific reports. Wilding (1982) sees the power of professionals only to the degree they are granted this power by politicians, and this is in the interest of the latter. Brint put it as follows: "The idea that the technically able increasingly make important political decisions is fallacious" (1994, p. 18)… "Advisors for the most part have limited mandates and limited influence" (1994, p. 135) "except on narrowly technical matters… On matters of larger public interest, politicians are in a position to claim higher priorities and more binding responsi-

bilities, priorities and responsibilities that override the mere conviction of expert knowledge" (1994, pp. 135–136).

He notices a shift from trustee professionalism to expert professionalism. The former is dominated, in Max Weber's terminology, by substantial rationality based on a public outlook influenced by noblesse oblige, an emphasis on character and trust, and an insistence on cultivated judgment (Brint, 1994, p. 8). In the last century, this kind of professionalism is said to be replaced by a kind of professionalism in which the surplus value thereof is measured by its market value. He talks about the marketization of professionalism in which no longer the distinctive contribution to society at large is crucial, but rather the skills involved in the work. One of Brint's conclusions is that professional development must not be seen in occupational terms, but in relation to the development of markets for professional services and in relation to the interests of organizations that employ large numbers of professionals.

The consequence is that idealism and humanistic culture have been replaced by materialism and market-consciousness (1994, p. 14). The recent age of expertise has been an age of relatively unrestrained consumer markets and corporate power (1994, p. 17). This development has resulted in a decline of independent knowledge, and in increased dependence on those who can afford to pay for their skills – that is, the corporations and in the public sector the politicians with their often one-sided interests. It is not, as Ellul says, that the politician is at the mercy of the professional (Ellul, 1964, p. 258), but it is the professional who is increasingly at the mercy of the politicians. The influence of advisors is encapsulated within the institutional context that hinders the outcomes of analyses and recommendations made by them from running counter to the interests of their 'clients' (cf. Massey, 1988). As Brint (1994, p. 145) tells us, advisors are also increasingly naive, mistaking political applause for their ideas as a sign of the rationality of their ideas rather than of the political utility of their ideas.

Underneath this discussion about the influence of advisors, there is a more fundamental discussion which often remains implicit in the debate. This is the discussion of whether the content of professional expertise is in any way important for the development of effective, efficient, and legitimate policies. In addition, whether the policy process can be seen as a rational process in which goal achievement and the usage of policy instruments can be technically optimized by the simple standardization referred to in the previous section, in order to eradicate the societal problems confronting the policy-makers. It seems that those scholars who see a tendency toward technocracy indeed think this to be the case. If one sees such processes as more political and subjective – involving conflicting interests about the problem definition, the weighing off of different effects, or in case the costs and benefits are unequally divided – or if one sees such processes as developing rather irrationally and unpredictably, and being more dependent on the specific contin-

gencies, then the idea that regardless of the contents of the advice, advisors have a decisive role, surpassing the provision of legitimizing information to be used to the policy-makers' advantage in case of conflict, makes little sense. In that case, the role of advisors will be judged to be modest. Therefore, the idea of the increasing influence of technocrats, and the desirability thereof, is likely to tell something about one's view of the aspects deemed important in policy-making. The same goes – to a certain extent – for the view of the marginal influence of expertise and the desirability thereof. This seems to be associated with a view of policy-making in which political and subjective aspects are deemed crucial.

To conclude, there are two opposite theoretical opinions on the role of advisors in policy-making processes. The first sees an increasingly important role for such professionals, with politicians being limited in their choices by the standardized information provided by advisors. The second sees the opposite trend with professionals increasingly being dependent on the market value of their skills, which in turn is increasingly dependent on the degree to which they use these skills in support of the interests of the politicians. The first view seems to be based on a managerial view in which the rationalization of policy processes is central. The second view seems to be associated with a more political view of policy processes and a conception that technical information has to fit the dominant political views in order to have an impact.

## 4.3 The case of Western advisors in a Polish municipality

The interesting thing about the debate outlined above does not necessarily lie in finding the ultimate answer to what, in theory, is the real nature of policy processes and the role of advisors therein. When such an answer in theory is not (yet) available, one way out is to analyze the practice in actual policy-making processes, to assess the opinions of those people involved, and to conduct in-depth assessments of policy processes in which outside advisors are involved. This is the course of action taken below. The research is based on EU official documents, international reports about the transition in Central and Eastern Europe, the Polish legislation of labor-market relations, statistics of unemployment, and forty-eight interviews with local politicians and representatives of the Lodz agencies involved. We will first argue that the circumstances are very favorable for a decisive impact of the outside advisors on the policies under way in this city. The amount of money involved, as well as the serious consequences if Poland could not adapt, and the trust in advisors among local elites in transition countries in general, results in the expectation that the advisors' advice would be followed almost automatically irrespective of its content.

### 4.3.1 Indicators for a large dependence

As described in the previous chapter, shortly after 1989, about 86,000 unemployed were looking for work and assistance within the employment agency of Lodz – the textile-industry city in Poland. Unemployment presented a new and major problem to the local authorities, unknown in socialism. The lack of means to counter unemployment, bad room-conditions, and staff not prepared to deal with unemployment provided the starting point, and illustrate that it was a tough job to adapt to the new labor market and to labor protection rules characteristic of free-market economies.

About the same time, the Council of Ministers of the European Union decided to assist Poland and Hungary with sweeping changes in the framework of the PHARE program. PHARE is an acronym from the original name: *Poland and Hungary: Action for the Restructuring of the Economy* (Council Regulation (EEC) N° 3909/89 of 18 December 1989). The program was the world's largest grant assistance effort to Central and Eastern Europe, and the first program for supporting reforms of those sectors of the economy of beneficiary countries, which were perceived to be of key importance for the proper functioning of a market economy (see Directorate General of EU, 15 September 1999, online). In Poland, the EU assistance concerned: (1) Agriculture, (2) Restructuring of Economy and Privatization, (3) Regional Development, (4) Environment Protection, (5) Infrastructure, (6) Education, Training and Research, (7) Labor Market and Labor Protection, (8) Administration and Local government, (9) Health Care, (10) Multi-sectional program. All the sectional programs were implemented during 1990–1994. The EU documents indicate that the national PHARE program for Poland during 1989–1997 supported the process of economic transition and institutional reform according to the new circumstances. After 1997, the aim was to prepare Poland for joining the European Union. The PHARE program can be seen as an EU institution that displayed a "constraint/freedom duality" towards Poland. The Polish authority voluntarily accepted participation in the program, because the Western assistance was wanted and expected to be in conformity with the Roundtable negotiations. Nevertheless, Poland as a beneficiary country had to respect the plan of procedure of the EU assistance to show that it shared respect for the Community's common norms. After signing the Europe Agreement, the Community reinforced the Polish economic reform, industrial restructuring, stimulation of trade and commerce to prepare the country to join the EU. This implies that there was heavy pressure on Poland to adapt and accept the proposed changes (Council of Ministers, 1995; Sobis, 2002, pp. 73 and 171).

It seems that the Polish authorities took the EU standards to be followed for granted, probably because they were based on "expert's knowledge" and voluntarily accepted by the member states. At the national level the Labor Code was amended, EU labor market norms were introduced, and legislation was altered with regard to (1) the definition of unemployed persons and the protection of them, (2) the

organizational structure of the Public Employment Service, and (3) the regulations for employment, unemployment, and unemployment benefits. The legislators implemented the new rules, laid down the amendments to the bills, and approached the highly institutionalized EU/ILO standards gradually, somewhat by experimental learning, due to the EU assistance within the framework of PHARE program, the actual situation on the labor market, and the signals from employment agencies. In 1993, the Ministry of Labor and Social Policy established the National Labor Office [NLO] – the highest administrative body to coordinate adaptive processes. In the framework of the PHARE sectional program dealing with the labor market and labor protection policy, the EU standard-setters, in close cooperation with the ILO fashion-setters, provided assistance to secure the political goals.

The cooperation between the Polish government and the EU resulted in the preparation of an assistance program by the ILO. The aim was to spread the ILO basic organizational fashions of the Western employment agencies and to make them adapt to the organizational structure of the Polish public employment service. Consequently, the ILO consultants in collaboration with the authority of NLO prepared a series of training programs.

First, the chief administrators were trained through discussions with the supervisors and Western consultants. This happened mainly at the Ministry for Labor. The first staff training courses started later on. About twenty courses were addressed to the staff of the employment service in Poland to raise its competence in market economy conditions. Danish, English, French, German, and Swedish consultants conducted the training program. Second, in March 1995, the ILO started the second stage of the two-year training program. The aim was to improve the level of the staff's competence and the public employment service's organization. Many courses were about promotion and how to start one's own business, under catchy titles like "Promotion of Small Enterprise in the Lodz Region", "Vocational Counseling and Promotion of Small Enterprise", and "Individual Enterprise in the Practice of DLOs". Lecturers from the University of Lodz, the authority of the State and municipal governments, and representatives of various financial institutions conducted lectures in collaboration with a consultant from London. Afterwards, the ILO program also started a series of seminars dealing with "Educational aspects of women's adaptation in a situation of unemployment on a labor market". The specific problems of women's unemployment were discussed in topical blocks under the heading of "The general problems of women's unemployment when creating a market economy", "The educational activities for women on the regional labor markets", and "The chances, threats, and support concerning women's educational activities".

The amount of money involved and the need to be successful in adapting to EU regulations in order to become a member of the EU are indicative for the dependence of Polish authorities on the advisors brought in from the EU to accommodate the transition process.

### 4.3.2 The inclination to listen to advisors

A second factor important for understanding the Polish position toward outside advisors is that Poland was a new democracy at the time of our research and, as will be argued in this section, local elites in such countries placed a relatively large trust in advisors' opinions.

Since 1989, the opinions and background of local elites in East and West European countries have been measured by a large-scale survey conducted within the so-called 'Democracy and local governance research project'. This project was coordinated by Krzysztof Ostrowski (University of Pultusk), Henry Teune (University of Pennsylvania) and Lars Strömberg (University of Gothenburg), and the second author of this chapter participates in the project. In all the countries involved, more than 20 communities comprising between 25,000 and 250,000 inhabitants were selected at random; within each of these communities about 15 political leaders and 15 leading officials were interviewed, resulting in a database of over 16,000 respondents in 665 communities. The interviews were carried out in 1989–1991, and repeated in 1995–1996 and 1999–2001. For Western European countries, often only data from the period 1995–1996 were available. In this chapter, we use data from former East European countries such as Poland, Lithuania, Hungary, Czech Republic, Slovakia, Belarus, Russia, Kazakhstan, Kyrgyzstan and Turkmenistan, and West European countries such as the USA, Germany, UK, Spain, Netherlands, Japan and Taiwan. From these countries, we have survey data from 1994–1996 of 9,468 local officials.

The politicians among the respondents were the senior politicians, which were the mayor, the aldermen and council members, and the leading representatives, often local party leaders, in the local council. The top administrators comprise the town clerk, the members of the management team, and the heads of departments. They were people who prepared, developed, decided about and took care of the implementation of policies and programs that directly affected the life of the people in the community. They decided about subsidies and grants, local taxes, public and social improvements, safety, culture, and recreation, housing and educational and health policies. These are the educated people, often having a university or polytechnic education, and what some call the local elite (Jacob et al., 1993). Although their autonomy varies over countries, depending among other things on the degree of decentralization, all are in some way influential for the daily life of many people.

The interviews/questionnaires were standardized in order to make valid comparisons possible. In the research in the Democracy and Local Governance project, the most influential local politicians and public administrators in the selected municipalities were asked their opinion about 40 statements. These were questions regarding central-local relations, economic equality, values and norms, economic growth, and the variable – central in this chapter – of trust in advisors. The respond-

ents were given a number of statements with which they could answer on a four-point scale: completely disagree, disagree, agree, or completely agree.

One of those statements refers to the trust that the respondent has in advisors. It reads as follows: "*Most decisions should be left to the judgment of advisors*". It is about trust, because trust is, as for instance Hardin interprets it, a three-part relation involving encapsulated interests: A trusts B to do X. This specific trust relates to the knowledge of A that B will take A's interest into account when doing X. Hardin talks about a high degree of trust when he says: "I trust you, because I think it is in your interest to attend my interest in the relevant matter" (2002, p. 4). And: "What matters for trust is not merely my expectation that you will act in certain ways, but also my belief that you have the relevant motivations to act in those ways, that you deliberately take my interests into account because they are mine" (2002, p. 11). In this case, A is composed of local policy-makers, B consists of advisors, and X relates to their judgment in decision-making. Because decision-making is of such crucial importance, we can in this context speak of high-level trust when local elites agree with the statement.

**Table 4.1**
Local elites' opinions about the influence of expertise in 1995

| Most decisions should be made by advisors | | | | |
|---|---|---|---|---|
| | **Old democracies*** | **New democracies*** | **Newest democracies*** | **Total** |
| (Strongly) disagree | 67.19 | 33.24 | 41.63 | 50.00 |
| (Strongly) agree | 32.56 | 66.75 | 58.37 | 50.00 |

* The old democracies involved are the USA, Germany, UK, Spain, Netherlands, Japan, and Taiwan. The new democracies involved are Poland, Lithuania, Hungary, Czech Republic, and Slovakia. The newest democracies involved are Belarus, Russia, Kazakhstan, Kyrgyzstan, and Turkmenistan.

Whether or not, and by which percentage of local elites, advisors are trusted in this way is shown in Figure 1. This figure shows the percentage of all respondents in the different countries in agreement with the statement, and the fact that overall there are as many members of the local elite who trust advisors as there are members who distrust those people (last column). It shows also, for instance, that in old democracies, such as the Netherlands, this kind of trust is rare. About 32 % of the local elite in Western countries agree with the statement that decision-making should be left to the judgment of advisors.

However, in the new and newest democracies this high-level trust in advisors is much more common. Especially in the Central European transition countries (and among them Poland) on average two thirds of all respondents would prefer

that decision-making be left to the judgment of advisors. In the newest democracies, still nearly 60 % have this opinion. It seems that especially in these countries, where the social and economic problems are huge compared to those in Western democracies, the advisors are seen as the ultimate resort to improve the situation. The reputation of advisors is good and, if possible, they are hired and put into service. In Poland, being a transition country, this trust in advisors in general is also high. All this is indicative that the Lodz case is indeed a critical case for the theory. The financial dependence of the local community was high, considering the amount of money involved within the PHARE program; the dependence on the outcomes (being eligible for EU membership) was high; and the *a priori* trust in advisors was relatively high. All this results in the expectation that the local officials will follow up on every piece of advice given by those advisors.

### 4.3.3 The actual role of the outside advisors

How did the officials in Lodz perceive the impact of the outside advisors who were flooding them? There were reactions that we found congruent to our expectations, given the dependence on and *a priori* trust in advisors. The interviewed officials perceived the Swedish, German, and Danish expertise as highly useful for creating a modern employment service. The staff could almost immediately adapt to most of the recommendations and it felt direct improvements in its working methods. The way the Swedes proceeded seems to be important. The Swedish consultants trained the employment service's staff in Lodz and Gothenburg. The Lodzian delegation had visited the employment agency of Gothenburg to observe how they worked with unemployed persons, what equipment they had, and other important details that could provide them with some inspiration about the organizational changes within the employment service of Lodz. The respondents recalled:

> *When we had the most serious problems with how to serve the unemployed and how to pay out unemployment benefits in the simplest way, we received assistance from the Swedish consultants. […] No one could help us as much as they did. They came four times to Lodz from September 1993 until June 1995. Their visits were important for us. We had no patterns, ideas, or theory of how to organize work with unemployed persons within the office. […] My visit in the employment agency of Gothenburg had confirmed my suppositions that a part of the Swedish solutions would certainly be possible to adapt in Lodz, in the framework of our employment and unemployment rules (Interview 21/1998).*
>
> *Our Swedish colleagues helped us pay attention to our needs. They did not impose their will upon us. They evaluated neither our work nor the office's organizational structure in comparison to how they did it in Sweden. They gave us advice and pointed*

> *at other solutions. They admitted that our office was in a very specific situation. It was impossible to compare our situation with other labor offices in the world. We could not follow any patterns or models that worked correctly in other offices (Interview 22/1998).*
>
> *The consultants from Sweden prompted us to improve our work. They schooled us within the office and at conferences or courses. The meetings with them were to our advantage (Interview 24/1998).*
>
> *The Swedish consultants had some information about our unemployment and it was easier for them to understand our problems. On the other hand, we were very open to their suggestions (Interview 1/1998).*

The personnel appreciated the Swedish consultants' friendly manner of assisting, full of understanding for the specific situation within the office and full of respect for the Polish colleagues' efforts to improve service to the unemployed. The personnel had to learn the new working methods from step one. The minimal modifications had the result that most Swedish organizational fashions worked correctly within the office and were adapted into the office's organizational structure. In general, the respondents shared the opinion that the Swedish organizational fashions improved the working methods with the clients, and they positively affected the organizational changes within the District Labor Offices of Lodz [DLO] and essentially contributed to elaborating the model office in harmony with the Polish rules. It was not surprising that the state authority spread these organizational fashions further in the framework of cooperation with other DLOs in Poland. Thus, the Swedish organizational fashions of the employment agency helped to standardize activity within the employment service of Lodz and proved to be of central importance for creating a network of Public Employment Service [PES] in Poland. In this way, the Swedish "organizational fashions" traveled in time and space and brought about the organizational similarities of Polish employment service.

The Germans provided the Centre of Vocational Information [CVI] with office equipment; furniture, computers, printers, copying machines and video, while the Voivodship Labor Office [VLO] financed the reconditioning works and installation of equipment in the area of 130–150 $m^2$. The German organizational fashions of the CVI had a value complementary to the Swedish ones. They came to Lodz when the Swedes had prepared a ground for implementing the CVI. According to Røvik, the German prototype of CVI was "an institutionalized building block" consisting of many "institutionalized standards" (Røvik, 1996, p. 142). They enlarged the personnel's knowledge about the service of vocational counseling and contributed to create its modern pattern in the Western sense. The personnel had reproduced the vocational counseling over time, although its "social form" after 1989 clustered around

the similar goals as in socialism; the organizational fashion has been altered and adapted to a market economy. The German institutionalized standards of the CVI traveled from city to city and helped to create the similar organizational fashion of the CVI in Poland.

The Danish consultants joined the ILO program in the autumn of 1994. They conducted staff training until 1997 in close cooperation with the National Labor Office of Warsaw. The first course focused on the marketing of the employment agency based on the Danish, English, and Swedish literature. The courses were addressed to the future trainers in marketing of the employment agency and labor matching. The NLO gave one person from Lodz a right to conduct internal training within the employment service, to prepare placement officers to negotiate with employers about earnings for the unemployed, creation of jobs for former prisoners, the disabled, the young etc. (VLO, 1997, p. 13). The general understanding of marketing entailed the office's further improvement in the adaptive strategies (Interviews: 22/1998; 24/1998). In the opinion of the respondents, the Swedish, German, and Danish assistance had an especially positive effect on the adaptive process.

The English consultant started the second stage of the ILO training programs, aiming at the promotion of free enterprise, granting loans to employers, and training for the unemployed aimed at starting their own business and other important issues connected with private enterprise. Following the respondents' narrative about England, they have non-governmental firms that sign agreements with employment agencies to start a "simulating business". Those firms have a right to monitor the newly established firms/cooperatives, regarding what they did with money they had received from the employment agency to start business. One of the Polish respondents made the following comment on that model, proposed by the English consultant:

> *They are very professional [in promoting enterprise], but we cannot work in this way. It is too early for us. They look at unemployment in a different way. Look, they have some regions in which they establish the "simulating firms" to counteract unemployment. The firms produce nothing but work for people. Certainly, it could be useful in Poland, especially in those regions where the unemployment rate is 40 %, to let those people do something, but giving them just money is destructive (Interview 15/1998).*

In the opinion of the respondents, the English prototype was highly useful to counteract unemployment but inappropriate to the actual Polish conditions. In their opinion the systemic transition was not advanced enough. Materialization of the idea required further reforms, e.g. reform of the banking system and establishment of new institutions to promote such enterprises. Secondly, the "simulating business" was impossible to implement into the employment service, because the rules recommended other ways to promote enterprises, start one's own business

and grant loans, than the English rules propose. Thus, the English organizational fashions had to be rejected. However, the respondents thought that they could be used in the future, if the legislative body changed the rules (Interviews: 18/1998; 24/1998). In Røvik's terms, the Polish personnel had *stored* the *cognitive representations* of English *simulating business,* but did not act upon the advice.

The respondents emphasized that the staff training conducted by the English consultants was meaningful for them, because the legislative body had changed the rules dealing with promoting enterprise, loan-granting for starting one's own business, training for the unemployed etc. a few times, and the personnel were feeling confused about e.g. how to promote enterprise. They had no experience with such activities. The English consultants, by talking about the English experiences with promoting enterprise, opened new ways of thinking about the issue. The English institutionalized standards to promote enterprise served as a source of inspiration to organize work within the Department of the Active Labor Market programs, especially concerning training for the unemployed, loan-granting for the unemployed to start businesses, and loan-granting for employers to create jobs. The example shows that advisors' advice has to conform to the local situation at hand to result in policy change. Just promoting a standard, however useful in one's own country, does not automatically result in adoption, even if the respect for the advisor and the dependence thereon is great.

The Labor Department of the USA proposed to implement an "institutional block" of the Labor Center. The staff of the employment agency perceived the good idea of preventing unemployment early, but found its American version less useful. The American consultants persuaded the local management to establish the Labor Center and the management finally accepted their proposal one year later, when the PHARE program assigned some funds for this purpose (VLO, 1995, p. 57; Interview 15/1998).

When advisors' advice is not even thought useful, the chance of adoption is even slimmer. For instance, the French consultants promoted the French organizational fashion of the employment agency, which was rejected by the employment service because it proved inadequate to Polish culture and customs in the opinion of the interviewed persons. The French consultants visited the Voivodship Labor Office of Lodz in 1993, as the first ILO consultants. One of the managers admitted: "When they were telling about labor matching and vocational counseling, I had no clue what they were talking about" (Interview 21/1998).

The French consultants aimed at making the personnel more sensitive to the active labor market programs, while the employment agency lacked enough funds to pay out unemployment benefits to about 86,000 registered unemployed persons. In the French employment agency, they keep a record of all unemployed, make notes from discussions with unemployed persons and so on. Everything has to be accurately documented. Those working methods were impossible to conduct in

Lodz. In the office, one placement officer had to give such services to about 840 unemployed persons in 1993.

The French advisors tried to promote their own bureaucratic model, while the labor officers needed very concrete, pragmatic ideas to make the payment of benefits easier (Interviews: 21/1998; 17/1998). Probably the French organizational fashions had to be rejected because the communication between the consultants and the personnel was obscure and arrogant. One of the managers explained:

> *I had participated for three weeks in the French program within the Voivodship Labor Office of Lodz. I had declined with thanks the French model of the employment agency because it was overly bureaucratic. We had too many unemployed persons coming to the office daily. It was not for us. We needed the most simple roll to pay out unemployment benefits at that time… At the beginning, we were not prepared to discuss with the Western consultants. Later on, when we had been re-trained and had the preliminary vision of the office, we could take advantage of their assistance. Without re-training, we did not have a clue what our guests were talking about. I have said this because of my own experiences. When I had those problems, how to register so many unemployed persons, how to pay out unemployment benefits, and when the Western consultants suggested starting with labor matching and vocational counseling, I did not understand them (Interviews 21/1998).*

The French advisors were interested in establishing a so-called "Club of Actively Looking for Work" at the Voivodship Labor Office. For this purpose, they started to train the vocational counselors to prepare the local leaders who could conduct training for unemployed persons. The French "organizational fashion" of vocational counseling was controversial in the opinion of the interviewed persons:

> *Let us imagine that you invite the unemployed persons and ask them to write their life story in pictures. The unemployed person is told to draw a flower in which s/he is a central point of the bloom, while all the petals suggest that person's social network or lack of it. I am afraid that such a vocational counselor would be made fun of and people probably would leave the meeting. The unemployed persons expect a very concrete piece of advice about what to do in their situation. The Swedish consultants proposed much more sensible solutions (Interview 17/1998).*

The respondent underlined that the office's clients interpreted that form of vocational counseling as a silly game rather than essential assistance in looking for

work. The Polish respondents added, "Those humans did not deserve to be treated as children" (Interview 17/1998).

In general, most Polish officials expressed the same view: "It is impossible to use any organizational pattern in Poland, although it worked correctly in other countries, without changing it" (Interview 22/1998). This grasps the essence of the adaptive process, namely that if outside advisors propose measures that do not fit the financial resources, culture, and structure of the recipient organization, these will not be adopted, no matter what the reputation, the dependence relation or the external pressure to adapt.

## 4.4 Reflections

This chapter started with the question whether in this complex world the influence of advisors in policy-making processes is increasing or decreasing. First, the chapter addressed the core business of expertise theoretically and stressed the standardizing effect of expertise. Subsequently we discussed the literature on the relation between advisors and policy-makers. Here we distinguished between the thesis that advisors are dominant and politicians are subservient and the opposite thesis that policy-makers are still in charge, while the position of advisors is one of subservience. Looking at some empirical data, it is shown that in the new democracies there is in general very much trust in outside advisors – at least, much more trust than in old democracies. However, a case study involving Western assistance to a Polish employment service, under conditions favoring adoption of all proposals because of the dependence of the Polish party and the consequences of not adapting to EU rules, still showed that having a reputation as an expert is not enough to induce organizational change.

The case of Western assistance to the Polish employment service, with a focus on the employment agency of Lodz, shows how the consultants spread the organizational fashions dominant in their own home countries with varying success. Not all the organizational fashions suited the Polish realities during transition from socialism to a market economy. Some of them were contrary to the domestic regulations of the labor market policy, the financial possibilities, or even the cultural customs. This seems to be determinative for the degree to which such fashions are adopted. The Swedish, German, and Danish advisors provided the most meaningful organizational fashions and these were adopted. Conversely, the French and English advisors' advice was not adopted, simply because there was no fit with the recipient organization. In terms of Røvik's fashion perspective, the former could contribute in solving the problems of the employment agency, the problems associated with its adaptation to a market economy, and those related to the creation of a modern public employment service. This implies that the adopters from Lodz followed their own principles of rationality and made decisions that Røvik would describe as "a

compromise between norms of rationality and norms of fashionables" (Røvik, 1996, p. 167).

Although a single case study is presented and generalizations based thereon are by definition hazardous, it is possible to derive two hypotheses about the role of advisors in local policy-making processes. The first hypothesis reads that even under the most unfavorable circumstances, in terms of dependence and of the reputation of advisors, policy-makers still decide for themselves which advice to follow and they base this on advisors' advice only if that advice is sound. Second, if advisors do not take the contingencies of the local situation, culture and structure into account, their advice is likely to be ignored. If, however, they listen, and help to solve real problems, their recommendations are likely to be adopted by the recipient organization.

In conclusion, this case study proposes a way to investigate and a preliminary answer to the question whether advisors or policy-makers are dominant in the policy-making process. It suggests selecting cases based on specific features in the relation between policy-makers and advisors, e.g. the inclination of policy-makers to listen to advisors and their dependence on those advisors. It hypothesizes that, even when the inclination to listen to advisors is high and the dependence on them is great, the policy-makers' view still seems to be determinative for the actions taken – and that even in this case, advisors are influential only if they have ideas that are sound in the conception of the policy-makers. These have to be ideas that fit the circumstances in which the recommendations must receive a follow-up.

# 5. The Advisors' View


## Abstract

In the transition process, many "advisors" from international organizations and Western countries came to CEE countries to enable them to become EU members, to advise them on policy issues and to help them improve their situation. Despite the spread of such advisors and the costs involved, little is known until now about the substance of their advice, nor of the extent to which such advice has an effect, i.e. is implemented. Although offstage sometimes the most horrible, but also positive, stories are heard, it has yet to be systematically investigated what these "advisors" did and what effect they brought about. In the literature, much is known about how they should behave. The question is whether such emerging ideas are reflected in practice.

The present chapter addresses this issue. It starts by summarizing the literature about the desired substance of advice. This provides the yardstick for the second part of the chapter, in which we first investigate the advisory process from the advisors' point of view, and secondly the process as seen from the point of view of recipients. The empirical part is based on a number of interviews in which such advisors were the respondents. Subsequently, the empirical results will be compared to the yardstick in order to judge the advisors' role in CEE countries.


## 5.1 Introduction

As described in the previous chapter, during the transition from socialism to a market economy many advisors, advisors, consultants, from international aid organizations and Western countries came to Central and Eastern Europe to enable the post-socialist countries to become EU members, to advise them on policy issues and to help them improve their situation. Much of that advice, for instance in Lodz where it was very badly needed, fell flat. Sometimes the advice was taken for granted out of politeness on the part of the local and national officials. Sometimes it was just rejected, but hardly ever was it implemented in the way designed by those advisors. In the previous chapter we argued that this could be due to a certain posi-

tion taken by those advisors, namely that they acted as standard-setters (cf. Røvik, 1996; Brunsson & Jacobsson, 2000) or fashion-setters (Sobis, 2002), not taking into account the specific circumstances characteristic for CEE countries, which were very different from those in the home countries of the advisors and which could have prevented the implementation of standards based on the latter situation. As sketched in Chapter 2, the circumstances were awkward.

The outcomes of that chapter were mainly based on the opinions of the local officials in Lodz. They criticized especially the US and French "advisors" for not listening, for being arrogant and for giving unrealistic advice.

That makes one wonder about the opinions of the advisors themselves. What is their opinion about their advice? Are they satisfied with the results of their work? What did they do to prepare themselves? What were their aims and objectives, and how did they try to achieve them? Did they do what advisors are expected to do in theory? What are they expected to do, anyway? And even if they conform to the requirements set out in theory, but the outcomes are still disappointing, do they, as one might expect, return the ball and blame the officials for not listening, for being stubborn and stupid? Do they in general agree that a problem exists, and where do they seek its causes?

This chapter planned to answer these questions, but to be honest, it has found only part of the answer. The chapter will address the norms, i.e. yardsticks, against which to judge the work of advisors as found in the theoretical literature. It will investigate their opinions about what was going on in the practice of giving advice within CEE countries, and along the way it presents some of the conditions that the advisors deem necessary for their work to be appreciated and, in the end, to be implemented in practice.

It is acknowledged in advance that this investigation is limited. We tried to get in touch with those advisors who, according to the previous analysis, were judged the best, namely the Swedish ones, and within Sweden those who have a lot of experience in the CEE countries during the transition process. Whereas our previous chapter could give the impression that we are seeking to blame the advisors, we are searching for explanations for what so often went wrong. Therefore, we selected the advisors who have the best reputation. Their opinions and unexpected views about the real cause of the problems of the failure of such advisory projects put this endeavor in a new direction. The views do not yet present the final answer to this scholarly "whodunit", but do give the reason for the research presented in the next chapter. After reading this chapter, some readers will feel like Sherlock Holmes and say, "*This was to be expected and could have predicted*". During the investigation, however, the authors sometimes felt more like Watson or, even worse, the people from Scotland Yard in the days of Sir Arthur Conan Doyle, not recognizing in time that the causes of failed advisory work lie deeper than just in the problematic behavior of officials and advisors. It is not that this behavior is unproblematic, but that it

does not seem to be a sufficient explanation for the problem that advice often is not accepted or implemented.

Before arriving at that conclusion, first a concise overview of theoretical lines is given that might be interesting to take into account. Secondly, it is concisely described what is known until now about the role of foreign advisors during the transition process. Subsequently the yardstick is presented against which to judge the actual role of these advisors, and finally the preliminary outcomes of a survey among Swedish advisors who advised CEE countries during the transition process are presented.

## 5.2 Theoretical angles

Several theoretical angles might be interesting for doing research on the lacking effects of policy advice. At the normative side, one can judge any search for advice as a development to be promoted. The more knowledge governments base their decisions on, the better policies one might expect.

This is seen, for instance, in Dror's classic work on "policy-making under adversity" from 1986, but also in his more recent work from 1989 in which he recommends all kinds of institutional reforms related to the growth of expertise in government. He mentions *policy planning and policy analysis units* near heads of government, as islands of professional excellence near main decision-making loci, with temporarily assigned people from within or outside government, having an academic background and knowledge of policy sciences, able to make evaluation studies in a professional way, investigating all the phases in the policy process and introducing heterodoxy, with the head of government as the client (1988, p. 281). *Think-tanks* for in-depth work on main policy and policy-making issues constitute the second recommendation, which has to consist of high-quality staff, creating doubt and questioning conventional wisdom, who are free in designing and evaluating options with direct channels to top-level decision-making. Subsequently Dror proposes independent policy audit, cadre development, and national policy colleges. These are all recommendations about institutions in which the roles of intellectual challenges, knowledge, insight, and learning are crucial in order to increase the effectiveness of societal problem-handling. In his eyes, the capacity to govern is mainly a matter of knowledge and experience, and if this is not available, one should look elsewhere. This is where outside advisors might come in. They are needed for the enhancement of intellectual capacities in order to be able to make sound diagnoses, recognize tacit patterns, and enhance imagination, creativity, and intuition (Dror, 1988, p. 122). Expertise could be of help in formulating an integrated policy-making philosophy, the debunking of policy orthodoxy, diagnostics, agenda-setting, alternative innovation, providing broad and long-term perspectives, and

techniques for handling complexity. In these processes, intellectuals and especially social scientists could play a significant role.

However, there are also other ideas about the role of knowledge. Some scholars argue that information is used only as a symbol and a signal that decisions are made as good decisions should be made (Feldman & March, 1981). Others stress that it is not the lack of information that troubles the public sector, but the ambiguity involved in many problems (Feldman, 1989). That such information is not used, i.e. does not result in implementation, is in this view nothing to be worried about. It is not meant to be used. This angle is especially found in neo-institutional theory with regard to organizational changes and rational choice theories. Here, information-gathering by government and in the private sector is seen as something that has to be done, because one wants to create the image that one is a good decision-maker. It is not the actual use of information, but the symbolic effect that is important. The informal rule is that a decision-maker should be informed before taking a decision, and therefore, decision-makers hire consultants and advisors in order to give exactly this image. It is a communication device in order to get those things done that one wants to be done. Expertise is needed to increase the number of arguments in order to get more support. The substance of reports is much less important, because these reports do not serve substantial goals but strategic goals. Reports are needed to pile up the desks and show anyone who objects that there is plenty of evidence to prove him wrong. It is not the logic of consequentiality that counts but the logic of appropriateness. Advisors and consultants should help the interests of the policy-maker in his function as a policy-maker. They should not, and probably will not, give advice that runs counter to those interests.

A downright critical approach is found in the organization-theory point of view in which one looks upon advisors, advisors, and consultants as standard- or fashion-setters. When coming from Western countries to CEE countries, advisors can be conceived as laying a blanket of Western standards upon CEE policies. The Western advisors are not only the "outside advisors" in the sense that they come from a consultant firm in the same country and try to provide public officials with advice. In CEE countries, they are really from "outside", in the sense that they are "foreigners" in relation to another state, another social order, another culture with its cultural codes, understanding of morals, norms and values etc. In these conditions – completely alien to them – they try to provide public officials with advice, elementary expertise, pragmatic ideas, and solutions for the problems of the post-socialist countries that these advisors imagine. This kind of advice would be visible in the increased organizational similarities in Europe, and even in the world, through the spread of institutional standards and organizational fashions by *foreign advisors*. Scandinavian researchers (Czarniawska & Sevón, 1996; Brunsson & Jacobsson et al., 2000; Røvik, 2000) have focused on organizational changes and on consequences for policy-making processes through putting some emphasis on the more frequent role of multi-standard organizations and their representative advi-

sors for spreading "institutionalized standards" and "organizational fashions" that lead to the organizational similarities. The Scandinavian studies emphasize the experiences of the Western highly developed countries. When reading these studies, one gets the impression that Western *expertise* ought to work correctly everywhere. However, the study conducted by Sobis (2002) dealing with the Polish public employment service in transition during 1989–1998 has shown that Western theories have not always fitted the post-socialist countries. The Western advisors had to work in a new capitalist economic system that was in fact without its own capital, and these working conditions concerned all the EU aid programs addressed to CEE. The Western programs were expected to help the CEE countries to respect the EU norms in ten economic arenas and join the Community.

This approach is more critical, because the same researchers (Wedel, 1998; Puhani, 1999; Sobis, 2002) show that the foreign advisors sent to CEE countries lacked the necessary imagination about the major problems that the post-socialist countries faced during transition, and that the assistance programs were far from the political, socioeconomic and even cultural realities in these countries. Research in this area also showed that the Western theory propagated by the EU and ILO advisors, e.g. to create a market economy with a correctly working employment policy, and the remedial measures to counteract increasing unemployment, did not solve the major problems in this arena within the CEE countries. The actors from the macro- as well as from the micro-levels had to learn the new rules, procedures, routines and working methods to create the so-called modern public administration and modern organizations by a trial-and-error method. No one institutional standard or organizational fashion could be implemented without the last say of the policy-makers and their understanding of the norms of rationality, financial possibilities, and fashion. As an understatement, one can conclude from such studies that foreign advisors did not contribute to problem-solving as much they were expected to do.

Hence, the research into the role of advisors is not just one of explanation and description, but also one of normative judgment. The three theories are very different in this latter respect. The first theory emphasizes the need to add expertise into the public sector for substantial reasons. The second stresses that such expertise is not really needed, because it does not prevent decision-makers from doing what they intended to do beforehand, and such advice is only of strategic use. The third theory holds that standard-setting is the rule and that decision-makers are subject to such outside advisors because they are dependent on the outcomes of the process, and that the recipient could even be worse off because the standards do not fit the specific features of the context at hand.

One way to investigate the validity of these theories is to look at the behavior of politicians and public administrators who are the recipients of such expertise. Many scholars have studied how the recipients of Western assistance perceive the

donor organizations and their representatives, i.e. advisors, consultants, and evaluators during transition (Wedel, 1998; Puhani, 1999; Sobis, 2002; Sobis & de Vries, 2004). The findings of such research, however, vary in their corroboration of the theories. Were the recipients better off afterwards? Did they perform better or more similarly to comparable organizations in the West? Alternatively, were the foreign advisors just telling them what they wanted to hear, with subsequently absent results? Sometimes one gets this implication and sometimes another.

A second angle that might shed some light on this problem is to ask the advisors themselves. How did they behave? What did they do in order to prepare themselves for the job? What actions were undertaken? This is interesting, because if they intensively prepared themselves for the situation they were to be confronted with, the point made by Dror might be valid. In that case, expertise is meant to improve the situation and resolve the problems that the recipients face. If, however, the advisors prepared themselves by just looking at how to transfer their own standards to the recipient organization, this is indicative for the critical point of view. In this case, expertise is not used in order to resolve the problems of the recipients' organization, but to make the performance of that organization more similar to that of such organizations in the home country of the advisor. Alternatively, of course, advisors can prepare themselves by simply asking what it is the recipient wants to hear and advise him accordingly. This would support the neo-institutional point of view.

## 5.3 Main criteria to provide the aid recipients with advice

At first sight, research into the practice of outside advisors seems little promising. This is because aid-providing donor organizations all have very strict rules and criteria with which advisory agencies and consultancy firms have to comply. Some examples may suffice to make this point. One can look for instance at the rules made up by the European Federation of Management Consultancy Associations [FEACO], which is the umbrella organization for 22 Management Consultancy Associations. It covers 21 European countries and represents over 3,800 firms in Europe, with over 105,000 employees and a total turnover of about 18 billion euros, equaling about 38 % of the total management consultancy market in these countries. The "Guidelines for Professional Conduct" of FEACO require member associations and their member firms to observe the following rules:

> *A consultancy shall at all times maintain the highest ethical standard in the professional work undertaken, and in matters relating to a client's affairs act solely in the interests of the client. Where a consultancy is a subsidiary of a parent body, which is not in the public practice of management consultancy, all advice will be untied and independent of any influence of that parent body.*

*It shall be regarded as unprofessional conduct for a consultancy:*

*Rule 1: To disclose or permit to be disclosed confidential information concerning the client's business and staff.*

*Rule 2: To accept work for which the consultancy is not qualified.*

*Rule 3: To enter into any arrangement which would detract from the objectivity and impartiality of the advice given to the client.*

*Rule 4: Not to agree with the client in advance on the terms of remuneration and the basis of calculation thereof.*

*Rule 5: To do anything likely to lower the status of Management Consultancy as a profession (FEACO, 2002).*

FEACO requires each member of a National Association to confirm on an annual basis to its National Association that the staffs of consultancy organizations are adhering to the Guidelines of Professional Conduct. Any member who in the opinion of its National Association's ruling body fails to comply with the Guidelines of Professional Conduct is liable to suspension from membership of that Association, and from the privileges accorded to it by FEACO. Moreover, it is the duty of the National Association and the right of any member of that Association or aggrieved person to lay before the National Association's ruling body any facts indicating that a member has failed to observe the Rules laid down in the Guidelines of Professional Conduct.

One can also look at the Swedish International Development Cooperation Agency [SIDA], which presents its international cooperation in the following way: "SIDA is responsible for most of Sweden's contributions to international development cooperation" (SIDA, 2004b). The main goal is to improve the standard of living of poor people and, in the long term, to eradicate poverty. SIDA is responsible also for cooperation with countries in Central and Eastern Europe to create stable democracies, efficient market economies, and social welfare. As a government agency, SIDA follows two annual directives and letters of appropriations from the Government and has to report to the Ministry for Foreign Affairs about its activity. SIDA has extensive ties with other Swedish government agencies. These can provide expertise in public administration that has developed over decades and centuries.

Swedish agencies share their knowledge and experience in efficient administrative systems, information technology, and leadership in areas such as taxation, audit, statistics, and governance. Many Swedish counties and municipalities cooperate actively with the public sector of their counterparts abroad in twinning projects, especially in Central and Eastern Europe – e.g. Belarus, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, and

Ukraine. Cooperation with the future EU member states, the three Baltic states and Poland is being gradually phased out: "The contributions vary depending on the requests and needs of the countries. (…) The programs of cooperation contribute to laying the foundation for normal neighborly relations that can live on without government involvement" (SIDA, 2004b). They emphasize that Swedish trade and industry, municipalities, county councils, county administrative boards, government agencies and NGOs also play an important role in the international cooperation, although it seems that they do not cooperate with Swedish trade and industry. SIDA is supporting the long-term reform process almost from the funds coming from a special budget for Central and Eastern Europe and from the special Baltic Sea programs. Evidently all kinds of ethical and professional standards are in place in order to prevent the aid from becoming wasted money. Of course, this is a good practice.

In scholarly literature about how advisors should behave, similar criteria are given. For instance, Miroslaw Grochowski and Michal Ben-Gera (2002) wrote the manual *How to be a better advisor*, in which they present basic rules for professional conduct and three models of advising. They divide advisors in two groups: advisors and consultants, who possess almost the same set of basic skills. Both are oriented towards making a change by means of their products, but some differences between them are clear. A consultant is a person who is in the consulting business and works for a consulting firm. "Working on an assignment, he/she is looking for opportunities for attracting new firms that will contribute to the growth and development of the consultant's own business organization" (Grochowski & Ben-Gera, 2002, p. 11). Advisors, instead, do not work on a business basis. They may have another job, and advise without being paid. The advisors are not seen as "profit-driven people"; their work recalls rather a mission (Grochowski & Ben-Gera, 2002, p. 12).

Advising is seen as a means of professional development with a space for preparation of advice, i.e. to formulate goals and objectives, measures, a timetable and a budget. However, the advisory project should also offer some learning opportunities. The aim is to provide policy-makers with the information they want. Advisors cannot forget that various individuals and groups make policies. The advice will be useful only if it is well-defined, addresses the right people, and is presented in a proper format to them (Grochowski & Ben-Gera, 2002, p. 19). It should be emphasized that the outside advisors bring their knowledge and experiences concerning specific topics into a new environment with unknown codes of behavior, rules and procedures. It is not possible to prepare valuable advice and send the advice to the right recipients, unless the advisor is familiar with what policy-making is and how policy is made in the real world. Advisors should be prepared to perform different roles and functions to achieve the goal – provision to the client of timely, well justified, and appropriately presented advice (Grochowski & Ben-Gera, 2002, p. 17).

Concerning the models of advice, Grochowski and Ben-Gera describe: (1) the expert model, (2) the doctor-patient model and (3) the cooperative model. In the

first model, the client is expected to identify a problem, analyze it, and articulate it to the advisor. The latter is called to find a solution to the problem. The model is used when the client lacks enough specialized knowledge about the issue, while the advisor is perceived as the expert in this organizational field. In the doctor-patient model, the advisor is expected to be able to identify the problem, analyze it, and find the remedies to solve it. The cooperative model, as the name suggests, builds on cooperation between the advisor and the client when identifying the problem, analyzing it and finding a solution. In the last model, the advisor, perceived as an outsider, is not expected to impose solutions. "The advisor plays the role of an expert and facilitator in the process of identifying the best solutions" (Grochowski & Ben-Gera, 2002, p. 23).

Each of these models has its advantages and disadvantages. This manual confirms that much has been done to improve the international cooperation between advisors and clients. It is not surprising that other authors, dealing with the guidance for professional conduct, focus on the more detailed aspects of advice. Leva Lazareviciute (2003, p. 9) focuses in another manual on six topics: (1) Beginning the training, (2) The policy process, (3) The product, (4) The client, (5) The advisor, and (6) Energizers. The publication should be treated as "a source of suggestions and ideas for the trainers". This manual provides a training framework that is complemented with summarized key information, descriptions of practical exercises, and notes for the trainers as well as handouts that can be used in the training events. At the end of the manual, she includes a suggested training program for a 3-to-5-day event.

In less recent, classic literature on the subject, similar criteria are formulated. One can refer to the classic books by Steele (1975), Walton (1969), Lindblom and Woodhouse (1968), Block (1981), Argyris (1999) and Schein (1999). They point, among other things, to the requirement of sincerity; the different roles advisors can assume, such as expert, partner or accomplice; the communicative; the necessary analytical and advisory skills; and the need to make one's limitations explicit, as well as the limitations of the analysis. As Dunn (1994, p. 267) pointed out, the procedure of recommendation involves the transformation of information about policy futures into information about policy actions that will result in valued outcomes. He argues that such advocative claims consist of actionable, prospective, value-laden and ethically complex elements. According to him, advice is always about choices and the advisor should at least be able to identify the alternatives, make a decent impact assessment thereof and, because of multiple advocacy, be skilled in the approach of triangulation. Failure in advisory work may, according to him, be due to ignoring certain options, failing to communicate the fact that decision-makers face unpopular options, or bias and one-sidedness and uncritical behavior on the part of the client or the advisor. Common to this literature is that three elements of advice stand out. First, advisory work should be of benefit to the client; second, such advice is always value-laden and full of ethical dilemmas; and third, there should be mu-

tual trust between client and advisor (Peterson, 1996; Peterson & Hicks, 1998). In our case, for instance, trust is required between the aid-providing donor organizations and/or their representatives, the advisors, consultants and evaluators, and the aid recipients. If such trust is absent, the aid recipients will not need the foreign advisors' advice. Hughes et al. (2002, p. 231) emphasize: "It is important that coaches also determine the level of mutual trust. They have to improve the relationship if necessary before targeting development needs or providing feedback and advice." *Trust* is thus an important concept for international cooperation when providing the Western aid program to CEE.

That such trust is not self-evident is argued by Wedel (1998) in her book *"Collisions and collusion. The strange case of Western aid to Eastern Europe 1989–1998"*. She contends that, during the first stage of the international cooperation in the framework of the aid programs, euphoria was seen in Central and Eastern Europe. The expectations were that the Western world would help them and improve the situation. However, people realized very quickly, according to Wedel, that the West either could not or did not really want to help them. The aid programs did not consider strategic issues in many cases and were not very helpful to the aid recipients. She emphasizes that the Central and Eastern European expectations were largely unrealistic. The same might be true for the other elements of sound advisory work. The next section presents a preliminary investigation among Swedish advisors, consultants and evaluators and gives a startling account of what seemed to happen in the reality of giving advice to transitional countries.

## 5.4 The advisory process from the point of view of Swedish advisors

The research is based on document analysis and retrospective in-depth interviews with Swedish advisors working in Russia, the Baltic states, and other Central and Eastern European countries. They were involved in various aid programs shortly after 1990. Because of their earlier experiences from CEE, professional skills, language competence, and abilities, their role in the aid projects varied with the aid donors' actual needs. Sometimes they were employed as advisors having contact with the Government officials in the aid-recipient countries. Sometimes they worked as consultants cooperating with the regional and local officials and the very concrete organizations. Sometimes they conducted an evaluation of an aid project. Most often, they were working at the aid-recipient office.

At the beginning of transition in CEE, there were about ten persons in Sweden working as advisors for CEE countries. They can be seen as the pioneers who neither had any practical experience in conducting the aid project to the post-socialist countries, nor had guidelines for professional conduct of such assistance. They prepared a foundation for other advisors who appeared in time and who could build

on their work. The pioneer advisors to CEE essentially contributed to the creation of the guidelines for professional conduct of assistance. Some of them are still working in the countries waiting to join the European Union.

The Swedish advisors' retrospective stories dealing with their experiences from Central and Eastern Europe and their understanding of the situation teach us a lot about the foreign advisors' role in decision-making processes there. Of course, we are aware of some danger that the retrospective interviews can cause for the interpretative work on this empirical material – the human memory can be deceptive. But we are also aware that these interviews constitute a unique source of information about the first aid programs to CEE, seen from their perspective. In that sense they not only have historical value, but can also structure the more extensive interviews we are planning to make. The advantage of a retrospective interview is that the respondents are expected to have acquired a necessary distance to the events and their own role in the aid programs. To protect them, we avoid a detailed presentation of the respondents.

### 5.4.1 The advisors about themselves and their competences

We were interested in which people from the Western highly developed countries became the advisors working in the framework of the Western aid programs addressed to CEE countries after 1989. What knowledge and skills had the result that their participation in these programs was perceived as legitimate by the aid donors when employing them? In other words, were the right people sent to the CEE countries?

From the interviews, it appears that after 1990, the international multi-standard organizations such as the OECD, EU, World Bank, and IFM were looking for persons with special skills and especially various language competences to employ them in the Western aid programs addressed to Central and Eastern Europe. The aid donors asked, among others, the Swedish Ministry for Foreign Affairs about assistance to find professionals who could participate in such the programs. The first aim was to describe the actual needs of the potential aid recipients to base the many-sided assistance programs on.

Since 1992, the Swedish Ministry for Foreign Affairs in cooperation with the Ministry of Finance was involved in the aid to Russia, the Baltic, and other post-socialist countries. The Swedish public officials hunted for advisors among university researchers and teachers through their private connections. They also put advertisements in the daily press in order to recruit university graduates, but as one of the respondents confessed, "private channels became the most effective recruiting method for this job."

At the same time, another actor appeared on the assistance scene: the Swedish International Development Cooperation Agency [SIDA], which aimed at assisting the neighbor countries around the Baltic Sea and other post-socialist countries. It

had a EU representative, who recommended some Swedish advisors to participate in the EU aid programs to CEE.

The Swedish advisors usually had a wide academic education behind them in socioeconomic and juridical subjects. They can be divided in four groups:

1. The advisors who had relations with the public administration at the national ministry level.
2. The advisors, consultants, and evaluators who cooperated with the public officials and the concrete organizations at the sub-national, regional, and local levels.
3. The advisors who had relations with the public as well as the private sector, and who were working at the various levels of the state organization. They participated in various assistance programs addressed to CEE countries.
4. The consultants who had relations only with the private sector in CEE countries.

We have found two main explanations behind the respondents' answers to the question: *Why did you become an expert involved in the aid programs to CEE countries?* Some of them thought they had the necessary professional skills and private connections with the former post-socialist countries through (e)migration, having family relations, a personal network, and language competence. Other advisors had a genuine interest, from their early youth, usually in Russian culture, literature, and socioeconomic aspects. Their admiration for the Russian culture was the incentive to learn the Russian language and study Russian socioeconomic issues, which yielded some outcomes in the form of a network there with researchers and some authorities. One of the respondents said: "In Sweden, people quite often combine various types of academic knowledge with a foreign language that provides them with special professional skills." Our respondents emphasized that their skills, language competence and social network proved very useful and were requested by the aid donors:

> *I was asked to participate in the aid program. It was natural. I was working as a junior research fellow and had an interest in labor-market questions. I had a large network of people who were doing research on the Russian economy and the economy of other East European countries. The state administration shared our interest. Just in this field, I was out a great deal. There were always some relations with employers. Moreover, I have a good specialization and there are only a few persons in Sweden with these skills, two persons in fact. Thus, I got two consultant jobs in Russia through my set of connections. The language was very important then; it was an absolute condition for participating in the aid program. I did not get any training from the aid donors. I went there just to see what the aid donors ought to do there. I was simply sent out. (…) I did not prepare myself for this work.*

> *Two times I was sent out in this way – the first time in 1992, and the second time in 1996 (Interview 1/2004).*

Or:

> *I had good knowledge about Russia, especially about its public administration and economy. However, I was lacking information about Sweden in this regard. I had to study some questions from the Swedish perspective, e.g. the legislative regulations dealing with value-added tax and tax-readjustment, but I had never been the only expert there. I could always invite other Swedish advisors to cooperate. They did not need to have any knowledge about Russia. In my job in Russia, the most important thing was to understand the Russian legislative process to find out what they really needed, what could be interesting for them and possible to borrow from the Swedish system. I simply translated the Russian question into the Swedish language in order to make the Swedish advisors understand what they were expected to tell about (Interview 2/2004).*

If generalization is possible, the stories tell us that communication skills were the most important requirements for these early advisors. They were selected because of their knowledge of the Russian language, their networks, and interest in the field. Any preparation for doing a good job, however, seems to have been lacking. It seems that the aid donors took for granted that the advisors did not need any training to participate in the aid programs, because their academic education and/or professional skills were in line with the donors' demands. Moreover, their language competence had a decisive importance for employing them at the beginning of transition in CEE. If this is the case, one can question whether the right criteria were used to recruit the advisors and whether they were indeed suited for the job to be done.

### 5.4.2 The Swedish advisors about the aid programs in which they were involved

We were interested in the *opinion of our respondents about the aid programs in which they were involved after 1990.* They made a clear distinction between the aid programs addressed to Russia and those addressed to other Central and Eastern European countries:

Russia was not expected to join the EU. There were Russians who made an agenda for assistance. They did not care about the Western demands. They had no calendar to follow. The Russians had rather more interest in academic discussion to study the Western theory before decision-making, just to know what was most convenient for their actual situation… In fact, no one theory suited their needs; maybe

some parts of various theories proved useful. Thus, their situation as aid recipients was not comparable with other post-socialist countries, which had to follow the EU plan of procedure.

The respondents were critical about the first assistance programs sent by the Swedish Ministry for Foreign Affairs and the Ministry of Finance to Russia. All the interviewed persons had been in Russia previously a couple of times, either when collecting the empirical material for a research project or having other things to do there. The exchange of knowledge between Swedish and Russian scientists and in other networks proved an extra advantage for participation in the aid projects for Russia some years later. When the respondents went to Russia again, there was no doubt regarding which people they wanted to meet, but also not always a clear idea of what to achieve.

> *It was very tough at the beginning; I was really angry. I had a boss in Stockholm while I was in Russia. There was very little understanding of what we ought to do out there. I had to ask my boss about everything. I was not prepared to carry out the project… the most important thing was to fix some premises, but it went quite quickly. Then, we had to fix computers and printers, i.e., the necessary equipment to communicate with Stockholm. We needed money, but our chief had forgotten to think about that. We had to find a method for how they could send money to us each month. At the beginning, we covered the costs of the aid project with our private cards. It was horrible (Interview 1/2004).*
>
> *When I came to Moscow in 1996, the aid branch was quite new. I had no expectations, but I understood very quickly that I needed a long time before I could start the aid project. Can you imagine, that great power asked about assistance! To win their trust, it was really a challenge for us (Interview 2/2004).*

The quotations above confirm that the respondents had quite problematic experiences with regard to their participation in the aid program to Russia. For the first respondent, the working conditions proved extremely hard just because the Swedish Ministry for Foreign Affairs and the Ministry of Finance proved unprepared to carry out the aid project at the beginning of assistance. The practical matters like the office for the Swedish advisors, accommodations and salary were already working. Thus, much more important proved to be, for the second respondent, a very limited time for carrying out the aid project. The Swedish public authorities simply were not experienced enough in giving the aid programs.

A bitter critique concerned the EU aid programs that disposed of a huge aid budget and were addressed to other post-socialist countries. In official rhetoric, the aid donors assured the aid recipients that assistance ought to contribute to their

process of adapting to a market economy and approaching the EU demands. However, one of the respondents said:

> *In a capitalist economy, money is expected to make more money. If the EU had decided to invest in the post-socialist countries, then they knew very well what outcomes they expected to receive in return (Interview 1/2004).*
>
> *First, the EU had sent the Western consultants who were expected to describe the needs of the aid recipients. It proved very quickly that the EU had very bad consultants at the beginning. In Russia, for example, some consultants had serious problems with the tax authorities. The EU consultants also did not have enough knowledge about the country to which they were sent (Interview 2/2004).*
>
> *I have seen some students in this job – how they could describe a quite complicated issue without knowing anything about the country in which the project would be conducted. This job demanded specialization in some research fields. The project was expected to give a positive impact on the economic development (Interview 1/2004).*

Certainly, such unprepared policies had to have negative consequences for the implementation of the very concrete aid projects. Moreover, the EU ignored the fact that the legislative changes necessary for building a market economy had not been done in the post-socialist countries in most socioeconomic spheres:

A lot of assistance was conducted in a very naïve way. For example, they sent the consultants without preparing any institutional ground to carry out a reform. To change anything, you have to know what you are going to do. You need the legislative functions and you have to observe whether the laws have gone through the Parliament. This is the only way that the law can work correctly in practice. It is a political process. Legislation governs all activities in detail. Laws cannot collide with the people who are in the system and with their mentality. If there are lacking some elements in the system, you cannot expect to have any positive results from the aid project.

In the opinion of the respondents, the public officials from the post-socialist countries also proved unprepared to meet the Western consultants. They lacked knowledge about what assistance they could obtain in practice from the aid donors. They could receive only expertise, advice and training, while most aid recipients had only an interest in getting money or electronic equipment. The most frequent sentence the Swedish advisors heard from the aid recipients, was: "We need only equipment. If we got money to buy computers, we could fix everything on our own." In fact, they could not obtain money in cash. The International Monetary Fund and

World Bank created a special loan with a rate of interest for the aid recipients on the purchase of computers, printers and faxes etc. The borrowed money was expected to return to the aid donors, with a profit. Then the EU promised to provide the aid recipients with technical assistance to install the electronic equipment.

Another cause of the advice being inconsequential was that money had to be spent, no matter how. On average, the EU aid projects assigned 200–300 million euros to a country for a two-year project in the organizational field. The aid recipients' absorption was rather limited. By no means could they spend such a huge sum within two years. Thus, the Western consultants produced plenty of reports and written material that no one read and for which the aid donors had to pay a good deal: "They produced more and more reports to spend money." The aid recipients were not amused by such EU aid projects. Moreover, a respondent explained: "To implement a project itself would take about two to three years. The bureaucratization was enormous."

It may be justified to conclude that the advisors recognize the problem that their advice was not implemented and often went up in smoke. They blame this not on themselves, but on the problematic conditions they had to work in – no preparation, too much money with too little time to make something of the project, different expectations on the side of the recipient and expert, and no substantial commitment from the aid-providing donor organizations.

The situation turned a little better when the EU started cooperating with organizations specialized in giving assistance to the Third World. SIDA was one of them. They essentially contributed to the implementation of the EU sectional PHARE program to CEE countries, e.g. in the labor market and labor protection arenas.

SIDA's working principle has been to detach the same advisors for many years in the aid program addressed to the same aid recipient. In this way, they tried to ensure continuity in giving assistance: "they preserve the institutional memory". Poland is a good example, with regard to the aid project dealing with the labor market and labor protection arenas. SIDA asked the Swedish National Labor Market Administration [AMS], responsible for labor market issues, to conduct the aid project in Poland. The employment agency in Lodz very quickly became the model labor office that received the AMS assistance program in 1993–1994 (Sobis, 2002). AMS did not produce an excellent documentation of the aid project, but it was at least transparent how much money the aid recipients received, how much money was spent and for what purposes. One of the respondents was of the opinion that the consultants from AMS and SIDA worked more effectively than the EU consultants did. Moreover, SIDA's projects were shorter and more flexible, and demanded more discipline from the consultants in conducting the aid projects.

Usually the organizations that wanted to conduct a project initiated direct contact with the aid recipients themselves. Thus, the Swedish AMS initiated the

first contact with the Polish Labor Market Board to agree about the general conditions of the aid program. They informed the aid recipients about what assistance they could provide. They also based their work on some principles in giving assistance. These involved the recipient also having to contribute to the advice, thereby making a commitment on the recipients' side. This could take the form of providing accommodation to the consultants or facilitating their travels in the country, and guaranteeing that the Swedish consultants could meet the Polish public officials in the event that it proved necessary. If the aid recipient accepted these conditions, the aid-project conductor (AMS) wrote a proposal and sent it to the aid recipient to sign. After the written version of the aid project was accepted and signed, SIDA prepared a contract e.g. between AMS and the employment agency, for instance the Labor Office in Lodz, to start the project. The aid recipients knew very well from the beginning what promises had been made, what means had been assigned, and what assistance they could expect to receive. The Swedish consultant could not receive payment for her/his work without the signature of the aid recipient on the invoice that confirmed the aid recipient's acceptance of the reports and documents written by the Swedish consultants. Through such incentives, the cooperation between the aid donors and the aid recipients became transparent. It should be emphasized that SIDA had no formal connections with the European Union. However, SIDA applied to the EU for financial means and received money in the framework of the PHARE program.

Since 1997, SIDA carried out the evaluation of all the Swedish assistance programs implemented in CEE countries within the labor market arena. That evaluation was conducted independently of the aid projects, and the evaluators were not involved in any of them. The Swedish evaluators started their work after the aid projects were completed. With regard to the Polish example, SIDA asked the Polish Labor Market Board and the Swedish AMS about assistance in preparing the working conditions for the evaluators: "AMS cooperated with many Employment Agencies in the region and they were always willing to help the evaluators," explained one of the respondents. The aim of the evaluation was, on the one hand, to know whether the aid project would have to be continued in the future and what assistance would be necessary. On the other hand, the evaluators had to make sure that the aid project was conducted in agreement with the plan of procedure and that the aid recipients were pleased with the assistance provided to them.

The work of this organization shows that it seems possible to get things implemented. They did not just provide money, but they were themselves committed and asked the same commitment of the recipients. This supports the feeling that in order to get new policies implemented, one needs commitment on all sides, from the aid-providing organizations to the recipients and the advisors.

### 5.4.3 The advisors' understanding of their role for decision-making processes in CEE

Thirdly, we asked the respondents about *how they perceived their role in the aid programs to CEE.* The answer on this question is ambivalent. The respondents shared the opinion that they essentially contributed to speeding up the modernization process in many public authorities. They contributed in making the public officials understand how important it is to have modern working methods in many organizational fields. However, they were rather skeptical regarding their influence on solving problems that the public administrations of CEE countries have met during transition. Coming back again to the example of the labor market and labor protection reforms, the respondents were of the opinion that they did not contribute to decreasing the unemployment rate, which was the major social problem in the CEE countries:

> *We immediately saw – when we went to the Employment Agencies – the long corridors full of people taking their place in the long queue. However, what was the idea of implementing a "pilot" aid project and creating a model labor office without any concrete purpose? It is impossible to continue such a job without having any influence on legislation. It is the most important issue that I tried to emphasize when meeting the public officials (Interview 1/2004).*

> *With time, I have learned to inform the aid recipients what working methods would be useful for them and under what conditions. (…) You can influence the situation through social dialogue with employers, employees, the state, and the Federation of Trade. They have to agree concerning many aspects. It was difficult to explain to the public officials that they have to cooperate together in creating new jobs, and that they need to have a dialogue with workers and local authorities to improve the situation at hand. Some CEE countries were successful with the pilot aid projects. They had clients among the public officials, they implemented the labor market remedial measures to combat unemployment, and they developed training programs. Then you can have a feeling that you have influenced the decision-making process. They followed your advice (Interview 2/2004).*

The centralized power relations in most CEE countries were seen as a major obstacle to creating such a social dialogue, but not only that – the funds coming from the aid programs should be divided more rationally, in the opinion of the respondents:

First of all, the aid donors ought to employ the local advisors to create the expert team of the aid project. The local advisors have necessary knowledge about a country, they are highly motivated if they receive a salary, and furthermore they learn something new. This knowledge would be still present in the aid recipient's country and the local actors could create a balance between the foreign advisors and the national decision-makers to work more effectively with the reforms.

You have to be very well anchored in local events. It is not enough to come here and tell your truth and your story. It is not enough to read the daily press concerning the issues you can give advice on. It happened often that the Swedish advisors or consultants did not understand the Russian order. Local knowledge and cooperation are necessary to find a puzzle piece that can be useful in the whole context of the new system. Many aspects that we have in Sweden can be very uninteresting to Russia.

The respondents also expressed their concerns about the possible improvement of the Western assistance to CEE. For them, it was an important issue. The aid donors ignored this. For instance, they did not create possibilities for prolongation of aid projects, due to the situation of the aid recipient's country:

> *Sometimes we have a "crazy" short time to conduct an aid project. You get payment for an expert-day and you have to accomplish all the expert-days. It demands extreme concentration. The EU aid projects usually have a deadline to complete them. It happens quite often that the project starts too late but you still have to respect its deadline. It is absurd! You have hardly time for the preparation phase of such an EU aid project – it occurs during the negotiations (Interview 2/2004).*

Moreover, the respondents emphasized the lack of coordination of aid programs among various aid donors. The aid-providing organizations did not cooperate, and neither were they working towards the same goal. For instance, the Western advisors expected to meet frequently at conferences where they could exchange opinions and experiences, as a necessary condition for the international coordination of the aid programs to CEE. In the respondents' opinion, not one of the aid-providing donor organizations kept free formal space and time for such activities. It seems that the international organizations did not recognize the need to orchestrate any form of "concert of wishes". As one of the respondents told us about SIDA:

> *I think that they sent many Western consultants to create a well-working labor market and employment in East Europe, but it is not only that. This is advantageous for the West too. You give money out but you create employment for your own people (Interview 1/2004).*

These things do not apply only to international organizations. The Swedish Ministry of Finance had the same approach:

> *Most of the costs involved in the aid project went to the Western advisors. In our project, that does not represent all the aid programs. We financed everything which related to our needs: the office in Moscow, Western consultants, and training achievements. However, the Russians paid for their trips to Sweden (Interview 2/2004).*

These points result in the conclusion that perhaps the advisors and the recipients as actors were not causing the problem, but that the main cause has to be found within the aid-providing donor organizations. One of the questions is whether they were really aiming at getting things changed and new policies implemented in CEE countries. It seems that it can be argued as well that these organizations were mainly interested in running their own internal organizational affairs, with departments trying to secure their own position in the organization. As organizations, they were trying to secure their position in the competition with other aid-providing donor organizations. And as money providers they were not so much committed to improving the situation in CEE countries, but were especially worried about procedures to be followed properly and deadlines to be met, keeping projects within the budget constraints, and probably ensuring (self-)employment.

## 5.5 Reflections

The research question underlying this chapter about the role and norms of international advisory work is what to think about the role of expertise in the transition process, and to present a (unfortunately still) preliminary analysis in order to find an explanation for why so much advisory work fails to be implemented. First, we presented some theoretical lines that might be interesting to take into account. Secondly, we described what we think is known about the role of foreign advisors during the transition process. Then we presented examples of yardsticks against which the actual role of advisors might be judged. And finally, we present the outcomes of a preliminary survey among the Swedish advisors who advised CEE countries during the transition process.

The investigation among the experienced Swedish advisors in the Central and Eastern European countries corroborates Wedel's (1998) observation. The findings show that talking to the advisors presents a more benevolent picture of their work than talking to the recipients. However, according to the theory about expertise, the pilot research has shown that the foreign advisors and consultants agreed that they were not always successful and not always acting in conformity with the yardstick. Decent preparation, trust, and commitment were missing in many advisory projects in CEE countries. The aid recipients in many cases had reasons to be disap-

pointed with the Western aid programs to CEE. The respondents, especially those who conducted evaluation of the aid programs, confirmed the cynical approach and pointed to the problems within aid-providing donor organizations who secured almost solely Western interests when assisting CEE. It is important to notice that it is not only the recipient organizations that are disappointed about Western aid in the form of Western expertise, but that the advisors themselves are equally critical and also indirectly questioned the moral standards of the Western assistance and behavior of the Western advisors. They emphasized that they frequently had to operate in situations which were characterized by ambiguity, ignorance, uncertainty and sensitivity in which it was impossible to apply the ethical rules.

Although the advisors seem to put the blame for all this mainly on the aid-providing donor organizations, one might also conclude that the advisors themselves were violating the yardstick, which says that one should not accept an advisory function if one does not feel competent. As we have seen, this incompetence was sometimes compensated by producing thick but useless reports and the advisors did not object to the organizations using them as accomplices not for the benefit of the clients, but for the benefit of the donor organizations who were securing their own interests.

We have the impression that no guidelines for professional conduct of aid projects can be successful in practice without also making significant structural changes in aid programs. The Swedish advisors themselves perceived that they played only a minor role between the powerful aid-providing donor organizations and the aid recipients. The EU, SIDA, and even the Swedish Ministry for Foreign Affairs or Finance employed them without giving the advisors or consultants enough time for preparation, and without any possibility to prolong the aid project in the event that it was necessary. This outcome suggests that a necessary angle to the problem could well be the role of these organizations, their motives and rationale, and that more attention should be given to the ethics, trust and commitment issues of the aid-providing donor organizations. Increasingly, we get the strong feeling that much advisory work from Western consultants in CEE countries during the transition phase fell flat because of such reasons. Two sides, the recipients we investigated previously, and the advisors as investigated in this chapter, agree on that. However, without making an investigation among the aid-providing donor organizations, we are still unable to pinpoint the problem to its real cause. That search continues and moves towards the aid-providing donor organizations.

Just a final note: we do not imply that donors' or recipients' behavior is to blame for the money wasted on advice that comes to nothing. Neither had any experience in the transition from the command economy to a market economy. They had to learn their new roles and strategic behavior from the first steps through "learning by doing". Even if the aid donors' imagination about assistance proved unrealistic and our respondents had a strong feeling that they were hindered in their contribution

to the modernization process of Central and Eastern Europe, especially in the later phases, the relation between aid donors and aid recipients showed an inclination to build long-term trust, commitment, and mutual cooperation, which even turned into partnership relations some years later.

Despite all the problems, the Swedish advisors appreciated the "cooperation model of advising" as the most effective assistance to CEE countries. The model demands not only that the foreign advisors be at the right place at the right time, but also that they have an anchor in the local network and an understanding of the processes occurring. The problem was simply that the too restrictive boundary conditions under which they had to operate hardly allowed for meeting these demands.

The positive aspect is that the respondents presented some pragmatic ideas how to improve the Western assistance to CEE. Being well prepared, creating commitment, seeking cooperation among aid-providing organizations, having modesty as a basic attitude for advisors and a good understanding of the specific national regulations, seeking collaboration with local advisors, and not being tied by unrealistic deadlines seem to be the major remedial measures for effective aid projects. It would also be unfair not to see the positive outcomes in terms of the modernization of the CEE countries. The first steps on the way to integration and international cooperation in the framework of the EU had, despite all the problems mentioned, been taken.

# 6. The View of Donor Organizations


## Abstract

This chapter discusses the role of donor organizations during the transition process of CEE countries. Previous research pointed to them as the ones to blame for the failure of many assistance projects. This chapter investigates what those donor organizations have to say for themselves. It is based upon the theory of social exchange, which focuses on situations of imbalance of costs and rewards, which is characteristic for the work of donor organizations. This theory provides an answer to the question of how the motives explain the variance in the effectiveness of aid programs.

Subsequently this chapter presents the results of a case study of Swedish donor organizations. The case study results in a picture of donor organizations being trapped between shifting demands and the strategic geopolitical goals of government on the one hand, and on the other hand the operational goals for the improvement of the situation of countries which try to find their way from a socialist state to a market economy.


## 6.1 Introduction

In this chapter we address the position of donor organizations on the same issue, their role in aiding CEE countries, as we did in the previous chapter asking the advisors. The advisors complained quite frequently about the poor working conditions imposed by donor organizations. So the next question is: what is the opinion of these organizations and were the advisors right to point to them when asked how to explain failures in the practice of advice? In other words, are the donor organizations really the ones to blame?

Underlying this research is some confusion or at least hesitancy. Normally donor organizations are seen as not-for-profit organizations – comparable to charities, i.e. idealistic organizations (Fischer, 2000; Salamon & Anheier, 1996; Vakil, 1997) of which the distinctive features are (a) that their prime function is that they serve

a good cause, (b) that they act not-for-profit, (c) are externally oriented and (d) show altruistic behavior. How could they be reproached for any failures in the field? If they act according to those four criteria, the assumptions of exchange theory, in which every organization strives for a positive balance between what is invested and the returns, would not be applicable to these organizations.

Possibly they ought to be seen as organizations no different from other private organizations – being autonomous and having a formal structure, which are also features mentioned by the same authors. This would imply that their behavior fits the framework of social exchange theory. Their behavior would probably be positioned on the extreme side of social exchange, in which giving and taking perhaps cannot be measured by profit in terms of money. Giving money serves other purposes than indicated by those superficial units, and the expected rewards are different from immediate material fulfillment by individual actors; nevertheless, rewards are expected. The rewards for their actions might, for instance, be conceived as debts, which increase the structural power of the donor organizations or their authorities. In the next section of this chapter, we will concisely address the nature of social exchange theory, and the remainder of this chapter is aimed at analyzing whether the behavior of donor organizations can be understood in terms of the theory.

This is done through a case study of Swedish donor organizations. The aim of the case study is to understand the donors' point of view on the Western assistance to CEE countries. Our previous research was also based mainly on empirical material from Sweden, after it became clear that in a comparative perspective the respondents from CEE countries perceived the Swedish advisors and consultants as the best (Sobis, 2002). Therefore, the Swedish case is not a random case, and if any criticism is possible about the role, purposes and experiences of Swedish donor organizations, this might tell us as much or even more about similar organizations from other countries. The Swedish case is also interesting because the country started its assistance to the Baltic states and Poland relatively early in 1989, thus five years before Sweden became a EU member and about fourteen years before the CEE countries became members of the EU. Furthermore, Sweden belongs to the most generous states in Europe in this regard.

For the case study at hand, it is important to understand to what degree the Swedish assistance to CEE countries was (partly or wholly) aimed at protecting the Swedes' own interests, whether it was "subjective" towards potential assistance-recipients, and how the Swedish assistance programs corresponded to the needs of recipient organizations. This research addresses questions like:

1. What were the goals prioritized by the Swedish donor organizations when investing in assistance projects to CEE after 1989 and how did these goals evolve?
2. Were the projects evaluated and to what degree did they achieve their goals?

3. What factors lay behind the success or failure of assistance programs?
4. To what extent are the explanations of the advisors and donor organizations congruent?
5. What does this imply for the explanation of the sometimes disappointing outcomes of advice?

Before we give answers to these questions, we first present the theory that guides our analysis and justifies the research method.

## 6.2 The theory of social exchange

Social exchange theory tells us that all human relations have two aspects, i.e. they are of a give-and-take nature. Among the first to address the problem of social exchange were Thibaut and Kelley (1959). They developed a theory dealing with the communicative side of the *theory of social exchange*. In their eyes, the rewards and costs during exchange compose the most important variable. When outcomes are perceived to be more balanced and fulfilling for both sides, then human beings/organizations disclose more, and develop a closer relationship; they develop bonds.

People, and in social exchange theory also organizations, however, often strive for imbalances, e.g. they try to minimize costs and maximize rewards. Such unequal payoffs not acceptable are in the end. The idea is that only when there is a certain balance in immediate payoffs, or when one can observe similarity in development, do such relations become acceptable and fulfilling to both parties in the long run.

Social exchange theory's fundamental premise is that human behavior is an exchange of rewards between actors (Zavirovski, 2005). One important implication of exchange theory is that the viability of social exchange rests on the assumption that human beings recognize each other's life situations, notice each other's needs, and in some ways are likely to engage in reciprocity – a condition in which a response is correlated with the worth of the original message. In other words, humans act with other humans in full recognition that their acts will be noticed and in some way reciprocated (i.e. that they will receive a return on their communicative investment) (Zavirovski, 2005). We can assume that in an organizational world, almost the same rules steer exchange.

In this perspective on social exchange, the emphasis is on the actor expecting to be rewarded for his activities. Later on the theory evolved, especially because of the writings of George C. Homans, and the perspective changed to that of the actor who reacts to activities of others. In Homans' view also, social behavior is expected to be rewarded or punished by the behavior of another person or by the non-human environment. His theory is mainly about the behavior of the actors giving rewards or punishments. According to Homans, actors will choose those activities, from a plurality of choices, that are the most appropriate in response to activities of others.

For him and subsequent scholars in this direction, this is not just a theory about certain behavior in certain circumstances but also a universal theory, valid irrespective of the culture one considers.

Without dwelling on the whole theory, the elementary character thereof enabled Homans to develop several basic propositions. First, people tend to react in the same way they acted in the past to similar stimuli, if that option itself was rewarding. Second, quantity and value are important. Thus the more often one rewards an activity, the more likely the activity becomes, and the more valuable a response the more often the other actor will act accordingly. There is, of course, the law of decreasing returns. Thus the value of a response will diminish the more often it is given. The last proposition of Homans is especially important here. It states that there should be a balance between the rewards and the costs involved. Social behavior, so Homans tells us, is an exchange of material goods, but also of non-material ones such as symbols of approval or prestige. People who give much to others try to get much from them, and people who get much from others are under pressure to give much to them (Homans, 1961, p. 606). Hence, one can even aim for unbalanced social exchange in order to increase one's power vis-à-vis the other.

In this version of the theory, structural aspects are crucial. Firstly, social exchange results either in a balanced payoff or in a power relation. If recipients have enough means to exchange for the benefits, there will not be a problem in terms of power disparity. Secondly, if the resources of one recipient were inadequate, but the resources of all recipients could be pooled, the power relation could change. Thirdly, competition among providers could increase the recipients' independence. Finally, a growth of unequal economic advantage might result in dispute instead of compliance.

Later on, Peter Blau somewhat adjusted social exchange theory again by pointing to the importance of understanding the process of social exchange next to the structure thereof. According to Blau, social exchange theory is only applicable in case two actors desire the same goal, which requires cooperation. They should experience a common problem and negotiate about the means to solve it and to attain the goal. Only such situations result in a process of social exchange in which, of course, the balance in payoffs might vary.

The conclusion of Blau is congruent with that of Homans. One of the major goals of social exchange theory in Blau's view is to understand what happens in different cases. Regarding unbalanced social exchange, Peter Blau argues that by providing unilateral benefits to others the actor accumulates a capital of willing compliance on which he can draw whenever it is in his interest to impose his will upon others, within the limits of the significance that the continuing supply of benefits has to them (Blau, 1964, p. 28).

In this conception, as in that of Homans, social exchange has everything to do with establishing a power relation, and an imbalance in social exchange results in power disparity (see also Nisbet, 1970; Fararo, 2001; Emerson, 1969; Cook, 1990).

Next to power, there is sometimes also the aim for status (Blau, 1960). With regard to the activities of donor organizations toward CEE countries, this specific elaboration on social exchange theory might also provide insight into why the Western assistance was provided, why this assistance was not always successful, and with what goals donor organizations might have assisted the recipient countries. As Blau tells us:

> *A person with superior qualities, which enable him to provide services that are in demand, receives the respect and deference of others in a group, which bestows superordinate status upon him, in exchange for rendering these services. A person who is not able to offer services that are in demand must settle for a lower position in the group (Blau, 1960, p. 555).*

If status is the issue, one tries to make aid work, because that would increase one's status. This is not necessarily the case when only striving for power. In that case the simple act of giving aid, whether effective or not, suffices. Although one can question whether power and status are the main concepts social exchange is based on, the distinction makes it possible to explain the (in)effectiveness of aid and whether the motives to provide aid are to the benefit of the recipient or at the cost of the effectiveness thereof, which is the question central in our endeavor to explain the ineffectiveness of Western assistance in CEE countries.

If we take for granted that in social exchange theory human interactions are based on social and material resources and they constitute a fundamental form of human relations in terms of power or status, then by analogy, interactions between donor organizations and assistance-recipients, which are based also on social and material resources, constitute the core of interorganizational relations, in which evolving patterns of power are also crucial. Interaction patterns are shaped by power relationships between organizations and aim at achieving either a new balance or a new power or status relation between them.

This theory might well apply to the process in which donor organizations, advisors, and recipient countries are involved. The Western assistance to CEE countries, the imbalance in the *giving* and *taking* of the Western donor organizations, and the assistance given to the recipient countries from the post-socialist countries might well be conceived in processes aimed at establishing a power or status relation. The West European states can be conceived as the "collective actors" represented on the different levels of state organization by donor organizations. As the collective actors, these states have their own interest in cooperating with and giving assistance to other countries.

Social exchange theory states that there is no such thing as a free lunch. The exchange may vary in both balance and content, but the theory views imbalances mainly in terms of delayed rewards and to be seen in terms of developing power relations and/or status. The question to be answered below is whether there are indicators in the Western assistance programs that corroborate this theory, and whether there are indicators that the motives behind Western aid went at the expense of the effectiveness of assistance programs.

In terms of social exchange theory, the assistance provided by Western donor organizations should be conceived as an unbalanced exchange in which assistance is given in exchange for a delayed reward. Exchange theory centers on such enduring long-term social relations, as distinguished from "one-shot transactions" in the market realm (Cook, 2000, p. 687; Zavirovski, 2005, p. 3). Blau's elaboration of social exchange theory, and later Emerson's and Molm and Peterson's additions (Molm & Peterson, 1999), suggest that these long-term relations involve power and/or status. In those theories, there is no room for love, altruism, or generosity. The idea behind aid is simple when framed within social exchange theory. You are given something, with seemingly nothing asked in return. However, after a while a side-effect occurs. You become indebted and dependent, and ultimately you do what you normally would not have done, just because the beneficiary asks you to. In this way power and status relations arise, not bonds based on equivalence. Below we will see whether there are indicators to support this point and whether it might explain the variance in effectiveness of assistance programs, or whether real altruism, love, and generosity governed the activities and aid provided by the donor organizations.

## 6.3 Data and methods

The investigation in this chapter is based on document analysis and interviews. Regarding document analysis, we have used documents, reports, and evaluations of the Swedish assistance programs from the home page of the Swedish International Development Cooperation Agency [SIDA] and its archival and published reports and evaluations accessible for visitors. A very important source of information proved to be also the official reports prepared by the Stockholm Group of Development Studies to the Swedish government, in which it presented evaluations of the developmental work in Estonia, Latvia, Lithuania, Poland, Russia, the Ukraine, and Byelorussia. These reports play a complementary role towards SIDA's official documents. Furthermore, we analyzed the regulations as given in the Swedish Statute book.

Concerning the interviews, the aim was to conduct in-depth interviews with the representatives of BITS and SIDA. However, it proved necessary also to interview some persons who evaluated the Swedish assistance to CEE with a major focus on SIDA's assistance projects, and who had a wider insight into the major aims and

principles of the Swedish assistance to CEE countries. Those persons had a wider knowledge about the recipients' experiences of the Swedish assistance and to what degree these projects were adequate to recipients' needs. In this study, we have also used the transcribed interviews with the advisors from the previous research that are relevant here. This article is based on eight interviews with key persons, four with women and four with men. Because of ethical rules, we wish to protect the identity of our respondents and do not use their names or their professional positions. These details are seen as less important for our study. We have promised them anonymity. In fact, we have only an interest in the developing process in CEE and how this process is perceived and experienced by the representatives of the Swedish donor organizations and not in their personal attributes. The average interview took about one and a half hours. The interviews were transcribed in a verbatim way. We did not want to miss any important information for analysis.

The interviews consisted of open questions asked around three thematic blocks. The first block of questions addressed basic information about respondents and their formal education, actual professional specialization, why they were involved in the assistance programs to CEE countries etc.

The second block focused on the assistance programs to CEE countries that the donor organization provided after 1989 to 2005. The focus was mainly on the aims and financial principles of that assistance, which projects were perceived by the donor organization to be a success and why, or which projects were perceived as a fiasco. We wanted to know which goals were possible to reach and which proved impossible to implement, and why that was so. The respondents were expected also to identify the underlying factors behind the success or failure of assistance projects.

The third thematic block concerned *advisors* and *consultants* whom the donor organization employed in the framework of the assistance projects. The respondents were asked to make a distinction between the concepts of "expert" and "consultant" and to explain how the donor organization recruited advisors and consultants for the assistance projects. These questions aimed to provide us with some information about competence of advisors and consultants in order to understand, on the one hand, the recipients' disappointment with the Western assistance. On the other hand, the purpose was to understand the Swedish advisors' and consultants' discontent with the uncertain working conditions in the post-socialist countries.

The empirical material proved to be very rich, thanks to the respondents' engagement, frankness and good will to give us all the necessary information about the donor organizations' experiences from CEE during the period from 1989 to 2005. It should be mentioned beforehand that the material is not to be seen as representative for all donor organizations. As said above, there are good reasons to see the Swedish case as an extreme case.

## 6.4 Swedish donor organizations

To understand the nature of Swedish assistance to the post-socialist countries in CEE, it seems necessary to know some historical facts dealing with the Swedish tradition of aid. One of the first donor organizations was the *Swedish Development Corporation*, established in 1965 by the Swedish Parliament, in order to improve the standard of living of poor people. Probably the Christian missions, some political motives and the English-speaking former British colonies suited the Swedes well, and the government decided to address the first assistance programs to Ethiopia, India, Kenya, Pakistan, Tanzania and Tunisia. In fact, it was SIDA – the *Swedish International Development Cooperation Agency* in its original version. Until the early 1970s, this Swedish agency conducted almost solely individual projects that were directly under the control of government. As time went by, the recipient countries could decide on the projects and sectors based on their needs.

The oil crisis of 1973 left some traces on the Swedish cooperation with developing countries. The government decided "to raise the level of tied assistance", which meant in practice that the recipient countries were obliged to "a greater degree than before to use part of the support they received to purchase Swedish goods" (SIDA, 2005). By 1978, the number of beneficiary countries had increased to fourteen. Then SIDA supplemented "the overall goal of improving the standard of living of poor people with four sub-goals" (SIDA, 2005). Now SIDA's major goals were: (1) economic growth, (2) economic and social equality, (3) economic and political independence and (4) democratic development. Two years later SIDA prepared a strategy for rural development to help the poorest people in Ethiopia and Mozambique (SIDA, 2005).

At the beginning of the 1980s, SIDA was openly critical about the effectiveness of its support. It initiated discussions between donors and recipients in order to learn what could be done to improve the effectiveness of international cooperation and assistance programs. At the same time, most donor countries in the West started to support the programs of the World Bank and the IMF to stabilize and liberalize the economies in Latin America, Asia and Africa. Sweden went along with this stream.

Another important Swedish donor, next to the Swedish agency, proved to be *Preparation for international technical and economic cooperation,* with the acronym of BITS (Beredningen för internationellt tekniskt-ekonomiskt samarbete), which was established in 1979. BITS, as a small department within the Ministry for Foreign Affairs, was responsible for international technical and economic cooperation. Its tasks, i.e. financing and spreading organizational principles, were regulated by the Swedish Statute Book of 1979: 831. By law, BITS was expected to create cooperation with *some* developing countries to assist them in their socioeconomic development. In this way, the government wanted to help these countries and secure

Sweden's deeper relations with them (SFS, 1979:831; Interviews: 2/2005; 3/2005; 4/2005). The Swedish Statute Book of 1979: 831 provides us with the general instructions for the *Preparation for international technical and economic cooperation*. This document focused on technical cooperation and financing principles for the technical assistance to the Third World. They emphasized the importance of education, training projects and participation of Swedish consultants. All the activities ought to be conducted in a mutual cooperation and should involve Swedish institutions and enterprises.

The same paragraph also mentions cultural cooperation and personal exchange between the donors and the beneficiary countries (SFS, 1979: 831, 3§ and 4§), which opened some possibilities for BITS to cooperate with the *Swedish Institute* [SI]. The latter was expected to support aid programs in the area of culture and social questions. It is interesting to note that in this document the technical assistance and the financing principles of assistance are perceived as equal to the economic assistance. Later on, economic assistance was expressed in terms of donor organizations' contribution to economic reforms to countries in need.

The preparation for international technical and economic cooperation was led by the Board of BITS. These high civil servants, about 20 persons, were appointed for three years by the government. BITS also had a Secretariat, i.e. the director, ordinary, and the special personnel that had access to financial means. They were also appointed by special decision of government. Gunilla Olofsson was the first director of BITS. She had been working before at the Ministry of Finance, the Ministry for Foreign Affairs and the World Bank in Washington (LUM, 1997; Interview 5/2005). BITS could turn to or apply for resources from outside units such as national and international banks, organizations and enterprises, whenever some special tasks demanded further cooperation.

It seems that the new policy of BITS did not come about by accident. The increase in social movements in CEE countries confirmed the collapse of socialism. The first non-Communist governments in Hungary and Poland and the fall of the Berlin wall, which had a symbolic importance for the fall of socialism, were perceived by the West as the starting point of the great transformation in all CEE countries. The World Bank and the IMF decided to help stabilize and liberalize the economies of the CEE countries. For the Swedish government, this opened up new possibilities to finance its assistance programs. Not very surprisingly, the government supplied its aid agenda with new goals, such as sustainable use of natural resources and protection of the environment. The government assigned extra money for this purpose.

In 1988, the Swedish Parliament passed a new bill dealing with the tasks of BITS. According to the Statute Book of 1988:1125, this time BITS was expected to promote economic and social development in specific developing countries in order to create strong relations with these countries through cooperation with Swed-

ish institutions and enterprises. The resulting document emphasized the great importance of technical cooperation with specific developing countries and the role of giving special credits to them. The government recommended that BITS adapt its activities to cooperate with international organizations and authorities in other countries in accordance with the general principles laid down by government.

Moreover, there were cutbacks. The managing director became chief of BITS and the Board was limited to ten persons including the director. The organization became divided into two units: one for technical cooperation and the other for providing credits to developing countries. The Board of BITS was responsible for: (1) the direction and extent of cooperation with some countries, (2) occasional efforts for the developing countries that never before got support from BITS, (3) bigger credits to developing countries, and finally (4) important questions dealing with the organization and working methods of BITS (SFS, 1988: 1125). The last task suggests that the Swedish government already then experienced some organizational problems concerning assistance to countries in development.

Probably the earlier experiences with financial aid programs to Latin America, Asia, and Africa, in cooperation with the World Bank and the IMF, led the Swedish actors to think over the new opportunities to join the international aid forces in relation to the developing countries of CEE. The reform of Swedish aid programs proved necessary. It was only a question of time. Thus, according to the structural changes in Latin America, Asia and Africa on the one hand and the great transformation of the post-socialist countries on the other hand, the Swedish Parliament decided on new credits and offers that would make it possible to create a new financing system for assistance to CEE. In 1989, the government decided to start the aid programs to the CEE countries. They assigned the Ministry of Foreign Affairs and particularly BITS to help the countries around the Baltic Sea, i.e. neighbors like Poland, Estonia, Latvia, Lithuania and Northwest Russia.

The political and socioeconomic situation in the CEE countries proved really dramatic and these countries demanded much more assistance than only technical cooperation. The subsequent governmental bills guided the assistance to these developing countries. As a result, the government decided on a fusion between BITS and SIDA in 1992 (SFS, 1992: 269). However, the fusion was in practice only possible in 1995, because the Swedish Statute Book did not explicitly state that the regulations of 1992 replaced the previous regulations dealing with assistance programs. BITS and SIDA were still working separately, though quite closely.

The Swedish International Development Cooperation Agency [SIDA] in its new organizational structure started on 1 July 1995. The new SIDA was the result of a merger of SIDA, BITS and three smaller autonomous entities: the Swedish Agency for Research Cooperation in the Developing Countries [SAREC], the Swedish International Enterprise Development Corporation [SWEDECORP] and the Swedish Centre for Education in International Development [Sandö Ucentrum]. All these

organizations carried out the development cooperation programs with relative independence (SIDA, 2005a; Falk & Wallberg, 1996, p. 4; OECD, 2004, p. 2).

It should be emphasized that at the same time the Ministry for Foreign Affairs (MFA) was in reorganization. The responsibility for country aid strategies and programming was devolved to the regional departments of the Foreign Ministry, but was still treated as an integral part of overall political and commercial relationships. Aid policies, and the management of Sweden's input into multilateral development cooperation in general, were handled in specialist departments of the Foreign Ministry (OECD, 2004, p. 2).

In most programs on behalf of CEE countries, the same persons were involved, even if they previously belonged formally to different donor institutions. The cooperation with Poland, the Baltic states, and Northwest Russia that started in 1989 had the result that these aid institutions had become closer to one another (Interviews: 2/2005; 3/2005; 4/2005). Later, SIDA's focus broadened to other CEE countries, the respondents emphasized:

> *When the Ministries of Foreign Affairs were meeting each other in the various committees of EU in Brussels, we always had a person from SIDA at these meetings. It was about 1995. We had a good insight into all the programs addressed to the CEE countries. We participated in these committee meetings about four times a year. There we met the persons who were responsible for the development in Latvia, Lithuania, White Russia, the Ukraine etc., and we took a decision on what we would do for these countries. We were flexible. The EU had much money for projects such as e.g. PHARE or TACIT. It involved big projects, limited time, and very complicated procedures (Interview 2/2005).*
>
> *There was a discussion in Europe between the donor countries that development work should be divided among them. Sweden took charge of the Baltic states. Poland was so big that Germany would take care of that country too. Germany also took care of Czechoslovakia and the Balkans. It resulted in an international specialization and division of work among donor organizations. Sweden went into the CEE countries with some special know-how (Interview 3/2005).*

The Swedish assistance to CEE countries was strongly steered and controlled by national government and governmental regulations. One could observe a clear division of aid programs addressed to CEE countries among the Western donor organizations. The geographical aspects and neighborhood relations quite often had a decisive impact on which West European country should assist which CEE countries. Poland, which undeniably belongs to the Baltic states, is definitely too big

to get assistance solely from Sweden. Thus, Germany, France, the UK, Denmark, and other relatively close countries were involved in the aid programs to Poland. However, as time went by, specialization in aid provision was more frequently observed.

### 6.4.1 The major instruments of the Swedish assistance to CEE

The Swedish assistance to CEE countries after 1989 went from the Swedish government through the donor organizations, first through BITS and later through SIDA. The major funds to provide assistance were and still are the funds that come from the Swedish taxpayer. The government assigned a separate budget to BITS and SIDA. Concerning the rules for financing the assistance program, the respondents explained it as follows:

> *Sweden has never financed any assistance project alone. If we had a big project such as the environment projects to our neighbor countries, then we always had other financers within the project. Our basic principle is to have a bilateral agreement with a recipient country, i.e. an agreement between Sweden and Poland, Sweden and Estonia, Sweden and Lithuania etc. From the beginning, we have divided all the costs, counted in Swedish crowns, between the recipient and us. It means that a recipient covers our local costs in the recipient country when the Swedes conduct a project. We pay our staff. The main thought behind this policy is that the recipient has to show that they want to cooperate, that they give priority to a plan for our cooperation. It was BITS's principle from the beginning. These rules applied also to our cooperation with developing countries in the Third World. Maybe we were not always so rigorous, but we wanted to keep up these rules in the cooperation with CEE (Interview 4/2005).*
>
> *It was important to use the Swedish resources and competence in such areas that Sweden could propose and decide on everything. The main idea was that the assistance programs should be planned fast and the money ought to stay in Swedish hands (Interview 3/2005).*

Thus, the donor organizations financed the Swedish technical cooperation between two partners that signed a formal written agreement. It was a contract between a consulting organization that obliged itself to conduct a project and a recipient organization that was looking for help within the framework of the bilateral agreement between two governments. The signed contract constituted the crucial element of Swedish assistance. The central issue, in the opinion of the respondents, is to mark very clearly and from the beginning the recipient's responsibility for participation in the project. The same respondent added:

> *The contract is the framework by which we can develop our cooperation; we have a contract that regulates our activities (…) and the relations between both partners participating in the project. SIDA provides them only with the financial means for the project and we watch over their mutual relations under cooperation. This agreement we created in order to be able to begin a regular commercial cooperation as quickly as possible (Interview 4/2005).*

Through their co-financing of aid projects, BITS and SIDA had the opportunity to choose among the consulting organizations those that proposed projects which were needed, and among the receivers those that asked for specific assistance which could be delivered. BITS and SIDA could exercise influence only by matching potential partners. They could decide in which area assistance would be provided and which consulting organization would lead the project. Concerning assistance to the CEE countries in general, however, they were expected to choose those aid projects that secured the Swedish objectivities, but not necessary the needs of the recipient country.

The situation was quite different concerning the large assistance programs addressed to the Baltic states, e.g. the infrastructure project for St. Petersburg. Its cost was about 2 milliards Swedish crowns. In that project, SIDA cooperated with large financiers like the World Bank, the European Bank for Reconstruction and Development [EBRD] and the Northern Investment Bank [NIB]. In this project, there was also state and private financing from Sweden and Finland. Thus, combined resources quite frequently characterized assistance to the CEE countries, especially when after some years, the aid programs were growing in duration, extension, and costs. The respondent explained:

> *Now the projects have a longer duration and they are larger. Earlier, we had one-month projects for 3–4 million. They were very small. No one wants to have such projects any more today. Now we have the big projects that take 3–4 years and cost about 10–12 million. We have the possibility to influence a whole sector, and to control what happens when conducting the project and influence cooperation between partners (Interview 2/2005).*

Thus, the rules for assistance programs to CEE have not changed much, but enough to make it easier for the cooperation efforts to achieve positive outcomes.

### 6.4.2 The major objectives of the Swedish assistance to CEE, 1989–2005

During the period 1989–2005, SIDA was involved in 27 post-socialist countries in transition. During this time, the cooperation with all these countries changed in character, regarding extension and areas. The major objectives of the Swedish assist-

ance to the CEE countries have remained almost the same from the beginning. Operative goals were adapted in accordance with the various phases of the Swedish assistance and the last ones varied due to region, country, and time. Below, we present the major objectives of the Swedish assistance that the respondents mentioned, with some comments about the operative goals for each phase to show similarities and differences among them.

Most respondents were inclined to divide the period of 1989–2005 in three phases: 1989–1995, 1995–1998, and 1999–2004. For us, the first five years of the Western assistance to CEE are especially interesting because most myths, prejudices, and critical opinions about the Western assistance can be derived from this period. It emerged that the respondents were talking about the first five years of assistance in terms of "until the dissolution of Soviet Union" and "after that" which made us divide the period of 1989–2004 in four phases: 1989–1990, 1991–1995, 1996–1998, and 1999–2004. This division corresponds to the major objectives characteristic for each phase.

#### *6.4.2.1 The major objectives of assistance for CEE, 1989–1990*

During the first phase, the assistance programs of BITS were addressed to Poland, the Baltic states – i.e. Estonia, Latvia, Lithuania – and Northwest Russia. It was a period when the Baltic states were still within the organizational structure of the Soviet Union (Eduards, 2004b; Interviews: 1/2005; 3/2005; 4/2005). One of the respondents explained that the interest in these countries was quite natural for Sweden:

> *I believe that Sweden has an old engagement with Poland and the Baltic states. Poland was always an important neighbor for Sweden. I do not only refer to the time of Sigismund; Poland and Sweden were always partners against Russia and they had the same military strategic interest. Within the Baltic states, we can also find very strong bonds, concerning various things that create a spirit of community regarding cultural bonds and mutual understanding. We can say that Sweden was looking forward to the collapse of socialism. We were very interested to provide these countries with aid when we saw that the local forces stood up. We started cooperation even before the official dissolving of socialism and that had nothing to do with the EU. It was for the sake of the Swedish interest in the neighbor countries (Interview 3/2005).*
>
> *At the beginning of the 1990s, we had our hands full with the Baltic states and Poland. Besides, we also started cooperation with Russia (Interview 4/2005).*

Another point to consider is that since the 1970s, Sweden was extremely active in environmental questions and the Swedish government was much inclined to

support international efforts to restore the ecological status of the Baltic Sea (Eduards, 2004b, pp. 13–14). It is not surprising that the Swedish government initiated cooperation with Poland, Estonia, Latvia, and Lithuania, when Poland started its political and economic reforms. This was a favorable opportunity for cooperation that could focus on both environmental and democratic issues.

The Swedish government saw the paradigm shift in Central and Eastern Europe at the beginning of the 1990s – and the subsequent structural changes there – as one of the critical issues of our time and judged it to be strongly in the interest of Sweden to provide broad political, economic and technical support for the process (Eduards, 2004b, p. 5).

Regarding the support for other Baltic states, this was only a question of time. The Swedish government promoted: (1) sovereignty, (2) processes to develop democratic market economies, and (3) integration with European countries and other forms of international cooperation (Eduards, 2004b, p. 5). The objectives were formulated in a very general way but explicitly enough to limit the sectors to be reformed.

#### *6.4.2.2 The major objectives of assistance for CEE, 1991–1995*

The dissolution of the Soviet Union in 1991 can be perceived as the start of the second phase. The Swedish assistance programs were focused mainly on Estonia, Latvia, and Lithuania. The cooperation aimed especially at promoting the common security and sovereignty of re-independent countries in the Baltic region. Thus, the issue of "sovereignty" was reformulated into "common security" and "democratic development". The programs focused on the establishment of multi-party parliamentary systems in the new democracies, and the development of a new culture of democracy in line with market economy. It should be emphasized that the objectives for the cooperation with the new democratic countries for the second phase were mainly the result of the previous three-year experiences and the Swedish government was rather late in its decisions about them, namely in the spring of 1995 (Utrikesutskottets betänkande, 1999/2000: UU6, p. 11).

Moreover, the major objectives give the impression that the goals had expanded in comparison with the first phase, which was still characterized by minigoals, aiming mainly at creating opportunities for cooperation with CEE countries. Now the major objectives were more encompassing, namely (1) to promote common security, (2) to strengthen a culture of democracy, (3) to support a socially tenable economic transformation, and (4) to support environmentally durable development (Almqvist, 1996, p. 1; Interviews: 2/2005; 3/2005).

Probably the second phase should be perceived as the most important, both to further the Swedish assistance and to continue the reform process in the post-socialist countries, because the objectives became more concrete and it was easier to formulate operative goals for assistance projects to CEE.

Regarding the operative goals, the Swedish government made a decision in December 1992 to support the aid projects aiming at cooperation between the Swedish County Administration Boards [CBAs], and the respective boards in Estonia and Latvia (Almqvist, 1996, p. 2). Two years later, these operative goals were extended to Lithuania and Poland. The program called "Twinning Programs with Local Authorities in Poland, Estonia, Latvia and Lithuania" was introduced to support the democratic development in the neighboring countries (Falk & Wallberg, 1996, pp. 3–4). From then on, the improvement of public administration also became an important area for the economic cooperation between Sweden and the Baltic states. From a Swedish perspective, the economic issues went hand in hand with the reforms of public administration. In 1994, Sweden was still propagating economic cooperation. It promoted setting up small and medium-sized businesses, trade, and industrial production to create the mutual bonds among Sweden and these countries:

> *In order to promote trade and industrial development with a focus on small and medium-sized enterprises SWEDECORP/SIDA started the Start-East Program accordingly in 1994. The aim was to contribute to productive investments and development of business by offering small, medium-sized Swedish enterprises loans for joint venture projects with partners in the Baltic states. Over one hundred projects were implemented. Start-East has had a clear impact on private sector development, mainly as a result of its training component (Eduards, 2004b, p. 11).*

These operative goals contributed to establishing Swedish production especially in Estonia and Latvia, which were perceived by some respondents as countries closer to Sweden in cultural terms than other states (Interview 3/2005). It should be emphasized that the assistance to parts of Northwest Russia had been all the time conducted complementary to other programs conducted in the post-socialist countries (Interviews: 1/2005; 2/2005; 4/2005).

Since 1994, after some post-socialist countries, i.e. Hungary, Poland, the Czech Republic, the Slovakia, Slovenia, Estonia, Latvia, and Lithuania, had signed the Europe Agreement, it turned out that these countries needed help in adapting to the EU norms. It was clear that the social problems in the CEE countries were very serious and that assistance in their development should address especially the social sectors of these countries. It was also visible that the Baltic states and Poland were successful in stabilizing the political situation in their countries, which made issues of "sovereignty" and "common security" lose topicality after 1995. For BITS, these were the last months it was active in providing assistance.

#### *6.4.2.3 The major objectives of assistance for CEE, 1996–1998*

Since 1 July 1995, SIDA took over the assistance programs to CEE countries. The increased political steering was directly visible. The Swedish authorities launched a

plan to ensure transition in CEE countries and to integrate the post-socialist countries within a new Europe. The government recommended the start of aid programs addressed to social sector and welfare issues. The major goals for the assistance program during the third phase of 1995/96–1997/98, were almost the same as previously, but the economic issues were widened to the social sector and social work. The objectives for assistance programs became (1) to ensure common security, (2) to create stable and parliamentary democracy, (3) to create a market economy, (4) to protect the environment and (5) to create social welfare. These goals were intended to govern the programs for the CEE countries. However, as one of the respondents said:

> *Welfare state, social work… It was something new for us. No one did it before. It had taken five long years before we discovered that these countries needed assistance in this regard. It was probably because we were sure that during socialism this sector had worked well. It was a big surprise to us that this sector ought to be reformed. We got an order from the government to reform it. We were expected to go there and sell our knowledge (…) It emerged that the recipient organizations were very pleased with our assistance. This job in the welfare issues contributed to writing the new strategy and program for 1996 (Interview 2/2005).*

The great transformation resulted in Sweden in a determination to help and to prepare these countries for EU membership. For the potential member countries, the EU membership gave hope for a new beginning. Later on, this hope turned into very concrete goals and activities. Development within the Baltic states and Poland went very quickly. This revealed the inadequacy of the previous objectives for international cooperation. In accordance with considerations of the Standing Committee on Foreign Affairs of 1995/96: UU18, in June 1996, the government decided that all developmental programs to CEE countries should be adjusted according to an equality perspective (Utrikesutskottets betänkande, 1999/2000: UU6, p. 11). The need for assistance was judged by the concrete operative goals that would steer developments in CEE according to Swedish interests: (1) it was demanded to integrate Russia and Ukraine within the European structures, (2) the developmental work was expected to be steered in such a direction that Sweden itself would be advantaged and that Swedish competence would become more in demand, (3) the aid projects should be directed to the regions in the Baltic Sea area and the Barents area in order to achieve good neighborhood relations (Eduards, 2004a, p. 14).

One can observe that the major objectives and the operational goals became less coherent than they could be. Equality on the one hand confronted Swedish interests on the other. To put it mildly, the operative goals were not directed by the major objectives during this third phase. The development work was characterized by successful modifications. The donors used some adjusting measures to approach the EU integration. However, these relations can be interpreted also in terms of

the exchange theory, which emphasizes that all relations are based on "giving" and "taking". Sweden was only inclined to give if it was rewarded in a balanced way. Exchange in this period is not to be perceived in terms of power, but rather in commercial gains.

#### *6.4.2.4 The major objectives of assistance for CEE, 1999–2004*

Two directions characterized the fourth phase in the Swedish assistance to CEE. First, the assistance to the potential members of EU was diminished, and second, the developmental work changed into regular international cooperation between Sweden and those countries, which had already received assistance for years. This meant that international cooperation from now on should take place without the previous Swedish financing system. However, Eduards argues in his evaluation of this policy that specific directives were missing (SOU 2000:122, p. 21) and that "in order to mitigate the effects of the termination of assistance, SIDA introduced Technical Assistance (TA) funds in the cooperation with three Baltic states" (Eduards, 2004b, p. 16).

The termination policy of Sweden's aid formally concerned Estonia, Latvia, Lithuania, and Poland. Estonia and Latvia were not seen as countries that were sufficiently prepared to meet EU demands. However, this is not said about the situation in Lithuania and Poland, which also belong to the Baltic states. Probably the latter countries are culturally and mentally less close to Sweden than Estonia and Latvia. This observation confirms to some degree the official reports and evaluations, in which it is made clear that most Swedish aid efforts were to be addressed to Estonia and Latvia, while Lithuania and Poland were on another plane (see Eduards, 2004a, 2004b; SOU 2000:122). It is likely that the specific history of Sweden in the region can provide us with more essential explanations for Sweden's interest in international cooperation than appears from the government's or SIDA's official documents in this regard.

At the beginning of 2000, the major objectives were again transformed. They had to be adapted to the new relations between the donors and recipients. We can observe that SIDA's assistance became more specialized and richer regarding the scope of aid projects. The government formulated concrete directives for international cooperation. Priority was given to the following spheres of activity: (1) common security, (2) democracy, (3) economic transition, (4) protection of environment, (5) education and research, (6) technical assistance. On 1 May 2004, the bilateral development cooperation program was terminated. The future needs of recipient countries were expected to be covered by the instruments of EU. The process to end the support to Estonia, Latvia, Lithuania, and Poland did not imply that Sweden finished all its aid projects to other post-socialist countries in CEE. On the contrary, Sweden's support moved to Moldova, Ukraine, Belarus, and the Balkans. A respondent argued:

> *It was natural that we moved with the transition process to other countries. The development in the neighbor countries went so quickly that it was necessary to go on assisting in the states where the transition process had gone much slower. We had gone to the Southeast. We wanted to continue making use of our knowledge and experiences, and of the experiences of all donor organizations, e.g. the World Bank, IMF… After all, we went through the same development in giving assistance, although in a different degree (Interview 4/2005).*

SIDA continued to develop its international relations with Russia along the Baltic Sea and the Barents Sea. This area constitutes important links not only between Sweden and Russia but also between the EU and Russia. The Swedish authorities and our respondents perceive Russia as "the most important neighbor country" (Interviews: 1/2005; 2/2005; 3/2005; 5/2005). This implies that the Swedish development cooperation with Russia aimed at supporting the reforms and the integration within Europe. To achieve these goals SIDA transferred know-how and experiences from earlier aid programs.

In fact, the same idea concerns other post-Soviet republics in the Southern Caucasus and Central Asia, where poverty is rising. The developmental work for the new cooperation partners is conducted in the same four spheres as previously regarding the Baltic states, that is, to address (1) democracy – the goals being to increase the participation of citizens in political life and to strengthen the position of local self-government; (2) economic transition – aiming at reforms of the public administration to speed up the process of economic transition; (3) social issues – the aim being to build up effective social service and conduct training for social workers, with the aid focusing on the weak social groups such as children with disabilities, drug addicts, and those suffering from HIV; and finally (4) environment – the central objective being to eliminate major sources of pollution of the Baltic Sea (SIDA, 2004c). We have the impression that within these spheres of cooperation the operative goals are much clearer than in the earlier phases.

### 6.4.3 Reflection on the shifting goals

The results presented above can be framed very well within the theory of social exchange. At first sight the aid given by the Swedes is just altruism. Nothing has to be paid for, and it just seems to be developmental aid as is given to the poor countries in the Third World. However, when analyzing the remarks made by the Swedish government in evaluation reports and listening to the representatives of the donor organizations, one cannot escape the continuously underlying power-related goals of the aid to Sweden's neighbors and to those countries Sweden deems to be important for geopolitical and cultural reasons. Perhaps most surprising is the openness of the Swedish authorities on this.

They mention it themselves already in the early 1980s regarding support to Third World countries. A major part of this support is given to promote activities by Swedish industry in those countries. When the Berlin wall collapses, the Swedes are keen to go after World Bank and IMF money intended to loosen the ties of CEE countries with Russia and to strengthen ties with Western democracies, especially Sweden itself. For instance, regarding the projects dealing with energy efficiency in Estonia, one of our respondents remarked:

> *Now we touch a very sensitive and political area, e.g. the project dealing with energy effectiveness for Estonia under 1992–93. Sweden had an economic and political interest in this project but what it wanted was contrary to the recipient's will. We could not make any decision. The energy area has always been a sensitive question. You have to take a risk and you need strong support from local actors. Otherwise, you are excluded. In Estonia, the political will was lacking until 1996. Some years later, in Lithuania, there were no conditions to introduce the respective programs. They had old structures and no possibilities to make a decision (Interview 4/2005).*

Later on, the prime objective of Swedish aid became that the aid had to be profitable for Sweden also. This policy can be seen in several remarks presented above. According to the Statute Book of 1988:1125, BITS was made explicitly clear that this organization was expected to promote also economic and social development in *particular* developing countries, and to create strong (commercial) relations with these countries through cooperation with the Swedish institutions and enterprises. The same goes for the geopolitical aspects and neighborhood relations. These two aspects are quite often mentioned as the ones that had a decisive impact on the answer to the question of which West European country should provide the assistance to which CEE countries.

After 1992, there are criteria like common security that determine Sweden's aid to the Baltic states. Other goals are to make the new democratic states stay democratic and making them join the Western group. These goals remained in order even after the situation in the Baltic states changed so rapidly that a different kind of support was needed. The operational goals needed then were hardly congruent any more with the objectives of Swedish authorities. In 1994, it was the promotion of Swedish trade that made SWEDECORP/SIDA start the Start-East Program, and geopolitical aspects together with historical ties and the common cultural background of nations that dominated the Swedish aid policy. When Swedish support diminishes, those countries with which the bonds are really old and precarious are exempted from these cutbacks.

Of course, all this is not evidence, but it is indicative for the validity of the social exchange theory in this respect. Aid is always an unbalanced relation, and in the

case of Sweden it is clear that it is closely connected with the establishment of power and status. The imbalance in what the donor country gets and the amount of money it gives seems to be motivated by the power disparity that arises because of this imbalance. The division among aid-providing countries and recipient countries can be explained by pragmatic considerations. However, it also fits in the framework given by social exchange theory. Recipients become less dependent when more actors act benevolently towards them simultaneously.

Moreover, the study shows that the donor organizations seem to be nothing more than in-betweens, indeed pawns on a chessboard that seem to be pushed around without themselves having a say in the process. They receive money from government and look actively for other sources in the EU, World Bank and IMF, but all they seem to do is distribute this money in accordance with the rules, objectives, and instruments given by the Swedish government. When the rules of the game determined by the Swedish government change, the donor organization's activities change accordingly. Whether this has limited the effectiveness of Swedish assistance in CEE countries is an issue that is addressed in the next section.

## 6.5 The operational side of Swedish aid

That it was not only benevolence out of which the Swedes provided the CEE countries with aid is seen clearly in the process and effects of that aid, especially at the beginning. The representatives of donor organizations and the advisors and consultants confirmed that at the outset of transition in CEE, no one was sufficiently prepared to give assistance.

> *At the beginning, we had very limited knowledge about these countries to which we sent our consultants. The first consultants did not get any preparation or help from us at all. No one had been in these countries before and this field in particular – but when our activity expanded, we created new instruments. We learned how to get external funds for aid projects e.g. from the World Bank. We became experienced with plenty of advisors and consultants, and in consequence our knowledge about the local conditions in those countries developed too… But at the beginning, it was really very difficult (Interview 4/2005).*

> *It is hard to tell whether the operational side in general suffered under the shifting conditions imposed on donor organizations. There are plenty, perhaps thousands, of examples of small and really big projects supporting reforms in beneficiary countries that were financed either by the bilateral agreements between Sweden and other countries or by multi-layer agreements among many financiers and recipients. To go through all the reports and*

> *evaluation studies reminds one of "wandering through a jungle" (Interview 2/2005).*

We dealt with two types of evaluation studies about the Swedish aid programs. The first group consists of reports and official evaluations written on the government's orders, such as the *Official Report about the Cooperation with Central and Eastern Europe* (SOU 2000:122) of which the *Evaluation of Development Work with Central and Eastern Europe* (SOU 2000:122) constitutes an integral part. Both documents are broad in scope and very detailed in the description of aid programs. Furthermore, they are benevolent to the Swedish governmental donor organizations and even other financiers. They present the major objectives and the degree of goal achievement. The degree of goal achievement is presented by the thematic groups according to the major objectives and to the concrete countries. However, it appears from the reports, evaluations, and interviews that behind the major objectives there were always operational goals which seldom were in line with the former, but which proved to be a driving force for the aid programs addressed to the CEE countries.

The second group of reports and evaluations were all written on SIDA's orders. These are also official documents and easy to access, either through SIDA's home page or from its Archive Office. These evaluations vary in extent and the level of details, from very short descriptions of concrete aid projects to reports and evaluations that relate to broader aid programs in a region or reports dealing with a theme of assistance, e.g. *twinning cooperation*. They are a source of detailed information about projects and programs. The reports and evaluations written on behalf of SIDA show that one was learning by doing, and that the main purpose was to formally control both partners of international cooperation, i.e. those who conduct a project and the recipient. Together with the description of the nature of the cooperation, the recipient ought to accept the aid and consultancy conducted. One of the respondents said:

> *All the time we monitored the cooperation between those who conduct a project and recipients. We write reports about that. We have a system that makes it possible to evaluate those projects that we have introduced (Interview 4/2005).*

The evaluations are especially interesting regarding the efforts that did not work in practice and which were in contrast to the experiences of consultants and recipients. However, according to our respondents, evaluating was the only way and opportunity to learn from one's own faults. Thus, SIDA's evaluations were aimed at learning from the assistance projects. SIDA financed many projects and the learning was necessary to help itself in the further planning of aid work for developing countries. Some respondents acknowledge that thanks to the evaluation studies, they got rid of aid projects that did not work in practice. Moreover, some evaluation

studies emphasized repeatedly that the projects dealing with e.g. equality between sexes had to be "elaborated" if they were expected to work in practice in the future.

### 6.5.1 Did the projects achieve their goals?

The above implies that the question of whether the aid projects to CEE did achieve the goals is not easy to answer. This is also the case because of the growing number of major goals – not always consistent with the operational goals, and developed due to the various phases of giving assistance. SIDA had to provide the *institutional standards* and *organizational fashions* that were expected to secure the major objectives through the operational goals aimed at improving the position of Sweden within the new international relations. Nevertheless, it would be unjust to deny that the assistance offered contributed to the development of the post-socialist countries in their adaptation to a market economy and the EU's demands.

Let us take as an example the first two phases of the Swedish assistance to CEE during the years: 1989–1990 and 1991–1995/96. The four major objectives formulated at the end of the second phase were: (1) to promote common security, (2) to strengthen the culture of democracy, (3) to support a socially tenable economic transformation, and (4) to support environmentally tenable development (Almqvist, 1996, p. 1; Interviews: 2/2005; 3/2005). It seems that all these goals were very quickly achieved. However, if we wish to give a balanced picture of the development of sovereignty, common security and support for democratic development, then in the opinion of the respondents:

> *The importance of the assistance projects was minimal in comparison to the importance of the local actors for the achieved result. They had their own visions and thinking. It was not thanks to our aid (Interview 6/2005).*

Thus, whether the outcomes were the effect of the Swedish assistance can be disputed. We must not forget that the political and democratic changes were the main boundary condition that induced economic reforms in the CEE countries, and that these countries were from the start dependent on the IMF and the World Bank for financing and loan guaranteeing of the economic transition. The negotiations with these big international donor organizations took place already before the collapse of socialism. IMF and the World Bank promised to support and guarantee loans to start the economic reforms, if the CEE countries would be successful in getting rid of the political and democratic rudiments of socialism. Thus, the CEE countries were highly motivated to start the political and democratic reforms (Sobis, 2002). The Swedish aid was just a minor and late addition, although one of the respondents explained:

> *I believe that we have done what was possible in various periods. We followed the time and the new conditions that appeared.*

> *One can always say that it was our duty to be in time, but we experienced some delay. We knew very well that these countries would be part of the EU. I am talking about Ukraine, Poland, and the Baltic states. It was of great importance that Sweden, Denmark and Finland provided these countries with aid. It is of great importance because in those countries, there is capacity; there are many intelligent people who know very well what they want. Maybe sometimes they did not know where they wanted to go, more to the Left or to the Right. It was not easy to lead these countries. For us it was an extremely thankful task to help them and to be in the process (Interview 2/2005)*

Regarding the economic issues, the respondents share the opinion that the major objectives for these phases were fulfilled in the Baltic states and Poland by now. However, everybody agrees also that the administrative structures demand further reforms in order to e.g. diminish corruption and improve the functioning of the public administration. Respondents report on wrong priorities within the aid process. Even if the public administration demanded remedial measures, the first projects were essentially aimed at contributing to the economic transition in a proper direction. The same respondent, comparing the situation in the Baltic states and Poland to the situation in Russia, said: "In the political and economic fields, the reforms took very long compared to Russia" (Interview 3/2005). The respondents shared the opinion that the most essential changes happened in the environment issues. Two persons said: "Concerning environmental reforms, they occurred most often, but in this area; these countries' need for assistance was smallest" (Interview 3/2005). Another person added:

> *The Swedish crisis within the banking system had the effect that Sweden no longer took an interest in developing business in Poland. SIDA quit giving priority to the Polish applications for assistance. They could get only aid for those projects that concerned protection of the environment (Interview 5/2005).*

The environmental projects belonged to the largest assistance projects, in which many financiers were involved (the World Bank, Nordic Environment Finance Corporation [NEFCO], European Bank for Reconstruction and Development [EBERD], Nordic Investment Bank [NIB]). Thus, SIDA was not the only one involved in financing these efforts.

Concerning the third and fourth phases, SIDA's assistance was somewhat different in character because it concerned mainly social welfare issues. These issues were given priority for support. SIDA had no previous experience in this regard. However, in a very short time it emerged that the recipient countries were

very pleased with the welfare projects. In that area, we can say that the goals were achieved without doubt to the advantage of recipients.

During the third phase, the operative goals were of great importance to the Swedish government and in consequence to SIDA. They advocated: (1) the will to integrate Russia and Ukraine within the European structures, (2) that the developmental work was expected to be directed by Swedish interests and had to be to Swedish advantage and result in a situation such that Swedish competence would be in demand, and (3) that the aid projects should be directed to the regions in the Baltic Sea area and the Barents area in order to arrive at good neighborhood relations (Eduards, 2004a, p. 14). Thus, the operative goals were aimed primarily to serve the interests of Sweden and were directed to balance the social exchange with regard to giving assistance.

In the fourth phase, SIDA's work contributed to improving the relations between Sweden and its neighbor states in line with the earlier plans:

> *A large number of Swedish government agencies now have regular close relations with their counterparts in the Baltic states – relations that have sprung from SIDA-financed projects. Decentralized cooperation between municipalities and NGO cooperation demand, in general, not the same conditions for regular cooperation, but are nonetheless deemed necessary to strengthen neighbor relations and to create a valuable network of contacts for the future (Eduards, 2004b, p. 20).*

According to Eduards' report, many advocate that Sweden and the Baltic states not only share political attitudes, but also support each other in public opinion. In order to facilitate the termination of programs of cooperation, the Ministry for Foreign Affairs and SIDA have implemented Technical Assistance funds to promote transition to regular cooperation quite recently (2004b, p. 20).

What we see are representatives from donor organizations who talk about their awkward position, lacking knowledge, having to learn by making mistakes, having to deal with wrong priorities and authorities that mainly act in a selfish way, while they try to make the best of it. Given these points, it is surprising that Swedish aid was perceived as being among the best in the eyes of the recipient countries.

## 6.6 Reflections

This chapter has investigated the role of Swedish donor organizations in the assistance programs provided to CEE countries during the transition process. The prime reason for this research was that previous chapters pointed to the failure of many projects. The recipients blamed the advisors, who were seen as arrogant and lacking the knowledge and skills. The advisors blamed the donor organizations

for lacking means and strict boundary conditions. This chapter forms the logical sequel in that respect.

It started by expressing confusion, because one could see donor organizations as charity funds serving a good cause, externally oriented and altruistic. How could they be blamed? This chapter tried to answer that question by framing the behavior of donor organizations within the social exchange theory and by presenting a case study of the Swedish donor organizations to see whether this framework is valid in this respect.

That does indeed seem to be the case. Departing from the assumption that social exchange is about giving and taking, the theory tries to explain what happens if there are imbalances in such exchange as is the case with the activities of donor organizations. Why should one give aid in the first place? The theory states that such exchange results in power disparity and a bond between beneficiary and recipient in which the latter is expected to become indebted to the former and therefore susceptible to the former's demands regarding geopolitical issues. When social exchange is only intended to bring about such effects, it is not relevant for the beneficiary whether the money provided is well spent or whether there are direct effects of giving assistance. There are long-term political and strategic considerations that matter most.

This chapter investigated whether indicators could be found that support this view. Because of the openness and transparency of the Swedish policies and the frankness of our respondents, ample indicators were found. Indeed, it was argued that the assistance programs to CEE countries were often trapped between the major objectives of the Swedish government and the down-to-earth, concrete, operational objectives formulated for specific projects. The incoherence between major objectives and operational goals may well be the explanation for the failure of concrete assistance projects.

The question then becomes whether the role of the donor organizations is to be criticized. According to the representatives of the donor organizations, this is only partly justified. The respondents in our case study were very frank about this. They were trapped between the demands of Swedish authorities and the regulations that restricted their possibilities, on the one hand, and their own goals with regard to improving the situation in CEE countries on the other hand. According to our respondents, it was this mixture of comprehensive and strategic objectives with operational goals that frustrated some of the assistance programs. Hence, it was not a question of altruism or selfishness as proposed by the social exchange theory.

The real question is to what degree the motives of the Swedish government resulted in aid at the cost of, rather than to the benefit of, the development of CEE countries. In terms of social exchange theory, whether they only wanted to develop a power relation, in which case the effectiveness of aid is irrelevant, or they wanted to increase their status. In the latter case, the effectiveness of aid is relevant. Seen

from the recipients' point of view, judging the Swedish aid as relatively effective in comparison to that of other nations, it was not just power that was sought (cf. Sobis & de Vries, 2004). Seen from the indicators given in this chapter on the motives of the Swedish government, the establishment of power relations was at least one of the motives. The Swedish government made very concrete regulations. It decided which countries would receive aid, and which policy areas should be addressed. Even if the situation in certain countries justified the continuation of assistance, shifting priorities of the Swedish government could suddenly terminate successful – though unfinished – programs.

According to the respondents from donor organizations, they merely followed the directives and regulations. Following the regulations was necessary, even if the direct results of the aid could not be positive in that way. For instance, the respondents working within donor organizations acknowledge that hiring local actors within the recipient countries could have been profitable in achieving the goals. However, as one respondent said:

We paid the Swedish advisors 5000 SKR a day, which is a lot of money. One can ask a question: why did we do so? The answer is simple. We could not pay local actors in a recipient country, by our rules of assistance. Thus, we paid so much to our advisors in order that the advisors could pay the local actors for their knowledge and assistance. It was our method of covering other necessary costs when conducting aid programs (Interview 2/2005)

The respondents from the donor organizations also gave examples that confirmed observations from the previous study. Not all of the advisors and consultants whom they hired from consulting agencies were honest. Some projects were even concluded with legal proceedings. A respondent said:

> *We had discovered that one Swedish consultant had bluffed his way in through falsification of invoices in Riga. He was sentenced to go to prison. It was the only example I remember. We have a system that all the invoices go to the Swedes because we pay the Swedes, but the same invoice has to be signed by the representative of the recipient. SIDA pays only when the invoice is signed (Interview 2/2005)*

This opinion is not congruent with the advisors' experiences from the research presented in the previous chapters, in which the respondents were complaining over the missing funds to hire the local advisors. The respondents from the donor organizations also stressed their lack of influence in other ways. According to themselves, they did not send the advisors and consultants to recipient countries. They only paid for the experts' and consultants' work, while the consulting agency was responsible for the selection of advisors and consultants to the aid projects.

It is interesting that, similarly to the complaints of the Swedish advisors and consultants about the donor organizations that created the uncertain working conditions for them, the donor organizations seem to have every right to complain about the boundary conditions they have to act within. According to themselves, they are just small players in the field, having only a minor impact. They had limited knowledge about what was really going on in the recipient countries. They were dependent on shifting regulations made by government, and shifting goals that were not always congruent with what was needed in the recipient countries. Their main task was to transfer money to consultancy agencies that sent so-called 'advisors' and 'consultants' to do something, but what these actually did was far from transparent to the donor organizations.

In their own view, they are not autonomous organizations able to define their own goals, and in their conception they do not conform to the criteria for charity organizations. Implicitly they are telling us to investigate the changing policies of Swedish authorities in order to explain what really caused the aid to CEE countries to be sometimes ineffective. The Swedish government was acting in accordance with social exchange theory, even when this went at the expense of effective aid. The respondents from the donor organizations depict themselves as small fish, as pawns on a chessboard – unable to steer, being pushed around instead, and at times even sacrificed for the greater objectives of a governmental player aiming for a stronger geopolitical and commercial position.

However, this is not the first time our research has yielded such results: recipients pointing to advisors and consultants, the latter pointing to the donor organizations, and these in turn pointing to the political authorities. In order to get a complete picture, it is necessary to investigate the opinions of the latter and to judge whether donor organizations are really just pawns. The search continues.

# 7. The Politicians' View


## Abstract

This chapter investigates the motives and reasons behind the assistance programs to CEE countries from the perspective of the Swedish government, which was responsible for this kind of aid. How did the Swedish government arrive at decisions regarding the technical assistance to CEE countries and changes therein? The research thus far revealed that such aid was often ineffective and that priorities in aid, as well as the nature of aid, changed irrespective of negative side-effects on ongoing processes. Recipients blamed foreign advisors for giving inadequate advice; the Swedish foreign advisors pointed to the aid organizations, which did not provide adequate boundary conditions; and the latter told us that it was all politics, decided by consecutive ministers in the Swedish government. Therefore, this chapter addresses the opinions of the Swedish government.

Within the new institutional framework, two explanatory factors are mentioned as accounting for political decisions such as the ones we address: the logic of consequentiality and the logic of appropriateness (March & Olsen, 1989). The first logic assumes that decisions are calculated intentional choices based on personal preferences, in which estimates of the merits of alternatives and their expected consequences are central. In the second logic, rule-bound behavior, in which action is nothing more than the matching of a situation to the demands of a position, dominates.

The chapter concludes that the Swedish government's decisions on aiding CEE countries show that the logic of appropriateness and the logic of consequentiality are not opposites or two extremes in one continuum. Rather, we conclude that decision-making processes are only seemingly based on the logic of appropriateness. When one conducts an in-depth search and distinguishes pretended and actual goals, an underlying logic of consequentiality shows up.

## 7.1 Introduction

The aim of our endeavor still is to gain further insight into the factors explaining the (in)effectiveness of foreign assistance programs. This chapter addresses the questions: what were the characteristics of the position of the Swedish government with regard to foreign assistance to CEE countries, and what are the determining factors explaining its decisions regarding the provision of aid to CEE countries?

Given the preceding results, one may wonder at the start about its opinions. Until now, everyone had somebody else to blame – so one is curious whether the Swedish government will reproach the practices of the World Bank, the IMF, the UN, and the EU of which it was possibly a victim. Could it respond in a different way?

In view of the numerous evaluation reports and other information about technical assistance projects gathered by donor organizations, one might expect with some benevolence that the decisions of the Swedish government were based on that information; that such decisions would be the result of an extensive weighing of the pros and cons of alternatives, founded on explicit political values and taking the consequences of such decisions deliberately into account. After all, we are dealing with the public sector in a decent, well-developed constitutional state, having the reputation of providing aid in a most generous and altruistic manner. The state knows that the consequences of its decisions can be either a big support or a burden, not so much for the decision-makers themselves, but for the target groups. If their decision-making processes went along such expected lines, the blame assigned to the politicians by donor organizations and advisors, as encountered in previous chapters, has to be rejected for being nonsensical.

However, in theory the critics might have a point. Since the early work by Cohen, March and Olsen (1972), we know that decisions are often not made in the expected rational fashion. March and Olsen (1989) specified this second kind of decision-making and built a new institutional perspective in their classic on "Rediscovering institutions". We know from that literature how decisions in organizations often emerge at random, being the consequences of processes best described with the metaphor of the garbage can – in which problems, solutions, opportunities and actors flow independently and at random until they accidentally merge and completely unpredicted decisions come about. If the decisions made by the Swedish politicians were to reflect that model, there might be grounds for the blame. In that case one could argue that the negative results of the technical assistance to CEE countries are a consequence of the behavior of politicians who do not act ingeniously, but ingenuously with regard to the consequences of their decisions.

That framework makes it interesting to investigate the nature of the decision-making process on the part of the Swedish government. The next paragraph will concisely discuss this framework and address the discussion about it.

Subsequently this chapter presents research findings. The findings are based on interviews with the Swedish officials – the Prime Ministers, the representative of the Ministry for Foreign Affairs and the representative of the Finance Department – who were politically active during the years under study, that is, 1988–1997. It also makes use of the diaries written by Swedish politicians active during those years, and by some politicians still active today. Thirdly, use is made of Swedish Statute Books, government bills, resolutions and reports.

These results lead to quite unexpected conclusions – at least compared to our expectations based on the results presented in the previous chapters. The conclusions are given at the end of this chapter.

## 7.2 The logics of consequentiality and appropriateness

March and Olsen (1989) commence with the idea that most political thinking suffers under contextualism, reductionism, utilitarianism, instrumentalism and functionalism, resulting in explaining decisions by the logic of consequentiality. In their view, politics is seen as being all about well-calculated intentional choices based on personal preferences in which the estimates of the merits of alternatives and their expected consequences are central and power is partly determined by information and expertise (p. 5). Their alternative approach focuses on the institutional structure in which politics occurs. According to them, this institutional structure provides order and influences change (p. 16). Between the context in which politics takes place and the motives of individual actors, there is the institutional setting, with agencies and committees that are not only arenas for contending social forces, but also collections of standard operating procedures and structures that define and defend values, norms, interests, identities, and beliefs (1989, p. 17). Within such institutions, rules – routines, procedures, conventions, roles, strategies, organizational forms and technologies – are crucial (p. 22). According to March and Olsen, rule-bound behavior in which action is nothing more than the matching of a situation to the demands of a position dominates (p. 23). Behavior is more about obligations and responsibility than about deliberate choices. This is what March and Olsen call *the logic of appropriateness* which is quite different from *the logic of consequentiality*.

They see advantages in such behavior. The advantages arise because this kind of behavior promotes consistency, avoids conflicts, provides codes of meaning, constrains bargaining within comprehensible terms and enforces agreements (p. 24).

All this does not make behavior routine, they say. It is about applying potentially relevant rules to specific situations, with criteria of similarity or difference and through reasoning by analogy and metaphor (p. 25). In this conception, expertise is a collection of rules, which vary over positions (p. 30). Advisors learn what advisors do and politicians learn what politicians do. The field of expertise is as foreign for politicians as, for most advisors, the political process is – an alien domain of which

they are ignorant (p. 30). In this sense politics is also ignorant of expertise and often trusts expertise, not because of its quality, but because the advisor is irrelevant, i.e. unambitious and not yearning for influence (p. 32). Acting according to such rules induces trust which is enhanced when the decisions are piecemeal and pragmatic, and when they leave unacceptable solutions aside.

March and Olsen go even further. It is not only action, but also perceptions, interpretations and preferences that are shaped by institutions. The results, in their beautiful description, show that people do not see what is to be seen and do not like what is to be liked, but see what they are expected to see and like what they are expected to like. However, people prefer to see what they like, like what they see, like what people they trust like, and see what others whom they trust see (1989, p. 44).

Therefore, expertise and information, based on independent valid and reliable, i.e. scholarly, research as such does not influence choices. Such research is meant first and foremost as a symbol and signal that decisions are made as they ought to be made, namely intelligently, sensitive to the concerns of the relevant people, and controlled by leadership. Such processes are judged positive if that appears to be the interpretation of a decision (or decision-making process), and decision-makers are eager to bring about that picture. This might explain our problem about the ineffectiveness of assistance to CEE countries during the transition process. The hypothesis might be that the politicians' decisions were based on logic of appropriateness, not on logic of consequentiality. In other words, politicians made their decisions because they thought it was proper to make those decisions irrespective of their effects, instead of deciding on the basis of information about the effectiveness of aid.

The same goes for explaining the changing nature of the assistance projects in the 1990. In a classic way, such change is to be understood as a routine in which standard operating rules apply, as a means for problem-solving, the outcome of learning or conflict, as a process of contagion or of intentional behavior.

However, as March and Olsen (1989, p. 65) see it, such change might be more solution-driven than problem-driven. Such change more often involves transformation than innovation, in which the meaning of change only becomes clear during the process, and which often is captured in a competence trap. Hence, institutional change rarely satisfies the prior intentions of those who initiate it. They reflect changing preferences and goals on the part of the initiator of change during the change process, but often can also be interpreted as full of rhetoric or garbage cans. This is indicated, for instance, by the finding that politicians tend to retreat in case of conflicts, have difficulty in keeping attentive to the change process, and hardly ever allow evaluations of the changes made.

From the new institutional perspective, the problem we face regarding the aid to CEE countries is that all stakeholders departed from logic of appropriateness. The recipients complained because they were supposed to complain, and the advisors acted as advisors should act – namely making the best of a situation within the

limiting boundary conditions. Donor organizations behaved as donor organizations should behave – namely following the rules made up by the money providers and politicians made decisions in the way politicians are supposed to make decisions – promoting consistency, avoiding conflicts, providing codes of meaning, constraining bargaining within comprehensible terms, and enforcing agreements.

The perspective of March and Olsen was widely acclaimed and applied. It was called a "contemporary classic" by Goodin and Klingemann (1996). The most well-known application came from Kingdon (1995), whose multiple-streams model was directly linked to the perspective of March and Olsen.

However, somewhat belatedly, fierce criticism also emerged. Although several studies can be recalled, the most fun(damental) example would be the review by Bendor, Moe, and Shotts (2001) and the reply by Olsen (2002). The criticism evolves around five points. Firstly, they provide substantial criticism, by arguing that March and Olsen (1989) assume the existence of four streams which flow independently, namely problems, solutions, actors and opportunities. According to Bendor et al. (2001), it is hard to imagine such independent streams. Solutions, participants, opportunities and problems cannot exist independently. They are necessarily linked: sometimes by definition, sometimes by mere logical reasoning. Secondly, March and Olsen's approach, which emphasizes organizational anarchy, is criticized for paying too little attention to the role of power, leadership, authority, control, delegation, and incentive systems within organizations that try to achieve as much congruence as possible (cf. March & Olsen, 1989, p. 173). Thirdly, they criticize the ambiguity and lack of clarity of many of the phrases used by March and Olsen. According to them, it is unclear what March and Olsen mean when they talk about organizational anarchy and temporal ordering, and when they define logic of appropriateness. According to Bendor et al. they transform a clear concept into a morass. Furthermore, it is unclear what their framework tries to explain: outcomes or designs of organization. The last point is that theories are supposed to reduce complexity, not surrender to it, which March and Olsen's theory does in the opinion of Bendor et al. (2001, p. 185).

The latter suggest returning to the concept of the satisficer, so named by Simon (1947, 1997) in order to address the crucial issue of the aspiration level. A decision-maker's aspiration level determines whether the people providing information keep on working or whether a decision is made. Such an aspiration level acts as a stopping rule: if one gets a proposal that exceeds the aspiration level, the decision-maker selects that one, and the process ends. If no proposal satisfices, the staffers keep working. If more than one proposal does satisfy, the decision-maker picks the one thought best. This approach, according to Bendor et al. (2001), would enable us to avoid as much as possible the concept of randomness implied by organizational anarchy. This would imply that, although decision-makers never take all information into account, there might be differences between decision-makers to the degree that

they are rule-followers or information-followers. According to Bendor et al. (2001) the way decisions are made has to be investigated empirically and depends on aspiration levels, whereas they assume that according to March and Olsen (1989) the first type of decisions is without doubt the most common.

One can understand that Johan Olsen was not amused by this criticism. In his reply he wrote angrily about the complete lack of understanding on the part of Bendor et al., their muddling of the issues, the unproductive tribal warfare they produce, the unsuccessful examples and hardly promising alternatives coming from an imperialist intellectual tradition and a program that is alien to the spirit of the garbage can model and new institutionalism (Olsen, 2002, pp. 191–198).

However, it is a pity that the discussion has proceeded in this way, because the issues at stake are fundamental. From March and Olsen's point of view the questions would be: whether it is possible for us to untie ourselves from the classic notion that all behavior is based on an implicit or explicit calculation and weighing of the consequences, and whether there is a model which we can accept as an explanation for decision-making processes that poses a real alternative for contextualism, reductionism, utilitarianism, instrumentalism and functionalism. From the standpoint of Bendor et al. (2001), the question is whether we have analyzed behavior thoroughly enough when we conclude from our analysis that decisions are made without using the information at hand and that they are made just on the basis of customs, norms and the position one is in.

For our search, both theories might have explanatory value. If March and Olsen (1989) are right, the Swedish politicians just acted as they were supposed to do, i.e. making decisions without using the information at hand and without taking the consequences of the decisions into account. Then we might come to the conclusion that the ineffectiveness of aid was a direct consequence of rule-following behavior, in which the consequences of the decisions made were never considered.

If Bendor et al. (2001) are right, we have to search for those impacts of policies – beside the formulated policy goals – that were really important for the Swedish politicians and that might explain their decisions. Proceeding in their footsteps, we would have to investigate whether there was a hidden agenda, contrary to the achievement of the official policy goals.

This discussion results in three contrary hypotheses which structure our research, and of which the latter two have explanatory power for the question of how it could be that the aid given to CEE countries was not very effective for the recipients, whereas the first one would induce us to continue our search.

*Hypothesis 1:* The ineffectiveness of the aid given to CEE countries cannot be explained by the actions of the Swedish government. They tried their utmost to make this aid effective. That the aid was ineffective has to be explained by the behavior of other actors whose actions limited the

possibilities for the Swedish government to be effective, and whose actions have to be investigated in a subsequent chapter.

*Hypothesis 2:* The ineffectiveness of the aid given to CEE countries can be explained by the actions of the Swedish government. The reason is that the decisions made by the Swedish government about aiding CEE countries were essentially based on the logic of appropriateness. They were not based on an abundant use of available information, by intentionally determined operational goals concerning the effectiveness of aid, or by the need to solve specific and urgent problems.

*Hypothesis 3:* The ineffectiveness of the aid given to CEE countries can be explained by the actions of the Swedish government, although the decisions made by the Swedish government about aiding CEE countries were based on an underlying logic of consequentiality. They did calculate and weigh the consequences of their decisions. However, the weight of the effectiveness of the aid for the recipients was subordinate to other consequences of their decisions.

In order to see which hypothesis can be supported, we have to analyze the decisions made by the Swedish government. The outcomes of that research are presented in the fourth section. In the next section, we describe how this research was conducted.

## 7.3 Data and methods

This study is anchored in the research presented in the previous chapters. It is based firstly on the analysis of the Swedish official documents dealing with the Swedish aid to Central and Eastern Europe (CEE). This includes code of statutes, government interpellations, bills, decisions, minutes and reports. In Sweden, all official documents can be found on the Internet. The home pages of the Swedish government, different political parties and the Swedish International Development Cooperation Agency [SIDA] were of great service. To collect the necessary data dealing with the parliamentary debates, governmental bills, reports and decisions proved time-consuming but satisfying.

A second source of interesting information proved to be the diaries written by the former Swedish Prime Ministers Ingvar Carlsson and Carl Bildt, who were politically active during the period of 1988–1997. In their books, one can find explanations of why Sweden's officials made a decision to 'help' the CEE countries after 1989. Moreover, these books cast light on the political climate in Europe and Sweden, and the general vision of the Swedish politicians about the future after the fall of the Berlin wall. The diaries have a value complementary to that of the official documents.

The third source of data constituted the interviews from the previous studies about the Swedish advisors/consultants and the Swedish aid organizations. Those interviews from the mentioned studies stimulated our inquiry in the actual research about the Swedish government.

Finally, we used interviews with the Aid Ministers of the Swedish Government. The aim was to understand how they perceived Sweden's roll in CEE shortly after 1989. It seemed important to ask them about their perception of Sweden's roll in CEE during transition, their views about Sweden's political influence on a great transformation, and their opinions about the degree to which Sweden's actions corresponded to the needs of the post-socialist countries.

We also sent letters to eight officials of the Swedish government who were involved in the Swedish aid to CEE after 1989. Two of three Prime Ministers, i.e. Ingvar Carlsson and Göran Persson, who represented the left-wing governments, answered the letter but refused participation in the research. Ingvar Carlsson was the Prime Minister during the years 1986–1991 and 1994–1996. Göran Persson was in charge in the period 1996–2006. Both perceived the Aid Ministers as the more promising source of information regarding the Swedish aid to CEE. Ingvar Carlsson recommended that we interview Lena Hjälm-Wallén, Pierre Schori, and Jan Eliasson, while Göran Persson recommended an interview with Carin Jämtin. Ingvar Carlsson promised to answer some specific questions by e-mail, if it would be important for our research. However, we found quite interesting material in his book *"Så tänkte jag. Politik & dramatik" ["That's what I thought. Politics and drama"]* which was published in 2003 and which partly provided us with the answers on our questions. Carl Bildt, the former Prime Minister during the years 1991–1994, the current Minister of Foreign Affairs since October 2006, and the representative of the right-wing government, never replied to our enquiry about the interview. Similarly to the case of Ingvar Carlsson, we used his book *"Uppdrag – Europa" [Commission – Europe]* which was published in 2003. We also had mail and telephone contact with Kjell-Olof Feldt, who was the Finance Minister during 1982–1990. He accepted an interview, but considered his own involvement regarding Swedish aid to CEE too minor to be able to help us in our investigation.

The questions prepared for the politicians were close to the questions we asked the representatives of SIDA in November 2005. However, it was important to ask more specific questions fitting these representatives of government. This resulted in an interview guide for the Aid Ministers, in which the questions were divided into three thematic groups: first, the politicians' vision of Sweden's political influence on the transition in CEE after 1989; second, the politicians' strategy, organization and changes of the Swedish aid to the CEE countries; and third, the politicians' ideas about the effectiveness and outcomes of the Swedish aid programs to CEE.

A problem was that the interviews were retrospective in character and human memory proved very deceptive, while only two Aid Ministers gave us interviews in

depth. We do not use their names, so as to protect their anonymity, similarly to our previous articles. In this situation the governmental documents and reports, and the politicians' diaries, became of huge assistance for reconstructing the political climate around the Swedish aid to CEE and for answering the research questions. We have to accept these limitations.

## 7.4 Swedish government and its aid to CEE countries

So what are the results of this investigation? This section addresses that question. It is divided into three subsections corresponding to the research questions and hypotheses. The first subsection addresses the position of the Swedish government in relation to other stakeholders. In terms of our first hypothesis, the questions are whether there were other actors whose actions limited the effectiveness of Swedish aid, and whether the Swedish government tried its utmost to make is aid effective.

All our previous chapters on this subject concluded that the organizations under research were almost completely dependent on others, and were limited by those other actors in their effectiveness. According to themselves, they all tried to do their best to be as effective as possible within the limiting boundary conditions set by somebody else. Hence, the first thing we did was to investigate whether this could be the case for the Swedish government also. It would save a lot of trouble if it were clear from the start that the Swedish government was wholly dependent on others. One can think, for instance, of the World Bank (always an easy target), the European Union (never forget its bureaucracy when you want to blame someone), the IMF or UN.

The second subsection describes the changes in the Swedish aid programs and the factors explaining this development. In terms of the second hypothesis, it presents indicators for rule-following behavior as suggested by the logic of appropriateness. Did the Swedish government, for instance, make extensive use of available information?

The third subsection describes whether it was indeed rule-following behavior or whether an underlying logic of consequentiality dominated. In the words of hypothesis 3, was there a hidden agenda?

### 7.4.1 The independence of the decisions

Let us first see whether the Swedes were serious about giving aid to CEE countries. Table 1 presents the amount of money Sweden invested in this aid. We follow Eduards' description of aid financing (Eduards, 2004a; SOU 2000, p. 122). The Swedish government assigned about 7,012,500,000 Swedish crowns to the aid programs for the CEE and Russia during the years of 1989–2003. This sum was divided into four three-year periods and one two-year period, the latter being the final period of Sweden's aid to the Baltic area. Table 1 below focuses on (1) the period of aid, (2) the

government's bills to the Riksdag about the principles for aid financing, (3) and the sums of money assigned to the Swedish aid to CEE for each the period.

**Table 7.1**
Swedish aid to the CEE countries during the years 1989–2003

| Years | Swedish crowns |
|---|---|
| 1990/91–1992/93 | 1,000,000,000 |
| 1993/94–1995/96 | 2,900,000,000<br>-<br>122,500,000<br>- |
| 1995/96–1997/98 | 1,700,000,000 |
| 1998/99–2000/01 | 2,400,000,000 |
| 2001/02–2003 | 1,500,000,000 |
| **Total** | **7,012,500,000** |

Source: Based on Eduards (2004a), Bilaga: Promemoria. [Eduards (2004a), Appendix: Memorandum.]

Given the huge amounts – Sweden belongs to the top three nations in international aid – one can conclude that the Swedish aid was a serious matter. But it does not tell us that giving effective aid – from the point of perspective of the recipients – was a serious matter. We will discuss in the following sections whether that was the Swedish case.

However, one can ask a question: were the Swedes limited or influenced by others, such as the EU? When starting to help CEE, Sweden was not in the EU structures. On 1 July 1991, Sweden applied for EU membership. Then the government's task was to convince the Swedes that the EU membership would be advantageous to Sweden. We wondered to what degree the government's efforts to join the EU did influence Sweden's assistance to CEE.

Asking these questions to the Aid Ministers, both stated that the Swedish aid to CEE shortly after 1989 had nothing to do with the government's efforts to join the EU structures. The same opinions were shared by the advisors and the representative of BITS and SIDA. Nonetheless, Sweden's aid to CEE was frequently linked with the activities of other big financiers like the World Bank, the European Bank for Reconstruction and Development [EBRD], and the Nordic Invest Bank [NIB]. It was thought from the beginning that aid recipients from the CEE countries could receive resources from these banks in the form of loans to their necessary investments. The general principles for loan allocation were rather complicated. Sweden usually took the risk and borrowed money from these banks in order to lend the

money to aid recipients, although against a higher percentage of interest. This activity proved pretty profitably to Sweden and the aid recipients (Riksdagens snabbprotokoll 1990/91:61, 20 §). By the time Sweden became an EU member the situation changed. One of the respondents explained:

> *Then Sweden experienced some pressure from the EU, but it was unnecessary because we had been involved in the assistance to CEE from the beginning of those countries' transition (Interview 1/2006).*

However, the same respondent told us also that:

> *In the middle of the 1990s, the Swedes were aware that their assistance was not only given because of the close vicinity of the Baltic states, but the aid was also about Sweden's EU membership. It seemed necessary to support these countries in their economic development to reconstruct their economies. However, no one knew how to do it in practice. We did not have such experiences before (Interview 1/2006).*

The important thing is that none of the respondents perceived the presence of other international actors as a hindrance or limitation. On the contrary, they say that Sweden's membership in the EU structures opened new possibilities to participate more frequently in the multilateral aid programs in cooperation with the big international organizations and other Western countries. Such multilateral cooperation was discussed and decided on the governmental level:

> *Regarding multilateral cooperation, it did not go through SIDA but directly via the governments. We were cooperating with the European Development Bank or the World Bank. It was only the government that made a decision. For example, the aid dealing with the protection of the natural environment was considered as the common sum of money that we (the government) divided among different countries: this part of money went to Poland, this sum went to Russia, this money went to Latvia and etc. Gradually, we could see how much aid went to each of these countries. Otherwise, there was always SIDA which took care of aid (Interview 1/2006).*

Most respondents from our previous and actual research explained that more financiers were involved in the aid programs to CEE when it became obvious that some post-socialist countries applied for EU membership. This fact contributed greatly to changing the attitudes of the EU members towards these CEE countries. They were immediately perceived as future partners for collaboration. Thus, it was necessary to create the proper infrastructure.

The major aim of the EU aid to CEE was to prepare these countries to fulfill the accession criteria known as the *Copenhagen criteria*. Sweden was also obligated to participate in this process and to help the EU candidates in making progress in socioeconomic reforms in line with a market economy and the EU norms and valuations. On the one hand, the subsequent changes within the Swedish aid to CEE were minor and could be seen as a continuation of the previous general objectives and operative goals. On the other hand, the changes reflected the EU demands to make more efforts in the field of socioeconomic sphere to prepare these countries for EU membership. Both Aid Ministers confirmed that the aid to the CEE countries was only progressing in its form and extent during this period.

This is also seen in the 1999/2000 report of the Committee of the Ministry for Foreign Affairs about the economic development and collaboration in the Baltic region. In this report the government describes the many-faceted collaboration between Sweden and Estonia, Latvia, Lithuania, Poland, the Kaliningrad area and Northwest Russia, and the EU cooperation with those countries. It appears from this document that the government perceived the cooperation among the Nordic Council, Nordic Ministry Council, Barents Council, EU and the Council of Baltic states to be of crucial importance for putting into practice the international institutionalization in those countries. The report contains the retrospective presentation of the Swedish policy during the years 1989–1999. It also shows that in the eyes of the Swedish government, Sweden's membership in the EU opened new possibilities to collaborate with the old EU members as well as with the potential EU members.

In conclusion, the Swedish government did not put the blame for the ineffectiveness of aid on anyone else. In the interviews with those directly involved, we did not find a trace of evidence that any decision made by the Swedish government was influenced negatively or limited by the actions of other stakeholders. If its decisions were limited by anything, this was its own decision to limit the amount of aid from 1.03 % of GNI in 1992 to 0.7 in 1997, which Pierre Schori called "the boundary of shame" (Motion 1996/97: U209). However, it seems rather a lot compared to the aid given officially by other countries.

### 7.4.2 Following the logic of appropriateness

This preliminary conclusion, as to the independence of Swedish government decision-making regarding aid to CEE, leads us to the second question, namely how to understand the decision-making process on the part of the Swedish government. Were these decisions made in the classic way, thoroughly judging the alternatives and using the available information, or were they made in the new institutional way, neglecting information and just doing what one is supposed to do given the position one is in?

The respondents from previous research and the Aid Ministers admitted that at the beginning, after the fall of the Berlin wall, the Swedish government had

no planning and was just responding to the opportunities that befell them. There were plenty of private and free organizations trying quite spontaneously to help the neighboring countries around the Baltic and Barents areas. They were storming the government and SIDA with the question of how the government could support their efforts. They had their own aims with assistance and they got the government's support often on their own conditions. They were expected only to prove that they had good contacts with the aid recipients on the other side of the Baltic Sea. These developments made the government assign the first billion Swedish crowns, for three years forward, to help the CEE countries and Northwest Russia. At that time Swedish government did not seem to steer the NGOs or the private industry companies in their assistance projects. The general aim then was to support the political and economic reforms in CEE and Russia. The boards of BITS, SWEDECORP, and later SIDA were obligated to take care of the signing of bilateral contracts between Sweden and potential aid recipients. In other words, they matched partners to international cooperation and they were responsible for division of money among the Swedish actors providing assistance to CEE.

Both Aid Ministers perceived the fall of Berlin wall as a big chance to Sweden to create good contacts with the neighboring countries around the Baltic Sea and the Barrens area. The Swedes wanted to make a contribution to the development of the countries in transition, like Poland, Estonia, Latvia, Lithuania and Russia. Those states were close to Sweden geographically, historically, and culturally. One of them explained:

> *It was important that the Swedish political organizations and social movements could participate in the transition process in CEE. Sweden had a lot of contacts with the Polish "Solidarity" movement during the 1980s. These contacts were still there in the 1990s. It was natural to the government that in the new political situation, the Swedish social movements could influence the democratic development in Poland, of course in close cooperation with the Polish equivalents. We wanted to support the collaboration between the Swedish and Polish social movements, people to people. It was our way of working with democratic questions (Interview 1/2006).*

From the Riksdag minutes as well as from the interviews, it appears that the government was under strong social pressure at that time. The Swedes' sympathy or even compassion for the starving people in CEE had the result that they wanted and demanded to increase the assistance to the former socialist countries. The government experienced a dilemma because it had to choose between the assistance to CEE and the help to the developing countries of the Third World. The respondent explained:

> *We had an emotional demand for assisting Estonia, Latvia and Lithuania. We could help them with a democratic development in the framework of aid. This aid had to be concentrated in the Baltic states. It was very difficult for us, from the psychological and pedagogical point of view, to give priority to CEE while Ecuador also had huge needs. But Estonia, Latvia and Lithuania are our neighboring countries. Moreover, there were also others who involved us in this aid agenda. Furthermore, it was the result of the demand to create close relations with countries around the Baltic Sea. The Baltic Sea was poisoned and we wanted to contribute to a cleaning process (Interview 2/2006).*

Swedish society expected that "everything that Sweden had in plenty could be sent to these countries" (Interview 2/2006). The ordinary people did not think about what would happen with e.g. the Estonian peasants or carpenters if Sweden started to send potatoes or beds to Estonia. In Sweden, they produced those commodities in abundance and so these could be shared. In general, the Swedish taxpayers could hardly understand that such assistance would only change the bad situation of the CEE countries for the worse. Even the Fast Protocol of Riksdag debates during 1990–1991 confirmed how close the Swedish politicians were to the ordinary people's rather naïve understanding of the Swedish aid to CEE (Riksdagens snabbprotokoll 1990/91:61, 20 §).

At that time too, the Swedish politicians made use almost solely of their private relations with the politicians from the Baltic states. Concerning Estonia, Latvia and Lithuania, the Christian Democracy Parties of Finland, Norway, Denmark and Sweden organized an international conference in which the politicians from the Scandinavian and Baltic states could meet and discuss CEE issues together (Interview 2/2006). Some Swedish municipalities and county councils also initiated support on their own through their contacts and equivalents within the Baltic states. As a result, plenty of visitors from the Baltic states came to Sweden just to see how the Swedish model of state worked in practice. Both respondents expressed their enthusiasm about that time:

> *In this international cooperation, without a doubt, the Swedish collaboration with the Baltic states went over the party boundaries. Those bridges that were created then were not only of such a character that assistance was provided from state to state, but the aid was provided also from municipality to municipality, from organization to organization. Party organizations contributed to exchange of culture. It was a fascinating experience to Sweden, which was previously so isolated. Suddenly this feeling was gone. We acquired some countries around us with which we had possessed historical and cultural bonds earlier (Interview 2/2006).*

After these first years of *ad hoc* decision-making in a way so characteristic of the logic of appropriateness, one could imagine that the Swedish government would proceed on the basis of more information produced by documents and evaluations. In the autumn of 1993, SIDA and BITS submitted for the first time to the government the annual reports about their aid activities. These reports were developed in the publication *"Svenskt bistånd 1992/93" [Swedish aid 1992/93],* which essentially contributed to greater knowledge and understanding of Swedish aid. In 1994, other reports were published from various sub-studies about the Swedish aid. It turned out that Swedish aid is not always satisfying or, in other words, not always effective (Riksdagens snabbprotokoll 1993/94:94, 4§). Thus, we asked the Aid Ministers what role the official reports and evaluations played in their decisions about trying to improve the efficiency of Swedish aid to CEE in those years.

The Aid Ministers we interviewed shared the opinion that the evaluations of aid programs first informed the government whether the taxpayers' money was wasted or not. They said that they knew there would always be a political discussion about ineffective aid. From the interviews, it appears that "the contents of the evaluations play a political role" (Interview 1/2006). They provide the politicians with the general understanding of the international cooperation and what kind of cooperation Sweden can expect in the future:

> *For us, the politicians, the methods of conducting aid…we don't read too much about them. The conclusions are much more important to us. We want to have a general understanding of the aid situation. I can say that it was important to me who conducted the evaluation [SIDA or the Stockholm research Group]. (…) There were some evaluations that made us change the aid politics. However, concerning CEE, I don't remember this to be the case (Interview 1/2006).*

Both Aid Ministers told us that Sweden is a little country and, knowing the small sums that were assigned to the assistance of CEE countries, no one should exaggerate the importance of the Swedish aid in relation to the needs of aid recipients, even though one could expect better outputs, more suited to the real needs of aid recipients. What mattered to the politicians was not the effectiveness of their own actions, but the developments in CEE countries in general, and when those were positive, nobody was interested in the effectiveness of specific projects:

> *Generally, we were surprised that our neighboring countries conducted the reforms so fast and with such limited support that they received. They did it almost by themselves. Of course, they had the most difficult job. (…) I believe that the social movements and the efforts of free organizations and private companies were of decisive importance for our international relations, because even if we terminated our aid to CEE, it turned out that*

> *our contacts with the neighboring countries created during the aid projects were still living. Concerning municipalities there, we have created friendly relations and we still spend time together. We were successful in exchange of culture. The leaders of political parties have learnt from each other. It was a mutual development in favor of all involved (Interview 1/2006).*
>
> *When you look at those countries today, you can see very clearly how enormous development has taken place there. (…) The impulses that we could give contributed to creating a free democratic state that was totally independent of others' interests. I think that Sweden with its aid has contributed to the development of the CEE countries. I see it in this way from the perspective of the Ministry for Foreign Affairs that arranged the aid to CEE (Interview 2/2006).*

According to the first PM in the period, Ingvar Carlsson, the logic of consequentiality was lacking until at least the second half of the 1990s. He remarked about this period:

> *When the Social Democratic government presented the first program to East Europe, the opposition made a big fuss, because we took away 300 million crowns a year from the aid subsidy. It happened to create quickly a scope for the aid to CEE while the budget was in practice completed. The government declared that it was only a temporary solution. Much bigger amounts of money would be needed. (…) Now it was necessary to have much more money going to a new East Europe Program. In the budget proposition for 1992/93, the liberal government proposed to spend one billion crowns for cooperation with CEE out of the one percent of the state budget. It is good, but less good is that the government still did not present a proposal of content that is more elaborate (Motion 1991/92: U507).*

Ingvar Carlsson was of the opinion that the 'bourgeois' government presented an empty framework for its budget proposal to East Europe. The program was stated without presenting any major objective or managing form. He judged the bourgeois government as being unprepared to take responsibility for real support to CEE. No decision was taken on what kind of aid Sweden would be specialized in: "It showed a lack of respect for the Riksdag and its responsibility for the state budget" (Motion 1991/92: U507, p. 7). He explained:

> *This unclear situation has the effect that the planning of the future efforts is stopped. Instead of speeding up cooperation with CEE, it slows it down. The government loses valuable months in*

> *a process that has already been established under great pressure. Our neighboring countries cannot draw any conclusions about what they can count on (…) The government says that it is going to establish a special fund of knowledge and a special committee in the Government Office to manage support [to CEE]. Whether the government wants to create a new public administration, or advisory efforts to help it make a decision, is unclear. The government has good reasons to take advice in an organized way from advisors and engaged parties. However, if the government wants to create a new decision-making order, it may essentially contribute to the growing problem of bureaucracy. It creates new efforts when no one needs them (Motion 1991/92: U507, pp. 7–8).*

Thus, Ingvar Carlsson had a different vision about the Swedish aid from what the bourgeois government had. He also presented his views in a Motion [Resolution] 1993/94: U212. This document was in general about the Swedish aid politics, its tradition, and its role in the common future. The most interesting aspect concerned the Social Democratic Party's understanding of good aid, including the aid to the CEE countries:

> *Today we know a lot about how good aid looks. We have experiences from both the Swedish and the international aid. The Development Assistance Committee [DAC] of OECD has set the guiding principles that are of great importance – 'best practices' based on the best experiences of practical assistance work that one can find. Sweden has provided aid that, to a high degree, lives up to these demands. Due to this assistance and due to our own country, because of our identity and our interest, we will continue to demand much from ourselves. (…) Sweden has to work internationally in order to increase the world's collected aid (Motion 1993/94: U212, point 10, p. 13).*

Other examples of the logic of appropriateness are abundant. Due to the limitations of this chapter we will give just one more example of argumentation that is not oriented by goal-achievement, but by doing things as they are supposed to be done. It refers to a speech in 1993 by Alf Svensson, in which he argued:

> *We want to have a system that is similar to the systems of other aid-givers. We talk quite often about 'like-minded' states in the political context of aid and, then we always mention Norway, Denmark, and the Netherlands. Norway, Denmark, the Netherlands, and Sweden constitute a class by themselves. Let us say that. Those countries have never used the contracts that we have. I do not want to say, and I do not believe, that no one in this Riks-*

> *dag will believe that their aid is less long-term than our Swedish aid. Other authorities – apart from SIDA, I think of SAREC and BITS – can without any doubt establish long-term cooperation without a country-frame. (…) The Social Democratic Party says in its bill that it will have strong authority with competence and professionalism. Yes, we also want that. (…) The Commission of Inquiry's recommendation points out the demand of competence and its importance. The proposals are based on goals-and-result steering. (…) The government authority [SIDA] receives growing freedom in agreement with its various working methods to find effective solutions of problems in aid work in order to reach objectives (Riksdagens snabbprotokoll 1992/93:113, 6§, Speech 65).*

Therefore, one can conclude that the orientation of the Swedish government seemed hardly based on the logic of consequentiality. Another indicator is that it delegated all the operational matters to its own administration. In accordance with the Swedish tradition of state administration, the assignment of money to Swedish aid from the state budget and the creation of guiding principles were the government's duty, while public authorities like BITS, SWEDECORP or SIDA were responsible for putting into effect the government's decisions in the framework of financial possibilities. One of the respondents said about the general objectives and the operative goals: "That was SIDA's task – they were responsible for carrying out the Swedish aid" (Interview 1/2006). The same person added: "SIDA also divided money among various actors [e.g. church, parties, municipalities, county councils, and companies from industry] participating in aid projects" (Interview 1/2006).

We did not find any confirmation for SIDA's representatives who complained over the government's uncertain regulations (see previous chapters). According to them, the government's regulations negatively influenced the possible effectiveness of aid programs to CEE. However, it seems that the personnel of donor organizations had formulated the general objectives and the operative goals even before the government officially declared the first guiding principles for aid in its bills to the Riksdag.

Some consultants and advisors whose opinions were presented in previous research shared the opinion that the regulations sometimes implied that it was forbidden, for instance, to prolong any aid program even if that program was useful to aid recipients, or that it was impossible to hire local competence from aid recipients within the framework of Swedish aid programs (see the preceding chapter). When we interviewed the representatives of BITS and SIDA, it turned out that they were blaming the government for creating such strict and sometimes ambiguous rules (ibid.). We asked the Aid Ministers about the government's regulations for BITS and

SIDA. We wondered how they could explain the negative impact of governmental aid regulations on the effectiveness of the Swedish aid programs to CEE.

Both Aid Ministers emphasized that BITS and SIDA had enormous freedom in providing the Swedish aid to CEE. They almost had their own internal regulations, which were the result of their own translation of the governmental guiding principles:

> *We (the government) decided only the sums of money and the general guiding principles for aid. After this, it was SIDA itself which decided details. [Regarding e.g. hiring of local competence:] I hardly believe that the government created such regulations. However, it should be checked if it was something like that. We had some government documentation, but not too much. We sent, of course, the letters to SIDA in which we explained the government's decisions, but we did not give any detailed instructions like this, i.e. dealing with the employment possibilities of local advisors from aid-recipient countries in the framework of the Swedish aid program. No, I don't remember that. I don't understand it (Interview 1/2006).*

> *I don't recognize the picture. I would like to say that SIDA had its hands completely free and I don't remember any situation of interrupting international cooperation if there weren't serious political reasons behind that. It never happened regarding CEE. I dare say that the aid to CEE characterized great administrative generosity…or however you want to express it. Of course, there were some limitations. When the CEE countries were waiting for our assistance, we took the resources from Africa or Latin America. (…) I wished we could do something more, but our aid constituted only 1.03 % of GNI in 1992 (Interview 2/2006).*

This is not only important for the confrontation with the replies of donor organizations, but the statement says something more. It tells us that, in the words of the Swedish politicians, the effectiveness of the aid simply was not their business, since they delegated the actual work to donor organizations like SIDA and SWEDECORP. The only possible conclusion on the above basis is that the decisions on aiding CEE countries by the Swedish government are characterized to a large extent by the logic of appropriateness. They seemed not to be bothered by choosing among alternatives based on expected outputs and the weighing thereof, in selecting projects or countries to be aided. They did not make well-considered plans to help the transition countries in developing. They did not bother to look at the available information, e.g. the evaluations about the effectiveness of the aid provided, and seemingly supported any alternative which came around and which improved the relations with their neighbor countries. Striking is also that they only wanted to

have the aid organized as other countries organize it, that is, to do things as these are supposed to be done.

Although this section is no proof – nothing can prove what really happened – it gives abundant indications that the way the decisions by the Swedish government came about is a reflection of the logic of appropriateness.

### 7.4.3 Official and hidden agendas

The conclusion of the previous section does not, according to Bendor et al. (2001), imply that there was not an underlying logic of consequentiality that steered the government's decision-making. This last subsection analyzes whether the indicators for the use of the logic of appropriateness really describe the actions by the Swedish government or whether, underneath, there still is the logic of consequentiality, indicated by the existence of a hidden agenda that explains the position of Swedish government. To denote something like a hidden agenda does not imply that it is actually hidden, or known to only a few insiders. In this chapter, we see a hidden agenda as the actual reasons for doing something under the pretense that you have other reasons, which are either undisclosed to your audience, or known but not talked about.

In order to understand the Swedish position toward the CEE countries, one has to understand the position of Sweden at the end of the 1980s and the beginning of the 1990s. Until 1991, the socialist party held a firm grip on political developments. By that time, the government was led by Ingvar Carlsson, already quoted. Sweden was not yet a member of the EU, and the fall of the Berlin wall came as a surprise. According to Ingvar Carlsson, this event created new conditions and opportunities for Sweden. He became convinced that it was necessary to join the European structures. The issue was rather controversial for the Swedes, but the Prime Minister admitted in his diary: "I had a political vision about Europe in cooperation" (Carlsson, 2003, p. 374). Many maintain that his political vision contributed greatly to the application by Sweden to the EU on 1 July 1991. The government's decision seemed to be the result of developments in the world around Sweden.

Also important is that Sweden had been waiting for the collapse of Communist dictatorship for a long time, but when it happened, the government could hardly believe it.

The CEE liberation from the Russian occupation concerned, rather, Sweden's respect for a right society, in which it was necessary to build new institutions guaranteeing democracy, to build a free press, an independent juridical system, a pluralist party system, and establish contacts with the surrounding world.

> *It was another type of aid. It was easier for us to manage this kind of assistance geographically and practically. Suddenly the Swedish government saw a great opportunity to use its political*

> *scientists, jurists, and even public institutions. They were never used in the aid program addressing Africa and Latin America. I remember the benevolence that we had toward the Baltic states – Estonia, Latvia, and Lithuania – very well. It was no problem to us to start the new forms of assistance because we had everyday contacts with these countries… Everything that we had in plenty could be positive for the Baltic states (Interview 2/2006).*

In 1991, there was a fundamental change in government. For the first time a liberal government came into office, determined to profile itself as anti-socialist and more cosmopolitan. This government, with Carl Bildt as Prime Minister, faced a serious economic crisis. It downsized government and at the same time laid the foundations for Sweden's entry into the EU. As for the aid to CEE countries, the high aspirations continued. Bildt writes in his diary about his opinions:

> *"Sweden today is a society that longs for changes. Our will to get out of isolation and to join the European Community is also an expression of the longing for changes in our society."*
>
> *"The overriding task for us during the rest of the 1990s must be to help the Central and Eastern European countries in transition from the devastation that the socialist politics caused to the relative welfare and stability that only free market economies and plural political systems can accomplish."*
>
> *"If we do not prove successful with contributing to stabilization in Central and Eastern Europe during the 1990s, I am afraid that the development within these countries can contribute to creating instability in Europe for a long time ahead" (Bildt, 2003, p. 118).*

Consequently, the grand vision was there to 'help' the CEE countries; however, as other interviewees told us, there is a big difference between general objectives and operational goals:

> *It is always the case that general objectives are comprehensive. They deal with democratization, political pluralism, human rights, and market economy etc. You have to find a main thread to connect the issues and find a good solution but, in practice, you never start any assistance with the comprehensive objectives. Instead, you have to begin with a little step towards the general objectives. It [the aid to CEE] was not about our "proud" objectives and the general guiding principles, but about the power to act. I believe that it was important to keep the aid within the nearby area. We could show in practice that we wanted to make some efforts around the Baltic Sea. Of course, there was a gap*

> *between the general objectives and the operative goals, but it did not mean that we did not know in what direction we ought to go with assistance. Assistance demanded pragmatism (Interview 2/2006).*

According to interview 2, Sweden had from the beginning an interest in assisting the countries around the Baltic Sea and the Barents area. This cooperation was based on the bilateral agreements. The Aid Minister explained the connection between the general/comprehensive objectives and the operative goals as follows:

> *It was at the beginning of the 1990s. We felt solidarity with the people living around the Baltic Sea. We wanted to facilitate the changes that would take place there. During the first phase, the general objectives and the operative goals addressed the protection of the environment. We were very close to each other, all connected to the Baltic Sea. We, as everybody else, thought – yes. When I was in Riga for the first time, I discussed the problems with one of Latvia's ministers. I asked him: where to start our cooperation? Only to begin to talk about the environment, it proved that there were plenty of things to be done immediately. We wondered where we ought to put the small sums of money that we had at our disposal from the Swedish side. Where to start? We talked a lot about water and pollution. Then, during the discussion it appeared that the installation of water meters would be the best purpose to which we could make a contribution. Water is a free commodity, but we noticed that in Riga the consumption of water was considerably larger than in Stockholm. This situation was not due to the higher standard of life in Riga, but the result of the availability of running water in Riga everywhere. We wanted to make a contribution to water cleaning, but first we had to make an impact in Riga by stopping the waste of water. It is a good example of how we could go from a general objective to an operative goal (Interview 1/2006).*

Descriptions of the general objectives were also found in the Commission SOU 2000 under the title "Utvärdering av utvecklingssamarbetet med Central- och Östeuropa" [Evaluation of the development collaboration with Central and Eastern Europe] written by Krister Eduards. The Commission dealt with the evaluation of developments within CEE. The same author also described the general objectives in SIDA's publications of 2004 under the title "Sweden's Support to the Transition of the Baltic Countries 1990–2003". We did not find any official documents that explicitly confirmed the existence of the operative goals. Only one respondent from the study of 2005 used the concept of operative goals, when asked about the major objectives of the Swedish aid to CEE. Then the respondent wondered what objec-

tives we were referring to, i.e. to the general/comprehensive objectives or to the operative goals. The respondent's remark gave us an impression that the politicians and donor organizations had two types of aid agenda – the official one and the underlying agenda. Since that time, we always asked the respondents about their understanding of the general objectives and the operative goals, to explain the discrepancy between these two concepts.

The interviews also indicated that the operative goals seemed to be "tacit knowledge", about which many knew but few were inclined to talk. Although the operative goals are not hidden in the real sense of the word, they are kept silent about, without making them public. The interviews with the Swedish advisors and the representatives of donor organizations (BITS and SIDA) confirmed that behind the general objectives were always such operative goals. We have the impression that the operative goals had an instrumental character and served almost solely the Swedish interests, not necessarily the needs of aid recipients. Thus, we managed to trace again the official documents and reports to find confirmation for our results from the previous research. We found some statements which indirectly suggest that the operative goals were the real driving force behind the aid to CEE countries.

It was the right-wing government that introduced the special guiding principles for the Swedish aid to CEE for the first time in 1991. The guidelines for the Swedish International Enterprise Development Corporation [SWEDECORP] are a good example. According to the Swedish Statute Book of 1991:840:

1 § The board of SWEDECORP was obliged to promote and contribute directly to the development of the industry and commerce in developing countries (u-länder) and CEE according to the particular guiding principles:

2 § SWEDECORP will especially, in collaboration with the Swedish International Fund AB [Swedfund International AB], contribute to developing strong enterprises within aid-recipient countries through capital investment primarily in cooperation with Swedish industry and commerce, contribute to creating favorable conditions for investments and business activities within aid-recipient countries by transfer of knowledge to industry and commercial organizations, and contribute to trade development within aid recipients by informing and advising these countries about outlet possibilities for items and goods they can receive on the Swedish market.

3 § SWEDECORP will be paid compensation for a task they take upon themselves in its area of activity.

4 § SWEDECORP will in their cooperation with international organizations and authorities or organizations in other countries adapt themselves to the activity and principles of Swedish Foreign Ministry (SFS, 1991:840; Translation by Sobis).

Striking is that the guidelines impose a restriction on Swedish aid, namely that it should be beneficiary to Swedish government and business interests. One year later, the government introduced similar instructions for BITS. According to the Swedish Statute Book of 1992:269, BITS was expected to proceed as follows:

1 § Preparation for international technical and economic cooperation (BITS) has the task of contributing to economic and social development within individual developing countries, as in Central and Eastern Europe. BITS is at the same time going to contribute to expanding and strengthening Sweden's bonds with cooperation countries by efforts and collaboration with Swedish institutions and business.

2 § BITS will especially make a decision about governmental efforts in a framework of technical cooperation with some developing countries, make a decision about governmental efforts in Central and Eastern Europe, and make a decision about credits to some developing countries according to regulations of 1984:1132 dealing with credits for some development purposes (d-credits),

3 § BITS will, in its cooperation with international organizations or authorities and organizations in other countries, adapt itself to the activity and principles of the Swedish Foreign Ministry (SFS, 1992:269; translation by Sobis).

Seen in these instructions is the double objective of Swedish aid: (1) To contribute to the economic and social development within developing countries and (2) to do this in such a way that Swedish institutions and businesses profit. The problem is that the objectives can be, and often are, contrary in their effects. When that is the case, one need not wonder what to choose. The first objective is formulated on a far higher level of abstraction than the second one. Many hold that these governmental guiding principles constituted the foundation of the donor organizations, on which they formulated the operative goals. The aid to CEE countries was expected to promote both: the creation of profitable companies in Sweden's investment countries, but also the Swedish business opportunities (Motion 1994/95: U31; SIDAb, 2005; Swedfund, 2007).

Therefore, Bendor et al. (2001) may well have been right when they suggested that the logic of consequentiality is also underlying the logic of appropriateness. The point is that looking at the consequences of decisions does not necessarily imply that the formulated goals thereof and the related consequences dominate. When giving aid to a country in need, the improvement of the recipient does not necessarily have to be the main criterion for choosing among alternatives. This subsection has presented indications that the protection of Swedish interests was the prime concern for the Swedish government. Of course, there were gorgeous general goals in terms of the expansion of democracy, freedom, and human rights, but the operational goals showed minimal aspirations regarding development in recipient countries and maximum care for the interests of Swedish business. Perhaps the Swed-

ish government was championing the swift development of CEE countries, but its primary concern was the development of Swedish business – two challenges that it could combine through the guidelines to the donor organizations.

This finding is not contradictory to the logic of appropriateness. A government should take care of its own people and its own business. That characterizes its situation, i.e. its *raison d'etre*, and the appropriate way for it to make decisions. One can say that the Swedish government acted in a way the Swedish government was supposed to act, but still with an underlying logic of consequentiality.

## 7.5 Reflections

On 13 December 2003, when the defeated Iraqi president "Saddam Hussein" was caught "like a rat in a hole", the American governor in Iraq, Paul Bremer III, told the media: "We've got him." After this chapter we have the same feeling.

At the beginning of our endeavor, we went to the city of Lodz, which we regarded as the crime scene. At the beginning of the 1990s, this big industrial city in Poland was in the middle of a process of administrative change, because of the breakdown of the Berlin wall and the end of Soviet supremacy. It was trying to modernize its municipal apparatus and was receiving "help" in order to do so from a large number of Western advisors. These were paid by donor organizations, national governments, and international organizations. It appeared from our first research that the words "help" and "aid" did not quite capture what was going on. Much of the aid failed to be effective and even hindered the recipients in their path to development. The billions of euros that were spent were, to say the least, hardly spent effectively and when something was done effectively, such a program suddenly was prorogued, regardless of its effectiveness.

This was the policy failure or "crime" investigated and for which the culprit was sought. So like detectives we went through the whole process of receiving and providing "aid" in order to understand why things happened as they did. All those involved until now pointed to another part of the aid-chain as the perpetrator. We chased all those who were suspect because of such accusations, and listened to them. Unexpectedly but also luckily, we did not get trapped in loops in which one actor accuses another and the latter returns the ball. Who was blamed was dependent on who was talking and the blame was always on a new actor. This made it possible to go through the whole aid-chain.

The investigation started by asking the recipients, who pointed to the lousy expertise given by foreign advisors. These, according to the recipients, mostly did little more than export their own national standards, without taking the specific local circumstances into account. The research continued by interviewing the advisors, who pointed at the restrictive boundary conditions imposed on them by the donor organizations, which in their eyes were hardly advantageous. Thus, the next

suspects, i.e. the donor organizations, became the subjects of research and they were asked what was going on. They told us that they were completely dependent on political decisions which hardly took the effectiveness of programs into account when dividing the budget on foreign aid.

Lastly, this research project addressed the politicians. The present chapter gave an account of this investigation. Whereas until now those involved always pointed to new suspects, this is not the case for most Swedish politicians. They are sure that they are themselves responsible for the decisions made. However, their decisions were, in their own words, only general decisions based on general objectives. As politicians, they were hardly interested in evaluations or information about the operational processes or the effectiveness of projects in CEE countries. All this can well be interpreted within the new institutional framework as developed by March and Olsen (1989), in which they assume that the logic of appropriateness dominates among decision-makers.

However, Bendor et al. (2001) argued that such a conclusion can only be the result of a superficial analysis, since the logic of appropriateness has to have an underlying logic of consequentiality, if only because decision-makers who do not do what they are supposed to do, or fail to match a situation to the demands on their own position, might face grave consequences. Therefore, we sought indicators for such an underlying logic of consequentiality and found them in the 'hidden' agenda of Swedish politicians. That agenda is reflected in the guidelines for the donor organizations. These guidelines make the need for effective aid, in terms of improvement of the recipient's situation, subordinate to the need to improve the situation of Swedish business and institutions. This explains why Swedish politicians were neglecting the information about aid's effectiveness, and why they put the organization of aid at a distance, in the hands of donor organizations. All that mattered was whether the Swedish economy could profit from tied aid, and that seems to us to be acting out of the logic of consequentiality.

# 8. Conclusions: Searching for Professionalism


## Abstract

All the previous chapters have shown that something was very amiss in the process of technical assistance, be it on the side of the recipients, the foreign advisors, the donor organizations, or the governments that provide the money. The last chapter may make many readers ask: "So what needs to be done? What are your recommendations?"

This chapter intends to address these questions. Since the subject of our research was the search for professionalism, the first question is what is indicative for professionalism, how this differs from the practice of technical assistance, and what can be done to reduce this gap. Hence it is not an empirical but a normative discussion, based on the outcomes of previous empirical research.

The chapter first points to the problems in all the phases of technical assistance as encountered previously. Subsequently an analysis is given of those outcomes, framing them within theories of professionalism. The main question that the chapter tries to answer in the theoretical part is what constitutes professionalism and which dimensions can be distinguished. It is argued that individual professionalism can be conceived, following Brint's distinction (Brint, 1994) in two ways, as expert and trustee professionalism, the latter being more effective from the beneficiaries' point of view. Hence, the explanation of varying practices in the field of technical assistance is not a matter of amateurism vis-à-vis professionalism, but rather two different interpretations of the construct.

This chapter argues further that the organizational structure of this form of aid, and the incentive structure within the aid-chain, result in the dominance of the modern-day, expert professional, driving out trustee-professionals. We conclude that it might be desirable if the trustee-professionals could be brought in again, which requires a quite different type of organization and incentives than employed nowadays.

## 8.1 Introduction

This final chapter's aim is to draw conclusions and give recommendations on the basis of previous research. That research started out of curiosity. The Western countries provided about 40 billion US $ in technical assistance to CEE countries between 1990 (after the fall of the Berlin wall) and 2004 (the year in which ten CEE countries became members of the EU), and it appeared from many comments from the recipients at the local level that a lot of this assistance fell flat. The local officials of the CEE countries we spoke to were critical, sometimes even cynical, about the quality of this assistance. For them, only being acquainted with the individual advisors, the latter were to blame. During the process of investigation we discovered, however, that this criticism was only part of the story. There seems to exist something like an aid-chain which is not a coherent chain, sometimes depicted as "Development Inc." (cf. Easterly, 2006), but an incoherent or fuzzy chain, in which at each junction goals, objectives, instruments and techniques are proposed that do not necessarily coincide with the goals and objectives formulated by others, and in which each link is subjected to its specific boundary conditions.

This chapter models the results from that previous research within the manifold theories of professionalism. It does so because, at first sight, all the outcomes on the process of the technical assistance given to CEE countries apparently point to a lack of professionalism. Professionalism was lacking among the recipients, who did not know how to act under the new circumstances arising in the early 1990s and how to deal with the transition process. It seemed also to be missing among the individual advisors and advisors who were sent to the CEE countries. They often had not the slightest idea what the circumstances were over there, what to do or what advice to give. Furthermore, professionalism seemed missing among the donor organizations which sent these unknowing advisors abroad without giving them the opportunity to prepare properly. Finally, it seems to have been missing among the politicians of donor countries, who only had their own countries' interests in mind.

However, as the chapter will argue, this view is the superficial part of the story. We will argue that there is more than one definition of professionalism and the concept includes many aspects. It will also be argued that over the years, one specific conception of professionalism has been increasingly neglected, while other aspects were overemphasized. Hence, the conclusion we will argue during, and draw at the end of, the chapter is that perhaps there was not a lack of professionalism, which interfered with effective technical assistance, but a one-sided perception of the true meaning of professionalism, which might be the cause of the problem.

Furthermore, we will argue that this dominance of a specific type of professionalism was encouraged by a specific kind of power, organization, and incentive structure. The hierarchical flow of money, dubious objectives and steering instru-

ments, such as monitoring and evaluation, as well as the incentive structure in which it is stimulated to please donor organizations and governments, instead of concentrating on what the recipients need, has driven out the good professionals in favor of the modern-day professionals, in the same way that according to Gresham's law "bad money drives good money out of circulation". The "bad money" in our case is represented by those modern-day professionals who opt for emotion-free and goal-oriented standard-setting and keeping up appearances, based on an academic education, who work solely for financial gains. The good money is in our case visible in old-fashioned professionals, who show commitment and empathy, never misrepresent themselves, continuously try to increase their expertise, have the clients' interests in mind, see the contingencies of problems, and base their interventions on sound diagnosis. These types of professionalism of actors are seen in the conduct of the recipients of technical assistance, foreign advisors, and representatives from donor organizations as well as politicians.

The chapter concludes by proposing some improvements, but these are not in line with current trends. We do not advocate, for instance, increasing or decreasing the volume or quantity of foreign aid and technical assistance as such, or that one should build standards of excellence in terms of education and accreditation as preconditions for providing technical assistance, or that it suffices to expose a malicious aid industry's plot against the poor, and neither that there should be more administrative control on the aid provided. The chapter does argue that professionalism is also about content, and that content is more than just a transfer of standards in exchange for money, the existence of a proper monitoring system, and conducting regular evaluations.

We start with an overview of the outcomes of previous research and frameworks, and analyze the outcomes. This continues with a description of recent attempts to improve the practice in the field and recommendations as made in the literature, and concludes with a number of recommendations based on our own research.

## 8.2 A summary of previous findings

What emerged from our previous research? This section concisely presents the most important outcomes of that research.

The first chapter described the theoretical and empirical puzzle. How could it be that while everyone wanted the Central and Eastern European countries to move towards the Western camp, and huge amounts of money were spent on technical assistance to make this come true, the effectiveness of the help at the local level was nevertheless disappointing? (De Vries & Sobis, 2006). This chapter explained our progress and also the problems faced while doing our research. It explained how, through continuous reflection on parts of the research, we finally got a grip on the

problem and began to see it in terms of a lack of professionalism. The problem of the ineffectiveness of technical assistance is not widely discussed, unlike the umbrella under which it is usually classified – foreign aid. We explained why our approach and findings are rather different from those of others who have investigated the effectiveness of foreign aid in general. It was argued that underlying the debate about the effectiveness of foreign aid are four assumptions: of (1) an indifferent and (2) coherent aid industry that can be made more effective just by (3) optimizing procedures and (4) the quantity of aid. These assumptions were taken as hypotheses for our research.

The second chapter explored the nature of technical assistance and compared this with the nature of foreign aid in general. This chapter described technical assistance as a part of foreign aid and the trends in technical assistance that flowed to the CEE countries during their transition process. It showed that the amount of foreign aid as well as technical assistance received by CEE countries during their transition period was huge, implying that the research object is not something to be neglected. Furthermore, the chapter investigated whether there is a difference between trends in foreign aid in general and the one component central in this study, namely technical assistance. At an aggregate level, over 28 (post-)Communist countries that were faced with the consequences of the decline of the Communist bloc after 1989, it was shown that foreign aid as such is much more volatile, and susceptible to political changes, than technical assistance. This seems to be the more so if foreign aid comes from bilateral aid and less so if the aid comes from multilateral aid. Such volatility is much less seen within technical assistance programs. These seem to be less politically induced and more motivated by a substantial idea to help improve the recipient countries structurally. The chapter argued further that it would be profitable for empirical analyses to look at the components of aid separately. In addition, it argued that the level of aggregation determines the amount of information revealed. The more one disaggregates the data, the richer the analysis. Such disaggregated analysis followed in subsequent chapters.

The third chapter presented the situation on the labor market at a very disaggregated level, namely in the city of Lodz, the Polish textile industrial city, during 1989–2003. Lodz is the second city in Poland after Warsaw regarding the number of citizens. The city experienced the transition to a market economy as extremely hard. In a short time, there were about 86,000 unemployed people looking for work and assistance through the Employment agency. The increasing unemployment and pauperization of society became urgent social phenomena unknown under socialism. In order to help solve it, the Employment agency of Lodz received assistance from the developed countries in the field of labor market policy and labor market protection. However, the statistics on the unemployment in Lodz showed that the unemployment did not decrease until 2003. The chapter questioned the effectiveness of the foreign advice and advisors in this whole process. The circumstances in Lodz were not optimal. If they had been, foreign technical assistance would prob-

ably not have been needed. The question was to which degree the foreign advisors had a keen eye for the awkward circumstances, and whether they adapted their proposals to the specifics of this context.

The first investigation into that question, as given in Chapter 4, pointed out that Western advisors have to be seen primarily as standard-setters who make recommendations which perhaps work in their home country, but which are quite beside the point in the recipient country. There were, however, differences between Swedish advisors on the one hand, listening and giving considered advice based on the local situation, and on the other hand the advice given by American and French foreign advisors who acted arrogantly and just told the local officials to do things as they were done in the USA or France. The latter often tried to copy the standard operating procedures used in their home country, without analyzing the specifics of the context and without taking path dependencies into account. The result was that some recommendations were contrary to domestic regulations, some exceeded financial possibilities, and some just introduced a lot of bureaucracy. Furthermore, the advice of the French and US advisors was often contradictory, or incomprehensible from the recipients' point of view. Even the British advisors, who were perceived positively by aid recipients, proposed organizational standards passing aid recipients' domestic legislation. The result was that the recipients often made choices that can at best be described as compromises between the norms of rationality and the norms of fashion. From their perspective the foreign advisors were to blame for giving ineffective advice. The results also showed that quantity as such did not make the difference, but rather the quality of the advisors and their advice.

In the second phase of our research project we went to the Swedish advisors, who were perceived as the best by the aid-receivers from Lodz (see Chapter 5). Even they agreed that their work was not always successful, and that they did not always act according to the criteria given in manuals and books on advisory work. They were equally critical about their own work. Their excuse was that they did not have any experience in the CEE countries. According to our respondents, they were hired by donor organizations, which were hardly interested in making projects work, but were only concerned about Western interests. Hence, the advisors ended up in CEE countries without being properly prepared by their employers, and entered into situations characterized by ambiguity, ignorance and uncertainty without any support from the donor organizations. Moreover, at the beginning, they were quite often expected to prepare a basis for the Swedish aid provision within the chosen countries. This outcome redirected our research to the donor organizations, because their morale and motivation was now at stake. The advisors felt little trust from donor organizations in what they were working on, and they saw too little attention to ethics, trust and commitment. In the eyes of the advisors, the donor organizations were to blame.

The question then became whether the role of the donor organizations is really to be criticized (see Chapter 6). According to themselves, this is only partly justified. The respondents in our third case study were very frank about this. They told us they were trapped between the demands of Swedish national authorities and the regulations that restricted their possibilities on the one hand, and their own goals with regard to improving the situation in CEE countries on the other hand. We investigated whether indicators could be found that support this view. Because of the openness and transparency of the Swedish policies and the frankness of our respondents, ample indicators were found.

This chapter concluded that the aid to CEE was not a question of altruism or selfishness as proposed by the social exchange theory. It argued that the establishment of "new" power relations in Europe was the major motive behind assistance, which had the result that the assistance programs to CEE countries were entrapped between the major objectives of Swedish government and the down-to-earth, concrete, operational goals formulated for specific projects (cf. Statute Books 1988:533; 1991:840; 1992:269). Thus, the incoherence between major objectives and operational goals might well be the explanation for the failure of concrete assistance projects. According to the donor organizations themselves, they are just small players in the field having only a minor impact. They had limited knowledge about what was really going on in the recipient countries. They were dependent on shifting regulations made by government, and shifting goals also determined by government that were not always congruent with what was needed in the recipient countries. Their main task was to transfer money to consultancy agencies that sent so-called "advisors" and "consultants" to do something, but it was far from transparent to the donor organizations what they really did.

These results were the basis of our final investigation. It resulted in a research project addressing the politicians within national government (see Chapter 7). Until then, those involved in the aid-chain always pointed to new suspects. This was not the case for the Swedish politicians. According to the respondents (previous prime ministers and ministers of foreign aid), they *were* responsible for their decision-making concerning the aid to CEE countries. They emphasized that they made only general decisions based on general objectives in this regard. As politicians, they were hardly interested in evaluations or information about the operational processes or the effectiveness of aid projects in CEE countries.

All this could be interpreted within the neo-institutional theory developed by March & Olsen (1989), in which a distinction is made between the logic of consequentiality and the logic of appropriateness. We sought for indicators for both rationales and found arguments in favor or a logic of consequentiality in the 'hidden' agenda of Swedish politicians. That agenda was reflected in the rules or guidelines for the aid organizations. These guidelines made the need for effective aid, in terms of the improvement of the aid recipient's situation, subordinate to the need to im-

prove the situation of Swedish business and institutions. However, at the same time, the major objectives of SIDA dealing with aid provision gave an impression that assistance is provided only to favor the aid recipients (SIDA, 2005). That explains why Swedish politicians were neglecting the information about aid's effectiveness. What mattered was whether the Swedish economy could profit from tied aid.

## 8.3 Analyzing the outcomes

We are not the first to criticize consultancy work. Many scholars have preceded us and probably many will follow (Wedel, 1998; Pinault, 2001; Byrne, 2002; Clark & Fincham, 2002; Kitay & Wright, 2004; Craig, 2005; Czander, 2001; Smith, 2001; Pries & Stone, 2004; Sobel, 2004; Warren, 2004; Brunsson & Jacobsson, 2000; Obolensky, 2001). Our broad research showed that the Western assistance did not solve the major problems of aid-recipient countries. However, we cannot follow the famous opinion of Ferdinand Piëch – the former CEO of Volkswagen, who said: "If you want to ruin a company, you only have to try fixing it with the help of external consultants." The situation in the aid-recipient countries of CEE was so bad at the beginning of the transition process from socialism to capitalism that only a war or a natural cataclysm could have made it worse. In such circumstances, any piece of Western advice could not but contribute by introducing some modern working methods in line with a market economy. In our opinion, this should be perceived in terms of assistance. Nevertheless, we share the view of the aid recipients that this aid could have been much more effective and professional. When analyzing the whole aid-chain, we came to the conclusion that even the Swedes were not really worthy of categorization as "the best qualified, most honest and really humanitarian actors in the field of foreign aid". Yet we wish to avoid the sole conclusion that, in the end, everything is about politics. Is there simply no other answer to this problem? Do these findings give rise to pessimism? In our estimation, giving an answer like this would be definitely too easy when billions are spent without really helping the recipient countries.

We would like to see the business of aid industry, and technical assistance in particular, become more professional. Nonetheless, this immediately begs a question: "How do you mean, professional?"

Studying many theories dealing with professionalism – e.g. Freidson (1986), Abbott (1988), Burrage & Torstendahl (1990), Brante (1990 and 1999), Evetts (1999), Hellberg (1999), and Andersson (2001) – we observe that there are different definitions and types of professionalism. Below we will address two forms of professionalism and analyze how well the process of technical assistance fits those two forms.

### 8.3.1 Individual professionalism

#### *8.3.1.1 Modern views on individual professionalism and amateurism*

Nowadays, when one wants to know the basics of something, *Internet* is among the first sources. When searching the term "professionalism" by *Google*, we have found approximately 11,900,000 hits. The first few results provide definitions and tutorials on what constitutes professionalism. *Dictionary.com* gives as a definition of professionalism in terms of: "(1) professional character, spirit, or methods, (2) standing, practice, or methods of a professional, as distinguished from an amateur". The dictionary of Merriam Webster tells us that professionalism means: (1) the conduct, aims, or qualities that characterize or mark a profession or a professional person, and (2) the following of a profession (such as athletics) for gain or livelihood.

An Indian guru named Sanjeev Himachali sees professionalism as a declaration, wherein you mention how you like to be treated by others. It is about attitude, behavior, self-presentation, self-respect and dignity. It means not just knowing how to do your job, but demonstrating a willingness to learn, cooperating and getting along with others, showing respect, and living up to your commitments. It also means avoiding many kinds of behavior that cause trouble in the workplace.

Edgar B. Toupin (2002) tells us that a general, raw view of professionalism is: "a focused, accountable, confident, competent motivation toward a particular goal, with respect for hierarchy and humanity, less the emotion".

A tutorial on the Internet tells us that a profession is "a vocation requiring knowledge of some department of learning or science", and a professional is one who follows "an occupation as a means of livelihood or gain", or one who is "engaged in one of the learned professions". Professionalism is exhibited by showing "professional character, spirit or methods" or the "standing, practice, or methods of a professional as distinguished from an amateur".

Another tutorial tells us: (1) professionalism is a vocation *requiring* knowledge of some department of learning or science, (2) a professional is one who follows "an occupation as a means of livelihood or gain", or one who is "engaged in one of the *learned* professions", and (3) professionalism is exhibited by showing "*professional character, spirit or methods*" or the "standing, practice, or methods of a professional as *distinguished from an amateur*" (American College Dictionary 2008).

Still other websites provide a number of recommendations for people wanting to be (seen as) professionals. Among such recommendations, the following explanations can be found:

"Don't ever do anything as though you were an amateur." "Anything you do, do it as a Professional to Professional standards." "A professional looks, speaks and dresses like a professional. An amateur is sloppy in appearance and speech." "A professional keeps his or her work area clean and orderly. An amateur has a messy, con-

fused or dirty work area." "A professional is focused and clear-headed. An amateur is confused and distracted." "A professional does not let mistakes slide by. An amateur ignores or hides mistakes." "A professional jumps into difficult assignments. An amateur tries to get out of difficult work." "A professional completes projects as soon as possible. An amateur is surrounded by unfinished work piled on top of unfinished work." "A professional remains level-headed and optimistic. An amateur gets upset and assumes the worst." "A professional handles money and accounts very carefully. An amateur is sloppy with money or accounts." "A professional faces up to other people's upsets and problems. An amateur avoids others' problems." "A professional persists until the objective is achieved." "A professional produces more than expected." "A professional produces a high-quality product or service." "A professional earns high pay." "A professional has a promising future. An amateur has an uncertain future." "The first step to making yourself a professional is to decide you ARE a professional."

Although such Internet sources are not to be taken too seriously, because mostly statements are not argued and as such differ from scholarly sources, the Internet does give an indication of the aspects of professionalism. The above views underline professionalism as an individual trait of someone who has a well-paid occupation within a profession, who acts in conformity with the standards of that profession, who keeps up a professional appearance, who has acquired knowledge within some department of learning or science, who is goal-oriented and avoids showing emotions. They are reflected in the internal guidelines of consulting firm McKinsey, telling its consultants never to leave the client's office before everyone has left the building – not to promote hard work, but in order to give the image of being hard-working. It is the commercial view of professionalism that is dominant in this approach.

#### *8.3.1.2 Classic views on individual professionalism*

The criteria for individual professionalism can be rather different from the ones found on the Internet and the organizational criteria given. This section addresses some of the classic academic interpretations of professionalism, which contradict the above description of professionalism in that they emphasize content.

Contrary to the businesslike attitude, *free of emotions*, Talcott Parsons already stressed the importance of altruism versus selfishness next to esoteric knowledge and complex skills (Freidson, 1994, p. 213), and of being aware that it is special when one is serving the needs of the public. Freidson (1994, p. 200) sees commitment as one of the basic elements of professionalism. According to Kubr in his classic and famous work on management consulting, especially in the public sector, professional consultants should show empathy for the client, and understand that in this sector "people" and "process" problems prevail over "technical" problems (Kubr, 2002, pp. 428–429).

Contrary to *keeping up appearances*, Kubr (2002, p. 121) tells us: "A professional consultant will never misrepresent himself, pretending that he can do a job that is beyond his competence, even if he is short of work and keen to get any assignment."

Kubr also has a rather different view about the role of a consultant's *pay* than seems to be the dominant idea about consulting nowadays. A consultant is not in the field for making money. He or she should even handle commissions with care, because they could be seen as bribes, and "a professional consultant would make his competence and time fully available to the client, with the objective of achieving the best possible results in the client's interest" (ibid.). This he calls the "golden rule of consulting". Consultants should even warn their clients beforehand if the costs of the consultancy are expected to be high in relation to the benefits. This idea is similar to that of Freidson, who warns that performing some activity for the sheer love of it and without interest in its capacity to provide a living – indeed as an amateur, in contrast to "professionals" who earn money from their activity – is not at all the same as characterizing something as an amateurish job, or the work of an amateur, which implies poor work, while a professional job implies good, reliable work of skill and quality (Freidson, 1986, pp. 22–23).

Contrary to *organizational professionalism,* as understood in the literature of the subject in terms of the institutions behind the professionalism of individuals, and especially the role of proper, e.g. academic, education, many scholars doubt whether that is the essence of professionalism. Andrew Abbott (1988), for instance, is negative about the (American) system of academic education. He is not convinced that academic education turns university alumni into professionals. According to him, the American system of education is still divided into elite professional education and non-elite professional education. Individuals learn their professional skills, but not necessarily within the academic environment. It can take place e.g. by practicing somewhere, for instance in other organizations that have their rules, procedures and guiding principles for acting. For Abbott, professionalism is synonymous with *expertise,* which is institutionalized in people, commodities and organizations, and which often is not established by educational systems. On the contrary, it may be even acquired in a better way outside such systems. Thus, expertise that consultants possess is for sale as a commodity against payment, while organizations in which consultants are employed can structure their expertise with the internal organizational regulations. As Freidson concludes, "professional education is too academic, theoretical, or unrealistic" to deal with practical needs, especially for new professional adepts (Freidson, 1986, p. 212).

With regard to *acting in conformity to the standards of the profession,* academic scholars also have quite a different view. Let us take as an example the opinions of Soal (2007):

> *To work with professionalism is not simply to deliver a service that is reliable in its predictability and consistency of standards. The development sector is teeming with people who can provide respectable, even reputable, services: trainers who have their workshop 'packages' that get sold all over the world; consultants who ply their methods and ready solutions; NGOs that make their reputation developing something original – then peddle it endlessly, with little regard for need or context. Professionalism goes beyond this, generating in its adherents the abilities to face each situation they confront, anew, to recognize these and to formulate from a confident inner capacity, responses and interventions that best suit that situation at that time (Soal in Wallace et al., 2007, p. 7).*

Thus, the spread of "institutionalized standards" in fact contradicts the classic understanding of professionalism. This is also argued in studies conducted by Czarniawska & Sevón (1996), Brunsson & Jacobsson (2000), and Røvik (1996, 2002).

As to the *goal-orientation*, this can perhaps be seen as the most important problem, no matter how sound it seems in the eyes of everyone involved in the process of foreign aid. Many scholars have argued that to emphasize predetermined goals is perhaps the main flaw in the process of providing aid. Eberhart Reusse (2002, p. 28) gives two astonishing examples in his review of development policies by the FAO, that is, of the "War on Waste" and "Cereal Banks". In both cases millions of dollars were spent based on "news", which was later unmasked as unrepresentative dramatization, but which resulted nonetheless in new goals and allocations to achieve those goals without a proper diagnosis. The news triggered its own momentum and programs – technical assistance against, for instance, the alleged food waste continued for two decades (ibid.). As Reusse tells us: "the lack of professional expertise, especially in the field of economic analysis and evaluation, tends to be responsible for the tenacity of NGO-supported paradigmatic intervention concepts of problematic justification" (2002, p. 86), and the cost-effectiveness, efficiency and impact are rarely subjects of analysis in NGO country program studies (Reusse, 2002, p. 87).

To be goal-oriented implies that one has skipped two important phases in the field of consultancy, e.g. entry and diagnosis. Consultancy involves, as Kubr (2002, p. 22) argued, a number of phases, a process one has to go through. In this process of consulting he distinguishes five phases, i.e. the Entry, Diagnosis, Action Planning, Implementation and Termination phases.

There is always an entry phase, when consultants come in. In this phase there is the necessity to learn about the perspective of the client on the problem, to conduct a preliminary problem diagnosis, and to develop a dynamic and comprehensive view of the organization, its environment, resources, goals, activities, achievements,

and perspectives. All this should result in a SWOT analysis which could form the basis for action (cf. Kubr, 1996, pp. 141 ff).

Central during the diagnosis phase are investigations into the nature of the problem, the people-side of diagnosis, an analysis of the causes of the problem, insight into the client's potential to solve the problem, and to avoid flaws such as mistaking symptoms for problems, preconceived ideas about the causes of problems, looking at problems from a technical point of view only, ignorance about different perceptions of the problem, partial problem diagnosis and a failure to focus purpose (cf. Kubr, 2002, p. 175).

Third is action planning, requiring on-the-job diagnosis; using creativity as could be achieved by brainstorming, synectics, attribute-listing, morphological analysis, lateral thinking etc. (see also Dunn, 1994); and presenting alternative routes towards the goal, including a risk analysis, an assessment of the necessary conditions to be fulfilled, and the perspectives of such alternatives, leaving it to the client to make a decision what to do.

The implementation phase is "the culmination of the consultant's and the client's joint effort" (Kubr, 1996, p. 221). Implementation is where "the rubber hits the road" (ibid.). The consultant working with the client to put into action the plan that has been agreed upon, and to implement changes that are real improvements from the client's point of view, is the basic purpose of any consulting assignment. Basically, the clients want to see their problems solved and it is in the implementation phase that the consultants use their preset plan to solve the problem.

The termination phase means that: "Every project has to be brought to an end once its purpose has been achieved and the consultant's help is no longer needed" (Kubr, 1996, p. 237).

At this stage, we merely conclude that there are huge differences between the classic and modern visions of professionalism, which in Brint's terminology (see chapter 4) can be labeled trustee-professionals and expert-professionals. These differences are visible in the position of "professionals" along six dimensions:

| Expert professionalism | Trustee professionalism |
|---|---|
| emotion-free | commitment and empathy |
| keeping up appearances | never misrepresenting oneself |
| financial gains | having the clients' interests in mind |
| formal (academic) education | building expertise |
| standard-setting | interventions that best suit that situation at that time |
| goal-orientation | intervention based on sound problem diagnosis |

#### *8.3.1.3 The 'professionalism' of actors in the process of assisting CEE countries*

How did all the actors, in the process of providing technical assistance to CEE countries, fit in these dimensions? Figure 1 below shows that most of the demands by theories of professionalism were not met. The recipients did not get what they wanted, but also failed to define their problems and purpose and left this to the consultants to decide. They did not choose their consultants, but these were imposed on them.

Often, there was no equality, but rather dependence, and no joint fact-finding or active cooperation, nor involvement in the implementation process. All this findings are contradictory to recommendations in the literature. Kubr recommends that:

> *(…) recipients learn about consulting and consultants; define your problem; define your purpose; choose your consultant; develop a joint program; cooperate actively with your consultant; involve the consultant in implementation; monitor progress; evaluate the results and the consultant; beware of dependence on consultants (Kubr, 2002, p. 721).*

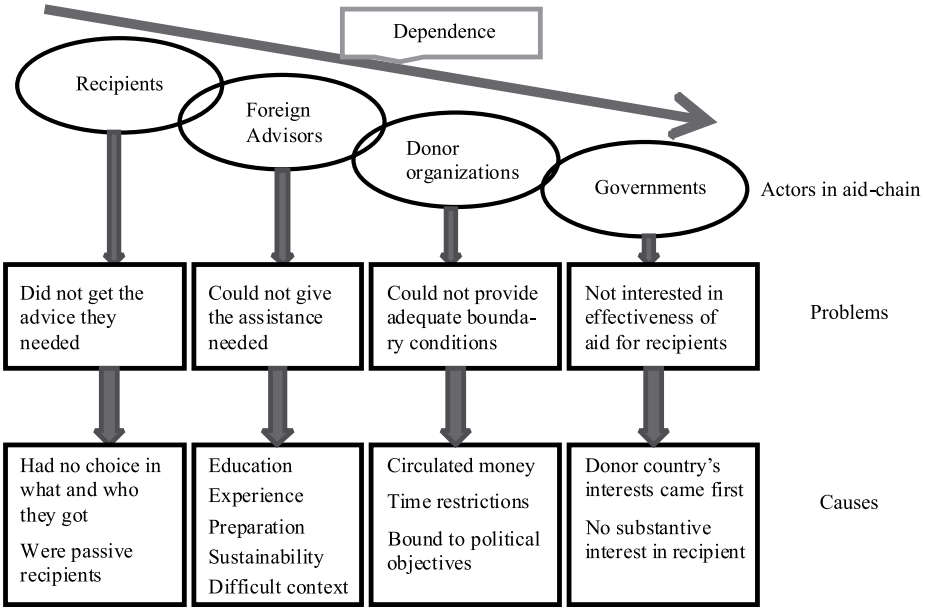
As to the consultants, the two models – the trustee and expert – partly explain the variance in the appreciation of the recipients. These differences were seen in the dichotomies: emotion-free versus commitment and empathy; keeping up appearances versus never misrepresenting oneself; making money versus having the clients' interests in mind; formal education versus building expertise; standard-setting versus interventions that best suit that situation at that time; and goal-orientation versus intervention based on sound problem diagnosis. In our view the variance in the appreciation of consultancy can partly be explained by the position of consultants on these two conceptions of professionalism.

For instance, from our previous research it could be concluded that the Western consultants in local government in CEE countries focused mainly on action planning. Their action plans, however, were not embedded in any on-the-job diagnosis; they were without any creativity, and they were certainly not presented in the form of alternative routes towards the goal, including a risk analysis, an assessment of the necessary conditions to be fulfilled, and the perspectives of such alternatives, leaving it to the client to make a decision what to do. Instead there was standard-setting, i.e. copying of standards that were used in their home countries. Evident was also that consultants often terminated their consultancy work right after presenting this plan, neglecting that real improvements need to be implemented. The whole planning process, the contingencies involved, the training and developing of client staff, the provision of tactical guidelines, and the maintenance and control of

new practices were often left to the client. The consultants did follow the rules for termination better, e.g. staying no longer than necessary (Kubr, 1996, 2002, p. 239).

As to the donor organizations, similar comments can be applied. They were unable to facilitate the consultancy process by allowing the consultants to prepare properly. They did not provide working boundary conditions. Instead, within those organizations the timely circulation of money, the political objectives, and control in the form of project evaluations dominated.

**Figure 8.1**
A causal model of the problems in the aid chain




Finally, the remarks of the *politicians* were frank but nonetheless astonishing. They were not interested in substance at all and moved the money as they saw fit, given the economic interests in their own country.

Perhaps many of our actors – recipients, advisors, representatives of donor organizations and politicians – in the field of technical assistance were in one way or another professional in the modern definition thereof, namely keeping up appearances, being free of emotions, setting standards, primarily goal-oriented, aiming for financial gains, and recruiting based on the criterion of being highly educated. What was neglected, however, was the classic perspective, in which the substance of professionalism is crucial. Classic, implying, not in vogue, not fashionable, but in our view certainly not meaning outdated.

### 8.3.2 Power and professionalism in the organizational context

The behavior of the individual actors does not come out of the blue. It is structured within an organizational setting which can be interpreted through different theoretical frameworks. Firstly, all individual behavior can be explained in terms of power and dependence (Bell, 1976; Freidson, 1986; Abbott, 1988). Secondly, such behavior can be explained by the organizational structure of the aid provision in relation to the specifics of the context in which technical assistance takes place (Mintzberg, 1973). And thirdly, it can be explained by the specifics of interorganizational relations in the aid-chain, in which the incentive structure, transaction costs and aspects of principal agent theory are crucial.

#### *8.3.2.1 The role of power and dependence in knowledge transfer*

Figure 1 above illustrated that the technical assistance is not just about actors in a process of transfer of knowledge, but largely also about dependences and power relations among the different actors in the aid-chain. It suggests that one of the causes of the problem is to be found in the political arena. This is not only a problem for the CEE countries – it can be seen as a general problem of the *commodification of knowledge,* in which knowledge transfer is less and less about substance and more and more about making money, and creating power relations and dependences (Wallace et al., 2007; Easterly, 2006; Sogge, 2002). As Sogge already writes: "The portrayal of development aid as apolitical and non-ideological, like a kind of engineering, is mythology" (2002, p. 114).

This argument fits in a long tradition starting with the work of Daniel Bell, who already at the beginning of the 1970s formulated his theory about post-industrial society. His ambition was to describe a transition of society from industrialism to post-industrialism. The prefix *post* shows very clearly that industrial production with its mass production following assembly-line principles and focus on energy was gone (Bell, 1976, pp. 54 and 112). This does not mean that the rudiments of industrial or even agrarian sectors have disappeared in post-industrial society. They are still important, but the majority of the working force is employed in other sectors:

> *What counts is not raw muscle power, or energy, but information. The central person is the professional, for he is equipped, by his education and training, to provide the kinds of skill which are increasingly demanded in the post-industrial society. If an industrial society is defined by the quantity of goods as marketing a standard of living, the post-industrial society is defined by the quality of life as measured by the services and amenities – health, education, recreation, and arts – which are now deemed desirable and possible for everyone (Bell, 1976, p. 127).*

According to Bell (1976, p. 117) this development has implications for the nature of knowledge. Knowledge is there to sell. The increasing demand for high competence and high academic merits on the labor market allowed him to talk about "meritocracy" and a new type of professionals. These professionals represent the so-called *knowledge class*. Bell argues that the post-industrial society permanently creates knowledge and such production constitutes the dynamic force that forms the modern society. He observes a new tendency that he calls the "development of meritocracy". This tendency causes academic education to become the most important mechanism behind social mobility and new opportunities for social (in) equality. For him such a professional class is "the heart of post-industrial society" (Bell, 1976, p. 374) and its growth is based on formal training in a broader intellectual context. Thus, meritocracy with its somewhat new codification of knowledge essentially contributes to creating a new social order (Bell, 1976, p. 426).

His theory was taken up by Eliot Freidson (1986) who in his book *Professional Powers. A Study of Institutionalization of Formal Knowledge* develops this understanding of the production of knowledge by focusing on the relation between formal knowledge and power in the context of existing institutions in American society. He investigates "the relationships between those who create, transmit, and apply that knowledge and the actual exercise of power" (1986, pp. 1–2). He wonders which rules or institutions are created by professionals and how the growing commodification of formal knowledge can explain the existence of the "tyranny of the advisors". For him, agents of knowledge are creators as well as carriers of these institutions. They create, transmit and apply rules in order to solve some problems.

Freidson argues that knowledge is intrinsic and "not all people have the same body of knowledge" (1986, p. 2). Knowledge develops due to a human culture. It is not so surprising that knowledge from one culture can be different from knowledge of another culture. Moreover, specialized, theoretical and rather abstract knowledge can be understood only by elites in each society. In this regard Freidson (1986, p. 4) agrees with Bell (1976, p. 20) and shares the same opinion as Ellul (1964) concerning politicians' importance for a development of formal knowledge. He says that "politics and politicians hold the power, and they decide what formal knowledge to apply and to what purpose" (Freidson, 1986, p. 7). Politicians make decisions in a framework of a complex consultative relationship between them and advisors or consultants – those who have the relevant skills.

Freidson observes that *formal knowledge* is permanently transformed by professionals due to their actual work-demands and due to particular expectations of clients for which they work (Freidson 1986, p. 210). Professionals in fact do not have any choice but to be in a system that is organized by various authorities in order to control the development of knowledge and skills and secure professionalism. This is furthered by the one-sided education these professionals receive, which is "too

academic, theoretical, or unrealistic" about the practical needs, especially those of new professional adepts (Freidson, 1986, p. 212)

Julia Evetts (1999) goes somewhat in Freidson's footprints. According to her:

> *(…) states in Europe are witnessing the growing phenomena of translational regulations of professional service. One of the major objectives of the European Union (EU) since its inception has been the harmonization of national regulations affecting the provision of goods and services in order to facilitate the free movement of produces and labor in the European market. The professions, and the services they provide, are increasingly covered by regulations which define a common basis of competence for licensing as well as sometimes common standards of professional practice (Evetts, 1999, p. 19).*

Evetts argues further that a growing number of international professional federations or associations show us, on the one hand, that they try to protect professional identity and its major characteristic elements, e.g. philosophy of profession, guidelines of professional behavior, admission requirements and others to clearly distance themselves from other occupations, although these international professional federations and associations are not the regulative bodies by themselves. On the other hand, the same international professional organizations contribute greatly to the modification of national regulatory and licensing systems for professionals, which is perceived as the institutional side of professionalism (Evetts, 1999, p. 24).

Especially in a highly developed country like Sweden, the theory of post-industrial society as first described by Daniel Bell might be valid. The logical conclusion would be that the problem we address is political in nature and the major objectives and goals of those on top of the aid-chain are crucial for understanding the problem. In our case those on top, e.g. the government, set the priorities which were primarily in its own interest, to take Sweden out of isolation in Europe by assisting the neighboring countries in their transition process. Moreover, there was pressure coming from industry and other organizations, which saw a good opportunity in making a business in CEE countries. This led the politicians to reach a decision about the aid provision to CEE and Russia. However, the government also had some kind of expectations that this could create a win-win situation. Nonetheless, the domination by one's own interest affected the whole aid-chain, which eventually is not about helping out of altruistic aims, but just about preserving and creating power relations, dependences and improving one's own position. Such maintenance of the appearance of altruism, the emotion-free and goal-oriented standard-setting, and the motivation to get one's own academics to work induces the dominance of a certain kind of professionals and the driving out of those professionals who care less about Sweden's, or even worse French or US, interests and care more about the fate of the beneficiaries.

#### *8.3.2.2 The organization of technical assistance in relation to its context*

When the problem is perceived within an organizational perspective it is basically about the question how to optimize "two fundamental and opposing requirements: the *division of labor* into various tasks to be performed and the *coordination* of those tasks to accomplish the activity" (Mintzberg, 1989, p. 100).

The classic work of Henry Mintzberg (1983) on organizational structures argues that an optimal organizational structure as such does not exist, but has to be judged in relation to its fit to its environment. When the environment of an organization is dynamic, when there is much uncertainty, when the complexity of tasks is high and the market is diversified, one needs a different kind of organization than when the environment thereof is stable, tasks are more routine and information is ample available. In the latter situation a bureaucratic organization and hierarchical management that standardizes knowledge, skill, processes and output could be fitting. The more the environment is characterized in terms of the former situation, the more suitable it becomes to decentralize, to remove hierarchies and reduce standards.

When judging the context of transition of CEE countries in this respect as well as considering the views of all those involved, as investigated in previous chapters, one cannot but conclude that the situation was complex, that information was lacking and that the uncertainty was huge. Hence, one would expect an organizational setting fitting this situation, e.g. a missionary, innovative or at least a professional organizational structure.

The characteristics of the professional organization were well described by Henri Mintzberg (1973). In his view a professional bureaucracy is characterized by the fact that the production core is composed of professionals, who provide services rather than tangible products within a complex environment, as in consulting firms. People within such organizations have autonomy and the power is held by the professionals, a highly decentralized structure exists with horizontal distribution of power. The professional organization has a large operating core, which relies on standardization of skills and knowledge and which permits coordination through work-related training, as is required for professional groups (Mintzberg, 1973). Typically, the skills of the individual worker have been learned outside the organization (e.g. university). There is a strong culture and clan control, as well as ample space for training and developing and sharing experience in order to enhance proficiency, e.g. performing tasks based on highly developed knowledge and skills in order to achieve excellence.

As a consequence there is a relatively small management layer but a large support system. In such an organization the specific tasks of the professional bureaucracy is to facilitate its operating core by standardizing skills and knowledge, and to act as the boundary between the professionals in the field and outside influences

such as government. This implies that those employed within the professional bureaucracy are advisors in negotiation, public relations, and fund raising (Mintzberg, 1989, pp. 174–81).

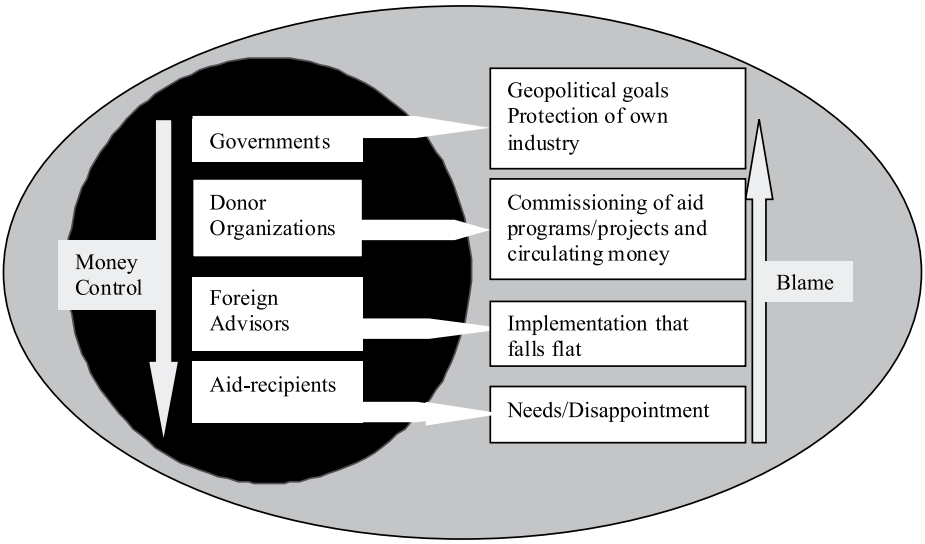
Perhaps one would expect the aid-chain to be at least a professional organization. Our analyses, however, depicts it rather as a mixture of different organizational structures. We found lacking professional autonomy, a centralized structure, a management, which failed to act like a buffer between political demands and professional work on the floor, and which did not standardize skills and knowledge, but instead the processes and outputs. Hence, we see an organization in which the trustee-professional cannot flourish and his destination can only be to become cynical and frustrated

We see the aid-chain as a combination of different types of organization which are all adverse to trustee-professionalism. Partly, it is a political configuration, in which processes fluctuate between shaky alliance between the organizations and a politicized organization. In such political organizations political games are played that tend to become dominant over substantial issues. Such games include e.g. the sponsorship game, the insurgency game, the budgeting game, the empire building game, the expertise game, and the rival camps game (Mintzberg, 1989, pp. 238–240).

The aid-chain is illustrated in Figure 8.2 It presents the black box in which the government provides money, primarily a means to achieve its geopolitical goals; in which the donor organizations distribute the money by defining projects and programs; and in which the foreign advisors collect the money and execute the projects and programs. It could be extended by incorporating the recipient side, which is also often seen as a coherent whole. However, the goals of aid receiving governments in CEE countries, aiming for accession for the EU, were very different from those of the 'beneficiaries' at the local level, who were not the ones, who were eager to be disturbed by another team of foreign advisors, and the local officials who had to implement the changes, but who met resistance when trying to do so.

It would be nice, if one could speak of a coherent and at least professional organization e.g. "Development Incorporated" (Easterly, 2006), with coherent goals, coordinated interventions and a coherent group of actors carrying out their tasks professionally, but one cannot. The goals of the government, the programs and project as developed by the donor organizations, the implementation thereof by the foreign advisors and the needs of the recipients, do not coincide, to put it mildly.

**Figure 8.2**
*The aid chain revisited*




The decomposition of the aid process enables the distinction of quite different interests of the organizations involved. It is striking that only few of them seem to see aid as a mission. Most organizations involved in aid provision see the aid as a job to be accomplished. The result of the job, that is the provision of adequate advice, has become mainly a side-effect of what the actors involved really do. Whether this side-effect is to be judged positively or negatively seems to be merely a question of chance, which could explain why approximately half of the aid projects succeed, depending on who measures it and who the commissioner of that research was. The effect is that the impact of this aid for the recipient country is only of secondary importance and the actors within the aid-chain are satisfied, if they could do the job by the book, within the limitations of time and money. The direction the money flows determines the dependences and power disparity. The money is provided by governments, distributed by donor organizations, and received by the advisors in order to benefit the recipients according to the principle that one of our respondents pointed in the words: "the Swedish money stays in Sweden".

Concluding, part of the problems can be explained by the organizational structure, which did not fit the specifics of the context, even if the organizational structure of donor organizations and division of tasks have been changed a couple of times to improve aid provision at hand and coordinate the efforts of all involved. Instead of a professional, missionary or even innovative organizational structure, we see a mixture of a politicized organizational structure and an incomplete divisional

organizational type that must negatively influence the professionalism of the aid-chain. Again this does not create an environment in which the trustee-professional can perform optimally.

#### *8.3.2.2 An interorganizational institutional perspective*

In the third place, the problems encountered can be interpreted as an interorganizational problem. Central in this approach is the dilemma between: (1) inducing actors to do what one wants them to do in an efficient and effective way, under the restriction of incomplete information about what they are doing actually i.e. the asymmetry of information, the impossibility to order such behavior hierarchically, because of the discretionary power of the agents, and (2) realizing the goals without increasing the costs involved – the transaction costs – too much.

In this framework, our aid-chain does not represent an organization, but a network of organizations, in which the relations between government, donors, consultancy agencies, and beneficiaries can be framed as principal-agent relations, in which some of the actors are simultaneously principals and agents. In this regard the aid-chain shows the multiple principal-agent relations e.g. the government being the principal in relation to donor organizations that are perceived as the agent. In the relations between the donor organization and the consultancy agency, the first organization is the principal while the second one the agent. Some actors are double agents e.g. the beneficiaries as well as the donor organizations can be seen as the principals of the consultants.

The problems central within this framework are: (1) the existing asymmetry of information between principals and agents, (2) the limited possibility for optimal pricing of the aid provided because of the nature of the provision, (3) the danger of moral hazard, be it supplier-induced or consumer-induced, (4) supplier-induced demand, (5) double agency roles, and (6) the near impossibility to use hierarchy as an instrument, leaving only incentives as a feasible instrument to induce certain behavior (cf. Blomqvist, 1991).

All these problems would not be problems, if all actors had the interest of the recipients continuously in mind, if there was abundance of financial means, and all actors were capable in their work. However, in the complex and dynamic situation, which the transition process in the CEE countries was, we see that finances were scarce, many actors had their own interests in mind, and one could doubt the capability of actors i.e. the knowledge and skills to make sufficient improvements at the local level during the transition process. These problems were clouded, however, by the asymmetry of information that existed between information providers (consultants) who pretended to know what was needed and consumers (aid recipients), who had quite different ideas on what was needed; between providers (who said they implemented assistance programs) and the donor organizations (who constructed the programs); between aid recipients that asked for a certain kind of help and do-

nors that provided different assistance, and between the donor organizations that distributed the money and governments that provided the money. The problems concentrate around such questions as: who is especially in need, what is needed, how much it costs to provide it, who has to provide it, how to determine, and how much to invest in order to determine, whether it is effectively and efficiently provided, and how to prevent that some actors take advantage of the existing information they have, while this information is lacking among significant others (see Schut, 1995; Gibson et al., 2005)

As already noted by Arrow in the 1960s, in the business of transfer of information, socially efficient allocations cannot be generated. The reason is that information is difficult to value or price optimally beforehand, because, if the beneficiaries knew enough of the value of information, they would know the information itself and would not need it anymore (Arrow, 1963, p. 946). This leaves it to the providers to tell the recipients what kind of information and how much of it they need. Hence, such cases are characterized by supplier-induced demand. Providers can even cheat the recipients regarding what is needed, misrepresent the value of their information, and deliver too more than is needed, provide something that is not needed, or take much longer than is necessary in the diagnosis, goal-setting or implementation. This is known as the moral hazard, in terms of aid the risk of fraud and corruption.

As we have seen, not only the providers induced a certain demand, but also the donor organizations, telling the consultants which problems in CEE countries to tackle. Both streams result in a phenomenon known as supplier-induced demand. To make the case even more complicated, both consultants and donor organizations face in our case double agency problems. On the one hand, the principals of the consultants are the recipients. Consultants are there to meet the demands of the recipients. However, the finances for this assistance come from a third party, that is, the donor organizations. Hence, these organizations are also the consultants' principals. As Clark Gibson et al. note:

> *If we assume that consultants seek long-term relationships with donors, then they worry about their reputations and will try to please their donor-employer. This yields two effects. First given the information asymmetry about how the project is actually working, consultants have incentives to provide information about the project that agency staff wants to hear… Second a consultant concerned with possible future contracts with a donor agency is likely to maximize control over a project, rather than pass control on to the targeted individuals for aid (Gibson et al., 2005, p. 231).*

If there were to be congruence in the goals of donors and recipients, there would be a minor problem. However, we found ample inconsistencies in the goals

of both actors. A similar double agency problem is faced by the donors, who are in the middle between their information about recipients' needs and the limitations set by the government's objectives. This theory gives an explanation, or at least an alternative description, of the problems we encountered in the aid-chain. One of the obvious recommendations could be to increase control, monitoring, and evaluations. Some scholars (see Radelet, 2003) indeed recommend this. However, this would increase the so-called transaction costs dramatically, without ensuring the effect. For evaluations also suffer information asymmetry, and agents are eager to write evaluations that please their principals instead of giving a realistic account of aid provision. Neo-institutional reasoning gives an alternative recommendation and suggests that if the technical assistance to local government in the CEE countries failed, the institutional rules, i.e. especially the incentives to make a process efficient and effective, are flawed. As Douglas North tells, such institutions probably do fail, because "institutions are not necessarily or even usually created to be socially efficient, rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to create new rules" (North, 1994, p. 360; cf. Freidson, 1986).

The question thus arises of how to insert incentives into the system to induce actors to act efficiently and effectively. This theory has been widely applied in the health services, in which a similar organizational structure exists as in the organization of foreign aid. According to this theory, therefore, similar problems exist, although the problem in the health sector is that consumers ask and get too much, that providers are mostly capable, and that insurers are mostly unable to tell the providers what kind of help to provide, i.e. there is a remote insurance system.

In that policy area, from a similar interpretation of the problems within the institutional theory, several solutions for the existing problems are suggested. The first is that, if there is information asymmetry of which the consumer is the victim, it would help to increase the power of the consumers, by increasing consumer information, and by increasing their freedom to choose what help is needed and from whom to get it. As to increasing consumer information, this does not necessarily imply increasing the information about the specific service, but rather information about the reputation of providers. This enables a freedom of choice to hire those consultants with the best reputation, probably the most effective ones, even if it would imply charging higher prices. From research into the health system, it is argued further that the incentive to hire advisors that do provide quality is increased if one were to change the system of fee-for-service, to be paid by the donor, into a system of cost-sharing between donor organization and recipient, for instance, by providing the latter with a prospective payment they can use to select themselves the help and consultants needed.

The second solution, also borrowed from the health sector, is also directly related to the existing information asymmetry. The idea is to replace regulated com-

petition, in which fixed, standardized rules are central, with managed competition, in which managed flexibility and adaptation is central (Enthoven, 1988). This could be done by developing regulatory agencies, positioned on the demand side, that manage the provision of aid by creating and maintaining a new system of incentives for developing aid and learning from past experiences, act as intermediaries between consumers and aid plans, and are insulated from special interests.

If those two solutions were sought for, one could imagine that the trustee-professionals would come back in. However, all current trends in such incentive structures point to the desire to establish more control and more need for keeping up appearances, and to please donor organizations and governments by creating a biased image of reality instead of reality itself.

## 8.4 Final conclusions

Where does this leave us? We have analyzed the problems in the technical assistance programs to CEE countries from multiple angles. We looked at the behavior of individuals, organizations and the relations between organizations. Everywhere problems are visible, so it is not easy to recommend what should be done to improve matters. Nonetheless, this final section tries to do just that. If one is able to identify the problems and can explain the problems, the logical next step is to remove the causes in order to improve the situation. Below we address possible solutions:

If the analysis is correct that the process of developmental aid is politicized, two obvious conclusions can be drawn: (a) increase political control or (b) take it out of the hands of politics, i.e. privatize.

As to the first solution, one could argue that there is a *role for national parliaments* in the donor countries and their populations at large. They should control the conduct of their government and could demand a shift in priorities in favor of the recipients. Parliaments could forbid tied aid and could induce demand-induced aid. To accomplish this means that the problem should be put on the political agenda, and exposure of what is going on in reality is one of the ways towards that goal.

The second solution is to take aid out of the hands of government. This conforms to a momentarily more generally heard plea, namely: "*Leave it to the free market* and stop wasting the taxpayer's money" (e.g. Easterly, 2006). If it is self-interest that governs technical assistance, let us do it out of self-interest regulated by financial mechanisms and incentives that traditionally rule the free market. If nobody really cares except about his own salary, as our second hypothesis reads, it makes sense to let the criterion of value for money dominate the regulation of the market. In the free market, the 'invisible hand' would make sure that if one fails to deliver the goods, one eventually will lose buyers and consequently disappear from the market. Only those doing a good job will be hired and increase their market share. However, four counterarguments are at stake:

First, the market of foreign aid and foreign technical assistance is more complex than a normal marketplace. This is the case because the recipient and the buyer of assistance programs are different actors with different positions in the aid-chain, which raises the problem of third-actor financing. Hence, doing a bad job for the recipients is not necessarily a bad job from the perspective of the donor organizations.

Second, the free-market solution is based on an assumption that nobody cares intrinsically, but for the money. If one thing strikes us in the outcomes of the different investigations, it was that the people involved varied very much in the degree to which they did care and wanted to make a difference. Talking to the key persons in the aid-chain convinced us that the will was there, but that their substantial objectives were continuously intermingled with bureaucratic, strategic, and political restrictions on the one hand and the need for self-preservation on the other.

Third, every part of the aid-chain has perfectly good reasons to act in the way it is blamed for. The speed with which developments took place in Central and Eastern Europe induced a form of technical foreign aid which could hardly be thought through properly. This would not have been different if the aid had been provided by the free market. All actors were unprepared and were restricted by the regulations and boundary conditions imposed on them by others. This constituted the dependences. These restrictions and the bureaucracy did not come out of the blue. They were the logical consequences of the avoidance of blame that money is wasted.

Fourth, the plea for a free market of foreign aid assumes that one of the problems in the provision of aid lies in the monopolistic, bureaucratic and inefficient workings of the aid industry. Our investigations showed us, however, that the aid industry is not a coherent whole. It consists of many organizations. Each of them has its own formal features like major objectives, strategies to fulfill the goals, organizational structure and even informal features, i.e. organizational culture and power relations that influence the behavior and processes occurring in the aid-chain; and for natural reasons this chain is far from being coherent.

When privatization is not an option, several changes down the aid-chain are recommendable.

If the analysis is correct that donor organizations on the one hand lack the power to act as a buffer between political objectives and the work in the field, and consequently lack the possibilities to facilitate the field work and instead impose the political objectives on the field workers and overload them with administrative procedures, the obvious solution is to alter their position in the aid-chain. One could recommend that they refrain from setting objectives and give their money straight to the beneficiaries, so as to let the latter decide by themselves how this money is used, or that they start to take their position seriously and act as a buffer between consultants and governments, facilitating instead of steering the work of the consultants. When an organization has the power to distribute financial funds, it is of course tempting to steer those flows and set general objectives. However, it is

recommendable to restrict oneself to giving money and controlling whether this is well spent, or is subject to fraud and corruption. Probably the contract – the major tool of donor organizations used when matching aid recipients and aid providers – should be worked out with much more care. It should take into account first of all the right choice of consulting firms for the international cooperation and the substance of aid, well discussed before the signing of documents, instead of focusing almost solely on the financial obligations of those involved and the general goals.

If the analysis is correct that consultants are acting as expert-professionals, but that it would be desirable for them to act as trustee-professionals, this is what one should aim for. Consultants should take responsibility, only accepting assignments when the conditions are in order – when they get enough time to prepare properly, when the benefits are expected to exceed to costs – and they should refuse assignments if they know they lack the skills and knowledge to do the job, or when boundary conditions are too limiting. They should be committed and take the interests of the beneficiaries more seriously, instead of keeping up appearances. They should see the beneficiaries, instead of the donor organizations, as their clients. In other words, they should act as trustee-professionals.

If the analysis is correct that beneficiaries do not benefit from the technical assistance given, and that their power is too low to get the help they need, the obvious solution is to empower them, let them set the objectives, and let them choose the help they need. It is similar to what is known in the literature about changing the ownership of the problem and striving for demand-induced assistance. Seen from the individual perspective of Kubr (1976, 1996, 2002), the organizational theory of Mintzberg (1983) and the institutional framework as applied to foreign aid by Gibson et al. (2005), it appears: "Encouraging programs that place the beneficiaries, rather than the contractors, in the center of the linked arenas is an obvious step to give more emphasis to the role of beneficiaries in the ownership of projects" (Gibson et al., 2005, p. 84).

The tools to improve the process of technical assistance are, however, not just of an organizational nature. The above has emphasized that we seriously think that without able individuals the process is doomed to fail. Therefore, we want to stress again that the aid-chain is in need of professionals who are committed and show empathy, do not misrepresent themselves, have the clients' interests in mind, are willing to build expertise, adapt their interventions to suit the specifics of the situation, and base their interventions on sound problem diagnosis.

This last condition can only be fulfilled if the institutional, organizational, incentive structure of foreign aid is changed in favor of stimulating such behavior – not by increasing administrative procedures, but by emphasizing substance. The theories presented in the previous sections provide ways to achieve such solutions. They involve changing the organizational structure of the aid-chain, decentralizing responsibilities, and aiming for more coherence between the actors in the aid-

chain. When the aid-chain is seen as a chain of independent organizations, altering the structure of incentives in such a way that the above recommendations can be reached might be an option. Moreover, many advocate that the asymmetry of information observed among those involved in the aid-chain has proved the "hidden" side of organizational culture and power relations within the chain. It represented the aid's informal features that essentially contributed to reproducing the pattern of aid provision by spreading institutional standards and organizational fashions, which is a one-sided approach to professional consulting work in terms of the classical theory of professionalism. This way to provide aid constituted only the façade towards the surrounding world of donor organizations, to give an impression that their aid provision was legitimate – i.e. in line with the modern understanding of professionalism when providing aid. Thus, the major dilemma of providing aid concerns, rather, the total transformation of the basic assumptions, values and norms of aid provision.

In order to achieve the positive effects, it could be argued from the same theories that it is essential to decentralize the aid-chain horizontally and vertically, to transform it into an innovative organizational model or even an "adhocracy", implying less standardization of skills, knowledge, process and output. This would reduce the information asymmetry to the advantage of the recipients, change the money flow in such a way that recipients become owners of technical assistance programs, and for all actors – including the recipients – change their conduct so as to act as trustee-professionals. It should be added that innovative organizations are the classical example of matrix organizations regarding division of labor.

The aid-chain is in need of such innovative institutions, independent of geopolitics, self-centered money flows, tied aid, and goals and objectives put forward by politicians that are contrary to the recipient's interests. Such institutions could make proposals for a system of incentives for all actors involved and processes. These incentives are expected to be adapted to changing situations and dynamic developments in accordance with the changes occurring in the organizational environment. They would also be institutions that promote learning and effective, efficient aid provision, and that act as intermediaries between recipients and donors, reducing the information asymmetry and aiming for improved communication. Such institutions could support the professionalism in the aid-chain by providing training courses, by organizing meetings between stakeholders, by taking care of knowledge transfer, and by providing information about legislature and culture in recipient countries.

The aid-chain is in need of institutions that could promote what many authors in this field are asking for, namely innovation. Easterly (2006) talks about the need for "searchers". Prahalad (2005) pleads for a combination of McKinsey consultants, Microsoft Engineers and Peace Corps Volunteers (2005, p. 365). Together with Sachs (2005), Calderesi (2006) and Klein & Hartford (2005), they ask for innovation

in the aid business. Innovation is the new buzzword. What it really says is: "We don't know what to do and await the prince in white armor". Easterly and Prahalad are convinced that this Prince is to be found in the private sector, Sachs still has faith in the existing organizational structures, Calderesi wants to restructure the aid industry, and Klein and Harfort await the outcomes of evaluations.

The consequence is, to continue the metaphor, that the Prince is still at home practicing his kissing on the available maidens, deliberating whether his armor should be made by his personal blacksmith or by the new commercial guy in town, and disputing with his friends whether Cinderella is to blame herself that he lost sight of her. The poor beauty waits in vain, while all she wants is for the Prince to brush his teeth and get on his horse in order to give her that kiss. Similarly our old-fashioned professionals are at home, frustrated about working conditions, failing aid, the ills of aid and the roads to hell. They are waiting for conditions under which their professionalism could flourish and they could do their work effectively. The potential recipients of foreign aid are also still waiting – waiting for an outcome of the ongoing discussion in the foreign aid literature about organizational settings, institutional frameworks, improving processes, and the yet unknown results of evaluations.

What is forgotten is that all the examples of effective aid, presented in the recent literature, point out that effectiveness is contingent: it always starts with a valid diagnosis of the problem, based on valid assumptions, a good idea and applying sound theories around which processes and organizational settings are built afterwards – instead of vice versa, a process proceeding from professional preparation to professional implementation. Hence, we are not awaiting a modern-day Prince, but rather the return of a number of old-fashioned professionals.

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## Abbreviations

| | |
|---|---|
| AMS | Swedish National Labor Market Administration |
| BITS | Preparation for international technical and economic cooperation (Beredningen för internationellt tekniskt-ekonomiskt samarbete) |
| CEE/CIS | Central and East Europe and the Commonwealth of Independent States |
| CEES/NIS | Central and Eastern European States and Newly Independent States |
| CIDA | Canadian International Development Agency |
| CMEA | Council for Mutual Economic Assistance |
| Cordaid | A foundation in the Netherlands that has some programs e.g., the Emergency Aid and Reconstruction, the developing program of Health and Well-being and the program of Entrepreneurship |
| CSO | Central Statistical Office (Glowny Urzad Statystyczny – GUS) |
| CVI | Centre of Vocational Information |
| DAC | Development Assistance Committee (it is dealing with development co-operation matters at the OECD) |
| DFID | Department for International Development (United Kingdom) |
| DLO | District Labour Office |
| EBRD | European Bank for Reconstruction and Development |
| EU | European Union |
| FEACO | European Federation of Management Consultancy Associations |
| GDP | Gross Domestic Product |
| GTZ | An international cooperation enterprise for sustainable development with worldwide operations (Deutsche Gesellschaft für Technische Zusammenarbeit) |
| IDRC | International Development Research Centre (Canada) |
| ILO | International Labour Organization |

| | |
|---|---|
| IMF | International Monetary Fund |
| JICA | Japan International Co-operation Agency |
| NATO | North Atlantic Treaty Organization |
| NEFCO | Nordic Environment Finance Corporation |
| NIB | Northern Investment Bank |
| NISPAcee | Network of Institutes and Schools of Public Administration in Central and Eastern Europe |
| NLO | National Labor Office |
| NORAD | Norwegian Agency for Development Cooperation |
| NPM | New Public Management |
| ODA | Official Development Assistance (comprehensive dataset at the OECD/DAC) |
| OECD | Organization for Economic Co-operation and Development |
| OOF | Other Official Flows |
| PES | Public Employment Service |
| PHARE | Poland and Hungary: Action for the Restructuring of the Economy Sandö Ucentrum Swedish Centre for Education in International Development |
| SAREC | Swedish Agency for Research Cooperation in the Developing Countries |
| SI | Swedish Institute |
| SIDA | Swedish Agency for International Development Cooperation |
| SFS | Swedish Statute Book (SFS Förordning) |
| SWEDECORP | Swedish International Enterprise Development Corporation |
| UN | United Nations |
| UNDP | United Nation Development Program |
| UNECE | United Nations Economic Commission for Europe |
| USAID | United States' Agency for International Development |
| VLO | Voivodship Labour Office |

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Approximately 40 billion US $ went to the Central and East European countries in the form of technical assistance during their transition between 1990 – 2004. This book argues that much of this assistance was ineffective and traces the causes thereof. It follows the money and blame through the aid-chain of recipients, foreign advisors, donor-organizations and responsible politicians. Based on in-depth case-studies it concludes that it is due to the structure in which technical assistance is embedded, that professionals who care, listen, and have clients' interests in mind, flee away, while professionals, who just want to do their trick and make money, without caring about the impact of their work, have entered this business.

Because this book combines the research into this problem with an overview of relevant social science theories, it is not only of interest for practitioners in the field but also for bachelor and master students in development studies, public administration, political and social sciences.

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