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Imposing Ideology as "Best Practise": The Problematic Role of the International Financial Institutions in the Reconstruction and Development of South East Europe

Introduction

The reconstruction and development of post-communist South East Europe since 1988 has taken place within the framework of the neo-liberal policy model that was effectively imposed upon the region by the Bretton Woods institutions - the World Bank and IMF. As elsewhere in central and eastern Europe (see Sachs, 1990), the confident prediction made by both institutions was that their preferred policy framework would ensure both a rapid and a sustainable post-communist, and then after 1995 and 1999 a post-conflict, reconstruction and development trajectory. What has transpired instead is something quite different: unstoppable de-industrialisation, dramatically rising poverty, unemployment levels now officially among the highest in the world, high levels of inequality, declining life expectancy, rising employee insecurity and deteriorating working conditions for many, an unprecedented rise in the level of corruption and criminality, drastically declining levels of solidarity and tolerance within already distressed communities, increasingly unsustainable trade and foreign debt levels, and collapsing public health, recreation and welfare services. In spite of such overtly negative results, the World Bank and IMF (hereafter, the International Financial Institutions, IFIs), as well as associated regional develop-

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[25] This paper represents a personal viewpoint and is not meant to represent the views of IMO or those of any other organisation with which the author is, or has been, employed by or associated with. My thanks to the several anonymous economic development and financial sector practitioners working in the region who kindly offered substantive comments, some additional examples to use, and a number of corrections to an earlier draft. All remaining errors are naturally mine alone. An earlier version of this paper was presented at the Conference *"From Transition to Development: Globalisation and Political Economy of Development in Transition*", Sarajevo, Bosnia and Herzegovina, October 9-11, 2003. My thanks to several participants for their comments.

ment institutions, such as the EBRD, do not appear to have become at all discouraged with the standard neo-liberal policy model. On the contrary, it retains the unequivocal support of the IFIs in South East Europe, as indeed it does just about everywhere else in the world, most recently with respect to the reconstruction of Iraq.[26]

There are both macro-economic and micro-economic aspects to the neo-liberal policy model. Complementing the neo-liberal "shock therapy" macro-economic policies in each of the countries of South East Europe was a standard package of neo-liberal micro-economic policies and programmes. These principally aimed to promote enterprise and community development from the "bottom-up". As the old state-owned sector was expected to contract, a new "bottom-up" dynamic of small enterprise development was expected to be called forth that could provide the requisite replacement jobs, income and security. Somewhat later, in order to provide the most conducive atmosphere within which local economic development process could take place, it was felt necessary to rebuild forms of community solidarity, trust-based interaction and horizontal and vertical social networking arrangements. Robert Putnam's (1993) concept of social capital was then seized upon, particularly within the World Bank,[27] to serve as the conceptual framework within which this goal could be both theoretically articulated and practically applied. With these two overarching local issues in mind – enterprise development and social capital accumulation – a number of core local policy interventions were established and provided with substantial financial support by the international community: new sources of commercial small-scale finance, new forms of commercialised business development support, and specific projects and project linkages aiming to establish and reinforce social capital building processes.

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[26] In mid-September 2003 the US government-led Coalition Authority announced a dramatic programme of privatisation and other neo-liberal structural reforms for the country, designed in co-operation with both the World Bank and IMF, thus deliberately pre-empting any future democratically elected Iraqi administration from setting its own framework for the economic management and future of the country ("Say No to Privatisation", *The Guardian*, London, September 23, 2003).

[27] See, for example, the World Bank's website focusing on social capital - www.worldbank.org/poverty/scapital.

In this paper I argue that the current economic predicament in South East Europe very much has its roots not only in the neo-liberal macro-economic policies favoured by the IFIs, but also in the package of neo-liberal micro-economic policies that were simultaneously introduced. The various local strands of the neo-liberal model have received very significant donor financial and technical support since the reconstruction and development process began in 1990, then effectively again in 1995 after the Dayton Peace Agreement and in 1999 after the NATO bombardment of Serbia. However, they have signally failed to establish the gist of the widely anticipated sustainable "bottom-up" local economic and social development trajectory, and may actually have substantially exacerbated the situation in many crucial respects. I examine the three core local economic and community development programmes established and supported by the IFIs, and find that there are serious problems with regard to both their supposed goals and positive impact. I conclude that the still very significant support for these problematic local strands of the neo-liberal policy model can be best accounted for by the political/ideological mission of the IFIs, which is to "lock in" neo-liberal principles, policies and institutions in the region no matter what the results.

Background

It was apparent by the 1980s that the communist economies of central and Eastern Europe were in serious difficulty and major reform was both necessary and inevitable. However, whilst recognising the gravity of their own situation, many in central and Eastern Europe were also in no doubt that the radical free market model of capitalism would likely offer very little material improvement for the vast majority of the population. As a result, there was a strong base of support in central and eastern Europe for a transition towards an economic model based upon an East Asian/Scandinavian-type "Third Way" between the two polar extremes of communism and capitalism, involving a sizeable public sector, a substantial co-operative sector, an extensive social welfare system, and the judicious deployment of various indicative planning and industrial policy instruments to help ensure macro-economic balance and micro-economic dynamism. For example, the bulk of the "Solidarity" movement's activists in Poland spent most of the 1980s arguing for a genuinely worker self-managed economy along modified Yugoslav worker self-management lines (Hardy and Rainnie, 1996). The

Hungarians had already been extensively experimenting, not unsuccessfully, with de-centralised planning mechanisms, co-operatives and worker self-management, first through the New Economic Mechanism (NEM) introduced in 1968 and then through further marketising and democratising reforms implemented in the mid-1980s (Dallago, 2003). From 1987 onwards the Soviet Union introduced legislation to support the "bottom up" development of worker co-operatives, the numbers of which exploded across the country within just a few years (Jones and Moskoff, 1991). Meanwhile, senior officials in the Soviet government hotly debated a variety of different plans to bring to an end central planning and convert all state property into worker self-managed enterprises operating within a regulated market economy, with the Mondragon regional co-operative system in northern Spain serving as one of their main points of reference.[28]

Although these various well-meaning reforms were unlikely to have facilitated an overnight transformation of the communist economies, they were nevertheless very clearly heading in the direction of steadily improving economic performance, an increase in general living standards and – significantly - the further introduction of democratic concepts and practises into both the economic and political sphere. This steady, if fitful, improvement was criticised at the time by the neo-liberal policy establishment in the western economies, as well as by those driven by Cold War considerations to decry whatever policy measures emanated from governments in communist central and eastern Europe (of course, in view of the transition depression that actually took place in the region – see below - we should just note in passing that such "steady progress" would perhaps have represented a major triumph for the region). Notwithstanding, the key western governments, overwhelmingly driven by the foreign policy imperatives of the US government (see Gowan, 1995), combined in 1990 to demand the full text-

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[28] At the end of the 1980s a large number of high level visits were undertaken by many of Gorbachev's most senior advisors to the famous Mondragon Co-operative Complex in northern Spain (reported in *The Guardian*, December 1, 1989). Many independent opinion polls undertaken in the Soviet Union at the time pointed out that the emerging and well-publicised ideas to promote worker–ownership and control as the core of a drastically reformed economic system were attracting considerable public support (reported in *The Guardian*, March 6, 1990).

book free market capitalist economy outcome for central and eastern Europe and nothing less.

The macro-economic policy model introduced to facilitate the historic transformation process from centrally planned communism to radical free market capitalism was a derivation of the neo-liberal policy model that was introduced in the early 1980s in both the UK under the Thatcher government and in the USA under the Reagan administration. There were many dissenting opinions in central and Eastern Europe at the time, but these views were quickly marginalised as being representative of former communist officials unwilling to see sense. There were also strong calls for caution coming from various policy communities in the western economies, but these also received short shrift. For example, a number of economists working in developing countries were warning that the forthcoming transition to a more market-based economy in the region would be courting disaster if, as per the textbook neo-liberal model, it did not involve a major role fore the state as mediator between competing interests and to work toward longer run development goals. The East Asian "Tiger" economies' experience, and also that of China since 1980, are obvious positive demonstrations of the catalysing and balancing role that is required of the state during a period of major post-system change and/or post-conflict reconstruction and development (for example, Madsen et al, 1994, Perkins, 1994; Taylor, 1994). At the same time, the collapse of many developing countries in the aftermath of the de-legitimation and collapse of state institutions - for example, Lebanon in the 1980s (Goglio, 1998) – offered a sobering lesson on the possible catastrophic downside of what Standing (2002) has termed "state desertion".

The key to the establishment of the neo-liberal model as "the only game in town" in central and Eastern Europe was the self-interest and power of the US Treasury, the World Bank and IMF (Gowan, 1995; Stiglitz, 2002, 2003). By deploying a mixture of political pressure, aid conditionality and financial support to develop local neo-liberal policy elites able to "push from the inside", the Washington "troika" were almost everywhere able to brush aside all local policies and ideas and successfully ram through their own policy preferences for stabilisation, liberalisation, privatisation and minimisation of the state. Other key institutions, such as the European Commission, readily went along with the required changes since such neo-liberal parameters are also fundamental to the EU project itself (Amin and Tomaney, 1995), as well to more specific projects such as Enlargement.

The neo-liberal policy model has by now racked up more than a decade of experience in central and Eastern Europe. What have been the results? The IFIs themselves almost universally portray the end results so far as broadly optimistic. Typically the transition process is described as having established at least “the basic fundamentals for future growth”, though often recognising that there has been “some pain along the way” (for example, see Stern, 1997; Business Central Europe, 1999). However, a closer look at the categories routinely deployed to convey transition “success” reveals the use of very many self-selected neo-liberal imperatives to be the crucial markers – such as the extent of privatisation achieved, number of private entrepreneurs established, or degree of labour market flexibility – rather than actual economic variables, such as the level of investment, the level of poverty, real wage levels, the level of domestic R&D, the rate of unemployment, and so on.[29] So, some care must be taken when interpreting the IFIs own estimations of transition success because there are very obvious reasons why they might, and in practise clearly do, seek to focus upon the positive and downplay the negative side. More important, therefore, is the fact that a growing number of independent observers now concede that the standard neo-liberal policy model imposed upon the region by the IFIs has actually produced very poor results indeed (Elster et al, 1998; Milanovic, 1998; Standing, 2002; Stiglitz, 1999, 2002), if not an outright calamity (Andor and Summers, 1998). The UNDP has been especially critical of the neo-liberal transition policies, particularly because of their very scant regard for key human development indicators (UNDP, 1999, 2003a).

It is useful (partly because it also usefully illustrates a theme taken up later in this paper) to consider in a little more detail the example of Poland, the transition economy which for a long time was considered the “star performer”. It is now clear that this optimistic view was more a case of wishful thinking than hard (or at least sustainable) reality. Neo-liberal microeconomic policies played an important role here. Analysts such as Johnson and Loveman (1995) wrongly ascribed Poland’s initial economic success to

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[29] A persistent offender in this regard is the EBRD - see *EBRD Transition Reports* (various) London: EBRD.

the massive rise in micro-entrepreneurship – some two million new entrepreneurs in the two years after 1990. The picture painted was of a dynamic and vigorous entrepreneurial sector creating jobs, wealth and exports, and productively inter-linking with other parts of the economy. Poland's traditionally very strong informal sector operating under communism had seemingly been transformed into the main motor of post-communist growth and development, very much in accordance with the "Latin Americanisation" view associated with the work of De Soto (1989).

In fact this rosy view was very far from reality. In practise, a very large percentage of the nearly two million new small enterprises registered since 1990 were actually self-employed individuals mostly involved in simple shuttle trading activities. Much of the shuttle trading took place across the Polish-German border, but also a significant part involved travel to Russia, Ukraine, Belarus and elsewhere in the east.[30] It quickly became clear that these types of informal shuttle trading enterprises actually had very little growth potential, largely avoided all forms of taxation, tariffs and other social responsibilities, and helped to embed and legitimise criminality and corruption within society. One of the most serious effects was that in practise the new shuttle trading community helped to facilitate the immediate flood of imports that contributed (along with a "shock therapy" induced "credit crunch") towards wiping out many local producers before they had had the time to acclimatise to the new market economy conditions via re-investment, re-tooling and restructuring. Many potentially viable small and large-scale industrial sector enterprises collapsed in the aftermath of the immediate flood of imports before they had had the time to "get their act in order", with unemployment rising very rapidly as a result. The activities of the growing population of shuttle traders signally contributed to the huge trade deficit. A major component of the burgeoning trade deficit arose when the agricultural sector collapsed under the weight of rapidly available and cheap EU items, one of the mainstays of shuttle-trader activity in the first

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[30] A number of years ago a world tourism survey rather surprisingly reported that Russia was the tenth most popular tourism destination in the world according to number of overnight stays. On closer examination it turned out that this form of "tourism" was overwhelmingly composed of Polish shuttle traders over-nighting before returning with their goods.

few years of the transition, turning a $557 mn surplus on agricultural products in 1989 into a $333 mn deficit with the EU by 1993. Farm incomes fell by 50% as a result and by 1995 60% of farms were technically bankrupt (see Andor and Summers, 1998, p 109). Overall, the new, largely informal population of shuttle traders represented a reflection not so much of the reinvigoration of the Polish economy, as claimed by such as Johnson and Loveman (ibid),[31] but both a "poverty-push" consequence of Poland's immediate "shock therapy"-induced recession and – crucially – a causative factor in the subsequent overall decline (see also Glinkina, 2003).[32]

Importantly, a good part of the necessary starting capital that allowed a great many shuttle traders to get started came from new forms of commercial micro-finance – so-called "new wave" micro-finance institutions. These new developing country-style local financial institutions disbursed very small sums of credit to anyone who could repay very high monthly interest rates over short repayment periods; in other words, financial support tailor-made for shuttle traders and the like, and for virtually no other type of business activity.[33] Even with such very small sums of cash the shuttle traders could begin operations abroad and generate substantial flows of imported

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31 A claim very much accepted by Jeffrey Sachs in the introduction to the Johnson and Loveman book. Sachs was one of the main architects of the Polish "shock therapy" experiment begun in 1990, and directly and indirectly was responsible for the content of many of the other "shock therapy" programmes introduced in central and eastern Europe after 1990 (see Sachs, 1990).

32 Such a scenario had emerged in an earlier episode of "shock therapy" restructuring – the UK economy in the early 1980s. Storey and Johnson (1987) denoted this trajectory the "Birmingham model" after the West Midlands city that suffered a major collapse of its economic base in the 1980s, and saw many redundant workers being forced into any form of petty business in order to survive. Such "poverty-push" entrepreneurship was an aspect of decline rather than success, they argued, and the ultimate recovery of this major industrial city had very little to do with these new small businesses.

33 For example, of the more than 54,000 loans disbursed by *Findusz Mikro* between 1994 and March 1, 2003, amounting to over $100mn in total, 56% of the loans went to traders, 35% to services and 9% to production (data accessed on August 20, 2003 at { HYPERLINK http://www.finduszmikro.pl) }.

goods, particularly through the use of supplier credit.[34] Could other small enterprise structures have not arisen also in Poland at this time, possibly to compensate? This would have been difficult since government policy at that time in Poland was to not provide specific support for dynamic growth-oriented small enterprises – say, technology-intensive, export-oriented or innovative – but simply to establish the "appropriate" macro-economic framework within which such growth-oriented small enterprises should spontaneously emerge according to textbook neo-liberal automaticity principles. Crucially, this was the firm view of Leszek Balcerowicz, the main architect of the "shock therapy" programme in Poland, who argued that stabilisation, privatisation and liberalisation were all that was required in Poland to establish a sustainable small and medium enterprise development trajectory (see Balcerowicz, 1995, p 246). One result of this particular policy was that the very strong innovation, patent processing, invention and applied R&D base that existed in Poland prior to the transition (see Haudeville et al, 2002) was hardly touched as a source of new small enterprise dynamism and relevant technologies. For example, many of the technology-intensive SMEs that had started under late communism were forced to abandon their activities when the financial conditions drastically changed after 1990, many becoming shuttle traders as well.

The full implications of the neo-liberal "shock therapy" programme, and the massive expansion of the shuttle trading population, began to work their way through the economic system by the mid to late 1990s. The Polish economy finally began to register deteriorating performance on most categories. By mid-2002 the situation was beginning to look far worse, and even, according to the London-based Economist magazine (The Economist, July 27, 2002, p 38) beginning to register a threat to the entire plan for Polish EU Accession. The trade deficit was becoming unsustainable, the budget deficit also out of control, and the rate of unemployment had risen to nearly 20% (see The Economist, April 21, 2001, p 32). One major adverse impact was the drastic deterioration of the living conditions in most rural

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[34] Feakins (2002) reported that many Polish shuttle traders were able to take advantage of family and kinship ties in the EU countries, particularly in Germany, in order to access large quantities of supplier credit, "sale-or-return" goods and so on.

areas of Poland after 1990 where, according to Kowalski and Kaminski (1999), rural working and living conditions had by the late 1990s deteriorated to levels not seen since the mid-19th century. The Economist, an earlier (and still) very forceful supporter of strict neo-liberal orthodoxy, finally began to come clean on at least some of the adverse results of the neo-liberal experiment - against the background of a now quite unsustainable trade deficit and seemingly unstoppable industrial sector contraction, it was forced into the admission that it could now offer no clue whatsoever as to “what Poland will export to support its 40mn people” (ibid).

In truth, the dramatically poor performance of the neo-liberal model in central and eastern Europe, such as in Poland, is virtually no different to the results achieved in earlier and parallel neo-liberal experiments (see MacEwan, 1999; Chang, 2003). For sure the driving force behind the neo-liberal model itself – the USA – is entering a very difficult period after the unsustainable “boom” conditions of the 1990s (Stiglitz, 2003). In Argentina, perhaps the country in the late 1980s and early 1990s that most slavishly accepted the advice of the IFIs, the results have been quite disastrous.[35] For a time Argentina was only rivalled by OECD member New Zealand as the

[35] An initial early 1990s boom was underpinned by the sale of virtually all of the countries main public utilities and other assets to foreign multinational companies, which quickly hiked up prices and began repatriating profits back to their home country on a huge scale. The downward effect on the incomes and demand of the poorer communities brought about by the now higher utility prices was marked. Terminated contracts for non-payment meant that whole new communities began to emerge 19^{th} century-style without access to energy, water, waste collection and other amenities. The boom effectively came to an end when there was nothing left to sell off, though other crises elsewhere – in particular East Asia – helped to push the teetering economy over the edge. Argentina was forced to signal in 2001 that it was likely going to have to default on its debts of over $128 bn, creating the largest sovereign debt default in history. Poverty and unemployment subsequently rose dramatically, wages of the bottom sections of society collapsed even further, great swathes of domestic industry got into serious difficulty and/or closed down, and the entire country seemed about to explode. Even if a recovery can somehow be fashioned in the coming years to save part of what remains of the industrial structure, perhaps through a one-off devaluation boost, it will once more take many years before the situation is back to where it was at the start of the decade (McEwan, 2002).

country most willing to implement the core elements of the neo-liberal policy package. As in Argentina, Wade (2001) explains, New Zealand's experience with implementing neo-liberal orthodoxy was also a major economic and social setback. In most parts of Africa and south Asia, too, the results of neo-liberal policy packages (i.e., Structural Adjustment Programmes, SAPs) are widely seen as having been a disaster for the overwhelming majority of the populations in many countries (Weisbrot et al, 2000; SAPRIN, 2001). As a response to the growing criticisms of SAPs the IFIs launched the Poverty Reduction Strategy Papers (PRSP) process, which are essentially SAPs under a different name. But even with some marginal amendments to the IFIs approach towards developing countries in the PRSP process, such as beefed up consultation procedures and the like, Hardstaff (2003) sees no reason to believe that the situation will change substantively for the better. In fact, neo-liberal policies and programmes have been associated with economic stagnation or decline for the majority of countries since around 1980, and, for a few of the most dedicated adherents, economic chaos and social collapse (McEwan, 1999); yet such policies continue to be persevered with no matter what the consequences.

East Asia provides a further important indication of the supreme importance that the IFIs and key western governments appear to place upon adopting the ideologically correct neo-liberal policy model no matter what the results. In East Asia, however, there has been substantial pressure upon very successful economies to "change course" and move towards adopting the favoured neo-liberal approach. The East Asian "Tiger" economies are the obvious examples here. Coming under very intense political pressure in the late 1980s from the US government and the IFIs, along with their ideological affiliates, such as the OECD, several of the East Asian "Tiger" economies were reluctantly forced into abandoning many of their own "home-grown" state co-ordinated "growth with equity" policies that had served them so well over the previous thirty years. But the direct result of this enforced policy change, as Chang (2000) outlines, was the near economic collapse of several previously high performing countries. The proximate cause of the collapse was the demand (possibly driven, very simply, by pressure on the US government from Wall Street investment banks keen to pick up new business in the region – see Stiglitz, 2002, Chapter 8) that countries in the region liberalise their capital accounts. This led inter alia to vast uncontrollable "hot money" flows coming in. Much of this "hot money" went on speculative financial and real estate projects. Later on, as conditions changed, an IMF-inspired attempt to retain these vast financial flows in the region led to interest rates being hiked up substantially. But apart from failing to curtail the outflow, high interest rates severely undermined the balance sheets of all companies in the region – good and bad – with the result that large numbers of companies went bankrupt, massive job losses took place and the regional economies went into a tailspin. It was only by swiftly and substantively changing course could these countries halt the rapid decline. And shortly thereafter they were able to resume their upward growth and equitable development trajectory (see Stiglitz, 2002; Chang, 2003). Most recently, China has come under mounting pressure to change its range of development policies to accord with the neo-liberal model favoured by Washington and the IFIs, in spite of being considered by many (for example, Perkins, 1994; UNDP, 2003a) to have been the most dramatic economic development and poverty reduction success story of the last thirty years.[36]

The former Yugoslavia

It is sometimes forgotten that an IMF-designed "shock therapy" policy model was first implemented in the former Yugoslavia in 1988, pre-dating the more well known "Balcerowicz Plan" introduced in Poland on January 1, 1990. The Yugoslav government under Prime Minister Ante Marković, a reformer with a clear understanding that the Yugoslav economy was in deep crisis and heading toward an inter-ethnic conflict unless major changes were made, effectively had no other option but to cave in to the IMF's de-

[36] In spite of China's clear rejection of the standard neo-liberal policy package, this does not stop many neo-liberals from routinely claiming credit for its enormous economic development success. Analysis of globalisation - for example by the Paris-based OECD and the London-based *Economist* magazine - regularly considers China to be an exemplary case of an economy that achieved success simply because it "opened up to the world". But nearly always the analysis fails to mention the highly interventionist industrial, trade and technology policies that China has extensively used to fashion its economic success – successful policies which, as Wade (2002) emphasises, are distinctly *not* being recommended by the IFIs to other developing and transition countries (see also Chang, 2003).

mands. However, as in the wider central and eastern Europe, there were numerous trends underway indicating the good sense of ensuring that the reform should build upon past worker self-management successes, while also dealing radically with past failures of the system – that is, the baby should not be thrown out with the bath-water. Branko Horvat (1982) was already making the case in the mid-1980s for modified – that is, genuine – worker self-managed structures to be allowed to emerge from the predictable collapse of Yugoslav communism, joined by many others as Yugoslavia itself began to collapse (see Ellerman, 1990; 1993; Estrin, 1991). Notwithstanding, the pioneering Yugoslav worker self-managed economy was quickly disassembled with almost nothing remaining of the unique form of industrial democracy that had at times proved to be very efficient indeed - in the 1950s and 1960s, Yugoslavia was one of the world's fastest growing economies, and for several years the fastest growing economy in the world.[37] The predictable result of the very rapid abandonment of worker self-management was further intensification of already severe economic problems, growing social chaos and, crucially, according to Woodward (1995), space for widespread political opportunism: the separation movements in Slovenia and Croatia ignored all domestic and international pleas for restraint and instead sought to court popularity by pinning the blame for the widespread poverty and suffering on to the Marković government. Against the resulting background of economic stagnation, hyper-nationalist propaganda and popular resentment at the unequal regional and social impact of "shock therapy", the country's collective leadership failed, tragically, to agree on a way to peacefully lay to rest the Federation.

Once the country broke up in 1991 an attempt was then made to implement similar neo-liberal policies in the newly independent Yugoslav successor states. This attempt was cut short when conflict broke out in 1992 in Bosnia. When the Yugoslav civil war finally came to an end with the Dayton Peace Agreement signed in Dayton (US) in December 1996, the IFIs moved very quickly to impose once more their favoured neo-liberal policy

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37 However, the privatisation model adopted by the Slovenians after 1990 was, at the end of the day, responsible for a surprisingly high proportion of employee-owned businesses emerging out of the old socially-owned ones (Mencinger, 1996).

package of reforms alongside the reconstruction aid. Once more the argument was made by the IFIs that only if the neo-liberal fundamentals were quickly put into place would sustainable reconstruction and development be forthcoming (World Bank et al 1996; World Bank, 1997). This position also held fast yet again when the NATO bombardment of Serbia in 1999 precipitated a further round of economic destruction and chaos in the region (World Bank, 2000). Indeed, throughout the various twists and turns in South East Europe, no significant changes to the neo-liberal policy package were felt needed or were made to take into account, say, the vastly more difficult post-conflict situation in the region or in individual countries. Nor was there any attempt to address the implications of the serious problems having clearly emerged in the transition process in the wider central and eastern Europe using the same neo-liberal policy model. Pointedly, no account was taken of the high level of industrial, managerial, technology, educational and social development achieved in the former Yugoslavia prior to 1991,[38] and at least partially maintained since then under very trying circumstances.

The end results of the various neo-liberal programmes imposed upon South East Europe have been universally negative. Notwithstanding the superficial signs of progress – renovated houses, shops, roads and bridges – and the fact that for a very tiny urban elite there has been an historically unprecedented opportunity to amass enormous wealth and power, it remains the case that for the majority of the people in the region the outlook remains really rather grim. Apart from the inflation target, the situation has actually continued to decline since the end of the Yugoslav civil war in 1995 on virtually all major human development indicators – poverty, unemployment, inequality, social exclusion, corruption, community and job security, life expectancy, access to affordable health, recreation and education facilities, and so on (Young, 1999; Gomart, 2000; Horvat, 2000, 2002; Oxfam, 2000; Papić, 2000; Kekić, 2001; UNDP, 2002, 2003c). There was no serious attempt to preserve core industrial assets intimately related to the commercial viability of the enterprise sector as a whole, and to the ability to export and

[38] For example, the Yugoslav enterprise sector by the end of the 1970s had a slightly larger number of mainframe computers in use than in both the Italian and Austrian enterprise sectors combined (Radman, 2003).

supply local markets. Such a valuable societal asset – indeed, an asset that developing countries are desperately striving to attain[39] – was provided with almost no significant direct international support. Instead, privatisation of the enterprise sector (in fact, of everything) was expected to resolve all thorny problems related to both static and dynamic efficiency, and thus the long term sustainability of the economic base would be assured. Accordingly, it was also felt necessary to ensure that governments in the region could not establish their own pro-active financial and institutional structures, such as East Asian-style development banks and industrial policy and technology transfer institutions, which could interfere in the short term market-driven restructuring processes supposedly under way. Many such policy interventions were, and continue to be, routinely blocked by the IFIs all across the region (see below). Cruelly, the overall decline that has taken place in the region has transpired in spite of a major donor financial commitment to the region after 1995, outstripping the Marshall Plan in real per capita financial value (CFER, 2000).

Moreover, the most recent indications from some countries in the region are that the situation is actually likely to get worse over the next few years as the large donor aid flow finally begins to decline, one-off privatisation financial windfalls come to an end, and massive trade deficits and foreign debt levels come home to roost. Croatia, for example, now has to try to figure out how to tackle a near $20bn foreign debt, which by the end of 2003 was more than 70% of GDP, up from 30% of GDP in 1997. The first six months of 2003 alone saw a $2.5bn trade deficit in Croatia, up 50% in nominal terms from the previous year. Key factors in this deteriorating

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39 According to the 2003 Annual Report of UNCTAD, such policies still unjustifiably remain off the agenda for most developing and transition economies today, effectively leaving these countries "with no chance of nurturing the home-grown firms which are crucial to economic success", according to Yilmaz Akyuz, an UNCTAD official associated with the report. What developing countries urgently need, Akyuz went on to say, was "...the policy space: the ability to nourish, support and develop domestic industries, and the capability to compete in international markets and to supply the home market" (See "Free-for-all on trade will harm everyone, says UN", *The Guardian*, October 3, 2003).

situation, according to the Governor of the Croatian National Bank,[40] were the rise in consumer goods imports set against stagnating industrial sector exports, and the nearly $1bn of profit taken out of the country by foreign banks and businesses in the first half of 2003 alone.[41] The chances of Serbia and Montenegro escaping the devastation visited upon it over the 1990s appears weak (UNDP, 2003c), and the recovery so far in this new political entity has been very fitful at best. Macedonia continues to flirt with economic disaster on a number of fronts, while the new NATO Protectorate of Kosovo would appear to have almost no chance to develop a sustainable economy under whatever final status permutation emerges. Social tensions and disaffection continue to rise all across the region on account of the enormous increase in poverty and deprivation which stands in stark contrast to the huge, conspicuous and often illegal enrichment of a small number of individuals.

The specific nature of some of the most debilitating trends and outcomes is well illustrated by the experience of Bosnia. Bosnia is a country with a strong tradition in engineering, construction and defence-related industries, a previously good number of important export-oriented industrial companies, solid University-level and other educational institutions specialising in industrial applications and basic R&D, and a well-developed – in some cases, world-class - applied R&D infrastructure, such as the EnergoInvest company's eight research bodies spread across the country. But the lack of supportive industrial development institutions and policies in the country has been palpable, and thus the resulting industrial collapse not entirely unanticipated (for example, see Bateman, 1995; Stojanov, 2000). When it finally became clear that the independent actions of private entrepreneurs, local investors, private banks and foreign investors - the essence of the neo-liberal economic recipe for growth - would be quite unable to vector into place a sustained recovery, some serious doubts started to appear in the donor community. When the forecasts indicated that worse was to come, some changes were finally precipitated. Recognising the impending threat to the

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40 Reported in the Croatian Information Service, September 12, 2003.

41 The two factors are also related since the foreign banks have underpinned the consumer credit boom that has facilitated the rise in imports, particularly in the case of imported motor vehicles.

economy (and to their own peace-building efforts), by early 1999 the EU/Bosnia and Herzegovina Consultative Task Force, a body established by the Council of the European Union, urgently began to call for a "proper industrial policy strategy for Bosnia and Herzegovina".[42] This call followed on from the Peace Implementation Council's meeting in Madrid in January of that year, where "For the first time since the start of the reconstruction programme in Bosnia-Herzegovina, the international community explicitly asked for the adoption of a strategy for industrial development". Apparently, an industrial policy had "been emphasised by local experts for a long time" mainly because "the growth of new companies in Bosnia-Herzegovina has been minimal", but nothing whatsoever had been done.[43] Notwithstanding, almost no change to the then prevailing policy framework could be envisaged in the country because the IFIs simply refused to allow for such a change of course. According to the Head of the World Bank in Bosnia,[44] the country is now heading for an economic abyss if it does not receive major (i.e., $250-300mn) regular cash infusions into the near future.

The depth of the economic problems confronting South East Europe is now becoming accepted in many quarters. One result is that the EU is beginning to push much harder for a regional integration process and to prepare the region for further funding and technical support from Brussels, acutely aware that permanent instability on its southern borders would seriously undermine the Enlargement process and the progress of some existing EU members (e.g., Greece). Increased financial support from Brussels would indeed make things better, at least in the short term (to cover trade deficits, fiscal gaps, capital goods purchasing requirements, etc). However, the policy framework that animates the EU's drive for regional integration remains very firmly subordinated to the needs of the wider EU integration and world-wide economic globalisation processes, both of which strongly suggest nothing more at best than a very peripheral non-industrial future for most parts of South East Europe. This is why the growing calls for EU-style regional development policies and some more cash (for example, see Euro-

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42 EU Press release, February 16, 1999, Sarajevo.

43 Reported in *Reuters News Service*, January 26, 1999.

44 Reported in "A Nation unbuilt: Where did all the money go in Bosnia?" *International Herald Tribune*, February 18, 2003 page 4.

pean Stability Initiative, 2003) are so wide of the mark, even more so because the underlying policy model upon which much of this type of analysis is based - the Irish regional development experience – is itself increasingly being revealed as problematic.[45]

In the main section of this paper that now follows, I show that the deteriorating economic situation is not simply a factor of the neo-liberal macro-economic policy framework, but also very likely attributable to core neo-liberal micro-economic policies malfunctioning as well.

Key local neo-liberal interventions

Simultaneous to the imposition of neo-liberal macro-economic policies in the transition economies was the establishment of a whole raft of local neo-liberal policy interventions and programme initiatives. The core aim of these policies was to privatise and commercialise all local development interventions and programmes, and to vector all solutions to under-development and poverty solely through the prism of market forces. Development was to be recast as a profit-making business activity that could, and should, be undertaken by private commercial companies, including even multi-national corporations. Essentially three inter-connected local strands of neo-liberalism were prioritised by the IFIs in South East Europe. First, the so-called "new wave" micro-finance institution model was transferred over from the developing countries, such as Bangladesh and Bolivia, to begin a new life in South East Europe. These institutions were designed to provide financial support on strictly commercial terms to as many and any new small-scale businesses and individual entrepreneurs that might be in-

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45 The Irish "Tiger" economy was/is a product of a quite specific constellation of factors – principally the large amounts of diaspora-led US foreign investment and the highest EU structural funds per capita quota in all of the EU – and such favourable circumstances would probably precipitate a boom of sorts almost anywhere. Therefore, Irish economic success cannot very easily be replicated elsewhere by policy design, though large sums of money would clearly help Keynesian-fashion. The recent relocation of many Irish-based US electronics plants to the Far East and the accelerating phasing out of EU structural funds financial support is having a quite deleterious impact upon the Irish economy (see "The Irish economy isn't purring, let alone growling", *International Herald Tribune*, February 25, 2003).

terested. Second, business development support for the raft of new businesses was to be provided by networks of commercially-oriented, independent Business Support Centres. Both of these local interventions would require an initial cash injection from the donors, but it was envisaged that they would ultimately survive as full or quasi-commercial entities by "earning their keep on the market". Third, though fully emerging only by the mid-1990s, the concept of social capital was increasingly deployed to articulate the international donor community's desire to (re)build a range of institutional linkages, solidarity, trust-based interaction and mutual support structures within the local community, ostensibly in order to underpin pro-poor development institutions and poverty reduction trends.

"New wave" micro-finance institutions

The neo-liberal project in the early 1980s gave rise to a distinctive new form of local financial support structure in the developing countries. This was the so-called "new wave" - sometimes also referred to as a "movement" or "revolution" - of micro-finance institutions (MFIs). These are independent, commercial, self-sustaining lending bodies supporting micro- and small enterprise development (see Otero and Rhyne, 1994; Robinson, 2001). "New wave" MFIs are designed to survive and expand in numbers via the profitable provision of small quantities of very short term credit at market-based interest rates to any client offering the best chance of repayment. Because they are apparently able to survive on their lending activities without the need for continuing outside financial support (i.e., subsidies) the "new wave" MFI model is immensely attractive to both the IFIs and governments, but particularly the former. Conceptually and practically, therefore, it has been offered significant support from the IFIs, bilateral agencies (especially USAID), international NGOs and, increasingly, a range of other bodies not conventionally associated with a concern for the situation confronting the world's poor, such as multinational corporations and major conservative media outlets.[46] Accordingly, the "new wave" MFI model at-

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[46] For example, the high-profile Micro-Credit Summit campaign has garnered a very exclusive list of individuals, senior politicians and multinational corporations, who have agreed to offer support for its aim of bringing commercial micro-credit to an additional 100 million families throughout the developing world by 2005. *The New York Times* and magazines such as *Business Week*

tracted substantial political support and donor agency funding in the context of the reconstruction of South East Europe (World Bank, 2000).

The crucial conjecture underpinning the widely supposed positive impact of the "new wave" MFI model is that because some individual clients can be seen to be better off than non-clients, this localised outcome can be aggregated up across the local and national economy to give an overall positive impact. The line of thinking here can be directly traced back to the standard neo-liberal contention that poverty and under-development are a result of simple market imperfections – here a generalised lack of small-scale finance (see, for example, DeSoto, 2000) - rather than related, say, to structural constraints within society associated with class, power, gender, ethnicity, and so on. It is thus posited that commercially-viable MFIs that can achieve both sustainability and greater outreach will ensure that the largest number of individuals can gain access to finance over time and can therefore engage in small-scale entrepreneurial activities; ergo the largest number of clients that will be able to raise their own individual/household income levels and escape from poverty.

Other than the burgeoning number of evaluations that compare the before and after situation of clients and non-clients, however, the "new wave" MFI model has been subject to hardly any critical evaluation of its fundamental conceptual and practical building blocks or its widely assumed wider positive aggregate impacts. Clearly, as Morduch (1998) notes, the supposed "win-win" scenario it conjures up – addressing poverty and under-development at little or no long term cost to donors and governments – is a very seductive idea indeed. Perhaps, then, it is not so surprising that the IFIs appear to be quite disinterested in commissioning wide-ranging evaluation exercises. Moreover, "new wave" MFI programmes now represent one of the main avenues through which local and international NGOs, consulting companies, Universities and other organisations are able to access contracts and funding, thus possibly reducing their willingness to engage in any

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have increasingly seen fit to editorialise and uncritically publicise the presumed benefits of commercial (i.e., "new wave") micro-finance provision as a way of helping the poor in poor countries.

critical examination of the model.[47] The situation leads Johnson (1998, p 21) to note that, "it is curious that the tools of impact assessment have not extended beyond users, or the organisations which serve them". Indeed, Robinson's (2001) three volume World Bank sponsored publication, widely held to be the reference book for the "new wave" MFI approach, contains no substantive discussion of aggregate impact, wider externalities or opportunity costs. Obvious practical alternatives, such as well-targeted public employment programmes that can very usefully address the serious plight of virtually the same client base of the "new wave" MFIs, typically refugees, women and demobilised soldiers (see UNDP, 2003c), remain marginalised.

In the context of South East Europe, however, it is possible to point to a number of conceptual and practical issues that appear to challenge the case for the "new wave" MFI approach (see Bateman, 2003a, 2003b). First, market-based (high) interest rates are used as the basis for loan decisions in order to best ensure the financial sustainability of the "new wave" MFI itself. However, a major de-industrialising effect arises as a result because the entrepreneurial/financial incentive structure within the local economy is incrementally adjusted in favour of short-term, high profit, low-technology, quick payback ventures – typically, shuttle traders, petty retailers, kiosks, street catering, and small-scale production operations that add value very quickly.[48] The new financial environment clearly acts to "crowd out" those projects requiring greater investment, using skilled labour, possibly export oriented, and where there is a need to adapt relatively sophisticated technologies (perhaps from declining state-owned firms) into the production process. At the same time, projects are also avoided if they involve long

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[47] One example is UK-based Oxfam GB, which now obtains a growing share of its programme funding from the UK government's Department for International Development (DFID) arm, which happens to fully support the principles of the "new wave" MFI model. Not surprisingly, perhaps, an increasing number of Oxfam's poverty alleviation programmes involve "new wave" MFI components.

[48] This is very typical elsewhere. Morduch (1998, p1) notes that petty traders make up the bulk of the clients of both Bolivia's *BancoSol* and Indonesia's *Badan Kredit Desa*, two of the most famous and financially self-sustaining "new wave" MFI programmes.

financial break even points, where there are only "adequate" profits and there may thus be some difficulty to service high interest rates, and also where there are costly and risky "learning curves" to endure. It is also important to note the existence of important feedback effects here, because high interest rates are also a partial function of the high local opportunity cost of capital, represented by the very high margins made on trading and importing activities. High shuttle trading and importing profits thus both encourage high(er) interest rates, because the commercial banks want their piece of the action,[49] and it is also the case that trading and importing operations are often the only possible entrepreneurial response to high interest rates, since most other types of businesses cannot service them. The "new wave" MFI thus further entrenches both the high interest rate aspect of commercial bank lending practises and the tendency to support only quick turnover businesses like traders and consumer goods importers.

The local financial environment thereby created - it can be termed a "disabling" environment - will act to significantly deter substantive small-scale projects from both becoming established and surviving. The many possible technology-intensive and related growth-oriented business ventures that could have emerged, say, from the region's substantial defence, construction, electronics and engineering sectors are likely to receive hardly any forms of support within such a local financial environment. Moreover, even if "new wave" MFIs eventually reach sufficient scale and outreach to deal with more substantive small-scale business projects, as proponents indeed claim will be the case (Robinson, 2002), irreparable damage will have been done to the local industrial structure in the meantime and negative "path dependency" effects generated - a clear case of "the cure perhaps being found, but in the meantime the patient has died". The history of many industrial countries and regions is marked out by artificially generated financial discontinuities, which presage an economic decline that may be exceedingly

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[49] In order to do this, commercial banks in South East Europe often inflate the official interest rate through the imposition of various "management charges", one off fees and other additional costs on top of the official interest rate and capital repayment costs. Some commercial bank managers also add a personal fee for themselves, but this is straight forward corruption of course.

difficult or costly to reverse at a later stage.[50] For the same reason we can also largely discount the related "primitive accumulation" argument derived from the fact that many small-scale traders and importers often use their accumulated capital to move into more substantive business areas of their own volition. The expansion of "new wave" MFIs in South East Europe is thus giving rise to a local financial environment quite unlike that which underpinned the dynamic small enterprise-driven successes of 1950s Italy and Japan, 1960s Taiwan or 1990s China (see Bateman, 1999; UNDP, 2003c), and more like that which helped to accelerate the de-industrialisation and structural distortions experienced in Poland since 1990 (see above).

The local finance sector-led reconstitution of an economic base along unsustainable, non-industrial lines has been particularly marked in Bosnia. Here one of the central interventions by the donor community was the establishment in 1997 by the World Bank of a network of "new wave" MFIs under the Local Initiatives Project (LIP), which was financed by a number of donors to the tune of over $40mn. The LIP was followed shortly thereaf-

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[50] A good example is the case of Scotland in the wake of the North Sea oil boom in the 1970s. With one or two well publicised exceptions (e.g., the Wood Group) most local engineering companies then servicing the Clyde shipyards and related heavy industrial sectors found the task of diversifying into the new market opened up by the oil boom almost impossible, thanks to the UK's traditionally anti-industry financial sector bias. Unlike in Norway, then enjoying a similar oil and gas boom, where the Norwegian government stepped in to offer very strong support for a local engineering oil and gas sub-sector to take root, the UK government thought market forces alone would (should) respond. They did not. By the early 1990s the situation had become obviously untenable and the government was forced to belatedly intervene much more directly to save at least part of the Scottish engineering sector. It established a number of special funding programmes to facilitate diversification into oil and gas work, provided tax and other financial benefits and significantly beefed up the powers of the initially very weak Offshore Supplies Office (OSO). But the damage by that time had been largely done, and the bulk of the most lucrative oil and gas-related industrial contracts ended up in the hands of US and Norwegian companies and, to a lesser extent, their French, Dutch and German counterparts (Bateman, 1994). Subsequently, many of the lessons learned were applied - this time quite successfully - to the task of developing the electronics sector in Scotland.

ter by the country's first "new wave" micro-enterprise bank – MEB Bank – with another $20mn of mixed donor funding. Note also that Bosnia's new liberalised private commercial banking sector was then (and still is) extremely risk-averse and resistant to dealing with the local enterprise sector, preferring instead to "invest" locally mobilised financial resources in German and UK bank accounts (Čaušević, 2002). These very much related institutional changes – the "new wave" MFIs and the privatisation and liberalisation of the banking sector are essentially the two sides of the same neoliberal coin - combined to undermine the industrial structure of the region in a quite dramatic manner. Entirely predictably the main clients of the emerging local financial system were virtually the same as in non-industrial developing countries - shuttle traders, kiosks, street retailers, caterers, and very small-scale producers adding value very quickly. The combination of high interest rates and short term repayment requirements (and sometimes also the need for significant collateral) very effectively "crowded out" virtually all more sophisticated and technology-intensive ventures, those with a higher risk profile, and those with a more distant financial break-even point. The "disabling" local financial system established under the patronage of the IFIs has thus clearly accelerated local industrial decline, rather than acted to deter it and/or underpin a sustainable local industrial structure based on some degree of local production in reasonably technology-intensive ventures. Notwithstanding the welcome, though very often largely temporary,[51] boost to employment and wealth-generation registered in those micro-businesses that were supported by Bosnia's "new wave" MFIs, the longer run result of the "disabling" financial environment thereby created

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[51] It is very widely recognised that a high percentage of the micro-businesses supported by "new wave" MFIs actually collapse very quickly. Indeed, many are actually only established with a very short life in mind, as when a refugee establishes an enterprise for a short duration to provide an income of sorts prior to returning home. For example, consider the ongoing impact assessment of the LIP programme in Bosnia (see Dunn and Tvrtkovic, 2003). Nearly 5% of the more than 3,300 micro-enterprises selected for the sample actually closed down in the 3 month time period between sample selection and survey interview. The researchers involved then, understandably, warn that in the two year period of the study "an even larger percentage of respondents may be expected to close their enterprises" (p 47).

has proved to be quite catastrophic for the Bosnian economy. The UNDP bleakly concurs, reporting that the Bosnian people have effectively been "…condemned to reliance on a grey, trade-based, unsustainable economy rather than a production-based one" (UNDP, 2002, p 38).

Subsequent events in Bosnia offer further evidence that the ideology of the "new wave" MFI is of most importance to the IFIs, not the results. When the accelerating de-industrialisation trajectory began to raise serious concerns in the local Bosnian policy establishment, some of Bosnia's best economists working in the Privatisation Agency in 1997-8 began to develop ideas for a complementary institution to work alongside the donor-driven structure of "new wave" MFIs. Recognising that the country's hard earned and not insignificant industrial legacy was effectively being abandoned thanks to the new "disabling" local financial structure, they began to lobby the IFIs and other donor institutions to support a new pro-active local financial institution. This was to be an SME Development Fund that would recycle back into the small enterprise sector the cash raised from the privatisation of Bosnia's large state enterprises. The new institution would offer financial support at affordable terms and maturities in order to "crowd in" the most risky, yet also likely to be the most dynamic and sustainable, relatively technology-intensive ventures. Both new starts and existing small and medium-sized growth-oriented enterprises would constitute the main client base. Part of the influence for this new institution was the European Recovery Programme (ERP) that very successfully operated in western Europe after 1945 (see Pöschl, 2003). The ERP disbursed very low cost loans for equipment and machinery purchase to very many local businesses in order that they could participate fully – if not exclusively – in the reconstruction effort, as opposed to businesses coming in from the more developed countries and taking most of the contracts. However, the response from the IFIs to this local idea for an SME Development Fund was unequivocal: the new wave" MFI model simply had to become the benchmark for all local financial institutions in Bosnia, and so this alternative local approach was pointedly and repeatedly blocked.

A second negative externality is closely related to the de-industrialization argument. This is the causative link between the type of clients necessarily (if only initially) preferred by the "new wave" MFIs and the rise of import dependency in south-east Europe. As noted, "new wave" MFIs were obliged to support large numbers of shuttle traders and other small-scale importing operations, these being virtually the only quick/high profit business activities capable of repaying the high interest rates on loans offered over very short time periods. The additional and immediate flood of imported products thereby generated, however, added considerably to the already existing pressure on potentially viable local enterprises engaged in the process of re-learning, re-investing, re-tooling and restructuring in order to produce and compete on local markets. The widespread collapse of many of these potentially commercially viable local enterprises predictably transpired, including some already in the process of accessing donor financial and TA support. Such destruction simply cannot have been a surprise to the IFIs. In fact, it was very well known beforehand to the IFIs that deliberately and quickly established import channels would likely destroy even the most viable local industrial units before they had had time to "get their act in order" (see SAPRIN, 2001;[52] UNCTAD, 2002). The situation has now reached comic proportions in some parts of South East Europe. For example, in Bosnia and Kosovo the donor funded "new wave" MFI banks have become very profitable indeed - in fact, the most profitable in all of Central and Eastern Europe.[53] However, this bank-level profitability has been secured largely by helping a new class of shuttle traders, financial and land speculators and expensive consumption goods importers to emerge, a new business class that by its very nature is unlikely to facilitate technology transfer, be growth-oriented and will not develop constructive supply chain linkages to the other parts of the local economy (in fact, so far the only links established are to the criminal underworld and corrupt politicians). It would be hard to conceive of a local policy model operating in the region better able to establish an "African-style" colonial economic structure, characterized by a tiny, but very rich and powerful, speculating/trading/importing

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[52] The SAPRIN project was a major four-year study of the effects of donor policy in developing countries. It was designed and undertaken by the Washington DC-based NGO SAPRIN in collaboration with the World Bank. However, when it became clear to the World Bank that most of the people and NGOs consulted in the SAPRIN exercise wanted to criticise its own neo-liberal policies, it belatedly dis-associated itself from the SAPRIN programme and pointedly refused to publicise and disseminate the research results any further (see SAPRIN, 2001, p 3).

[53] Reported in *The Economist* magazine, September 14, 2002.

class ranged uneasily against an impoverished and largely unemployed or under-employed population. Indeed, in many parts of South East Europe the ongoing de-industrializing trajectory and mass reversion to pre-industrial petty entrepreneurial and subsistence agriculture survival strategies is often referred to as the "Africanisation" (Africanizacija) of the region.

Finally, one negative externality arises that is related to the enormous lobbying power the main proponents of the "new wave" MFIs have accumulated in south-east Europe. The "new wave" MFI lobby and supporting IFIs have increasingly sought to de-legitimise the role of state agency in local economic and community development. The "new wave" MFI model is clearly being lined up as the replacement for local state agency. The "new wave" MFI approach could very easily exist side-by-side with other more pro-active state structures offering long term financial support, such as East Asian-style local development banks, not least because their client base is likely to be very much different. But such a multi-faceted approach has simply not been tolerated. Thus, quite unlike in many other European countries under reconstruction after 1945, where pro-active state SME development banks, local financial funds and state capitalised financial co-operatives provided absolutely critical support for local economic development (see Bateman, 1999; Bateman et al, 2002; McIntyre, 2003), this option – of course suitably modified to take into account local conditions - has been consistently and firmly denied to governments in South East Europe.

The example of Bosnia noted above, where a pro-active local financial institution was blocked by the IFIs, has been repeated right across the region. A similar scenario occurred in Macedonia in 1995/6, for example, when local SME advocates joined with key Ministers in the then government to support an idea to establish a pro-active Development Bank that could offer "soft" conditions to key small enterprise projects in the country. The plan was headed off by the IFIs on the grounds of it not being sufficiently "market driven". Even though aoweeHown institution of sorts eventually did emerge with some IFI support - the Macedonian Bank for Development Promotion (MBDP) – this new bank was successfully stripped of any development banking functions, and it now acts as nothing more than a conduit for donor supplied commercial credit lines to commercial banks for on-lending. Also, in keeping with very strict IMF instructions to those involved in the Ministry of Finance and the Central Bank, it avoided becoming a "burden" on the state budget by earning its keep from a small margin on the credit lines it disburses. Thus, institutional diversity (not to mention democracy), a critically important aspect of any successful reconstruction and development policy (Chang and Kozul-Wright, 1993), has been consistently precluded in South East Europe to the detriment of the local economy.

Business Support Centres

After 1991, but particularly after the end of the civil war in Bosnia in 1995, very substantial donor financial support has been channelled toward the establishment of networks of local Business Support Centres (BSCs).[54] Support for BSCs is primarily intended to help establish and grow large numbers of new privately-owned small enterprises. The design inspiration for the BSC networks can be directly traced back to the pioneering experiences of the Thatcher government in the UK in the 1980s, when rising unemployment, fiscal restraint and US-inspired work-fare ideas combined with radical free market ideological fervour to generate a major move to support petty entrepreneurship within poor and marginalised communities. When it quickly became apparent that support would be required in practise to facilitate the entry, survival and growth of so many untraditional, "poverty-push" entrepreneurs, the concept of the Local Enterprise Agency (LEA) was born. Following on from the then in vogue twin fashions for devising private sector solutions to all manner of problems and for all interventions to pay full heed to "full-cost recovery", the LEAs themselves were conceived as commercial operations. It was expected that as quasi-commercial bodies driven to "earning their keep on the market" they would serve better their assigned purpose than any local state-led or fully-funded institution.

Accordingly, and just as in the wider central and eastern Europe where BSCs were first established in Poland and Hungary through the EU's PHARE programme (see Bateman, 2000a), those working to establish the BSC networks that emerged in south-east Europe were under very strict instructions to ensure that they be structured as non-governmental, com-

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[54] The name of such agencies varied across countries – Enterprise Development Agency, Regional Enterprise Support Agency, Local Enterprise Agency, and so on - but the function and goals generally stays the same.

mercially oriented, private sector-driven, and should “earn their keep on the market” by eventually charging for the services they provided. All new proposals put forward by local governments and other bodies for new BSCs had to accord to these parameters, or else remain without donor funding. In a number of cases, notably in Slovenia, municipality-led local enterprise development agencies with a good track record of operation, but ideologically “off-message”, were actually forced to close down and re-open in the approved non-governmental format in order to be eligible for donor funding that would allow them to expand (EC, 2000). Local governments were forced to recognise “the way the wind was blowing” and put aside any misgivings with the standard neo-liberal BSC model in the hope that desperately needed donor funding would still be forthcoming for a range of other project.[55] Importantly, many well-connected individuals confident of securing employment in the new donor-funded agencies, and others expecting to benefit from related donor funding streams disbursed via the BSCs (such as University economics and business department professors, private consultants, trainers), self-interestedly lobbied hard for the new neo-liberal non-governmental BSC model to be adopted.

A clear indication that embedding neo-liberal ideological and political imperatives were of far more importance than any possible negative results of so doing lies in the fact that there was almost no “learning by doing” or modification of the basic neo-liberal BSC model in the light of highly relevant experiences elsewhere. The initial results of the neo-liberal model in other parts of Central and Eastern Europe after 1990, for example, were very discouraging indeed. Most of the new BSCs simply could not “earn their keep on the market” and so quickly began to collapse after the donor funding came to an end, or else were given to their employees to manage as a private business (that is, privatised) which usually resulted in them dropping their work with the cash-starved SME sector (Bateman, 2000b). The very first EU-funded network of twenty BSCs in Hungary went into a “sus-

[55] Slovenia was one of the rare transition countries where government officials were bold enough to openly disagree with the EU’s proposed model for local enterprise development agencies. As a result, the EU’s PHARE programme of support for new local enterprise development institutions was effectively cancelled (EC, 2000).

tainability crisis" within only three years of its establishment. Local businesses and entrepreneurs were simply unwilling to pay for the services provided by these BSCs, especially in the face of growing competition from other private service providers. Closure of the entire BSC network was only averted by an additional tranche of donor funding and urgent attention to developing new funding sources that would allow it to continue. Most of the BSCs look likely to be converted into Regional Development Agencies (RDAs), which became an increasingly popular way for the main donors to exit their original BSC programmes without significant embarrassment. Crucially, by linking the BSC to the provision of very simple revenue-raising business support services – business plan preparation, contact making, simple training, marketing advice, accessing finance, etc - it quickly became quite apparent that the substantive tasks involved in promoting sustainable local economic development were simply not going to be undertaken through this institutional structure (see Bateman, 2000a; EC, 2000). Though the neo-liberal imperatives built into the design of the BSCs essentially render them quite incapable of providing the sort of long-term support the local economy needs, this is not nearly as important as the fact that the BSCs are not going to be a financial burden on the state or (for very long) the donor community. The mistaken neo-liberal contention that commercialisation of the BSCS would provide a very simple and elegant solution to the problem of long term financial sustainability, proved to be very resilient indeed, and it was hardly abandoned at all in the face of the overwhelming tide of evidence that showed it was an unworkable principle in practise. Even sometime critics of the neo-liberal orthodoxy remain captivated by the attractive simplicity of the commercialisation approach and thus, perhaps unaware of the abject failures to date, continue to advocate such a solution (for example, Kolodko, 2003)[56]

In South East Europe, it very quickly became abundantly clear that the market for simple business services was also woefully inadequate, much more so than in central and Eastern Europe, and so it was very unlikely that any BSC would be able to "earn its keep on the market". Moreover, in

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[56] Kolodko (2003, p 163) notes that "(Local) development agencies may be started by central government financial transfers, but should later come to rely on their own commercial activities and fees collected from local SMEs".

many parts of previously market-oriented south-east Europe the capacity of private business support services providers was quickly increasing and providing strong competition for the few clients around. Most BSCs thus quickly went into head-to-head competition with private sector suppliers. Major "displacement" effects thus arose in some regions as the new well-funded (subsidised) BSCs took the very few clients willing to pay for business services, leaving the emerging private sector suppliers in jeopardy. In other regions, though, the absolute lack of clients meant all business services suppliers were in real difficulty right from the start. Essentially, however, most BSCs in south-east Europe have been quite unable to develop an income stream from commercial sources, and so began to degenerate almost as soon as they were established. Probably the best example of the intractable problems that have arisen relates to Bosnia, which has seen successive waves of quasi-commercial donor-funded BSCs of one sort or another, all geared up to surviving on income from the sale of their services. However, most of these BSCs have collapsed after the donor funding ended, leaving behind a trail of anger, despondency and frustration. And even though a small number of BSCs have managed to survive after converting themselves into a private company owned by their principal employees, this indicates very little return indeed on the vast sums of donor money committed to the original BSC programme. For one thing, these new fully private bodies now spend most of their time touting for any sort of work from the main donor bodies, rather than identifying and attempting to remedy the most pressing local economic issues. A similar fate befell Macedonia's five EU-supported Regional Enterprise Support Centres (RESCs), which over four years were quite unable to generate an income from activities related to small business development. They have been converted into the RDA format largely in order to save the EU's already substantial investment (as well as its local reputation perhaps). Croatia's faltering network of EU-supported Local Economic Development Agencies (LEDAs) are likely to have to go the same route in order to avoid closure. Serbia's large EU-supported network of BSCs is only a two years in operation, but already it is becoming clear that it will not survive in its current format. Finally, Montenegro's new Regional Business Support Centres appear to have been designed beforehand to fall into private hands once the core EU funding has ended.

Yet irrespective of these manifest failures on the ground since 1995, establishing the neo-liberal commercial model for a local enterprise development agency still remains the top priority in South East Europe today. For example, support for enterprise development re-started for Serbia and Montenegro in the aftermath of the NATO intervention of 1999 has permitted almost no modification of the basic model to account for these previous difficulties. In Bosnia the pressure to persevere with the approved local model remains particularly strong and, because of the economic crisis, very effective. Many municipalities have fully registered the collapse of most BSCs to date and, as a result, many municipality officials are becoming increasingly resistant to a BSC model that has produced almost no results in their country/region, other than enriching the select few employed in a BSC that eventually ended up in their private hands. But even minor modifications to the "approved" BSC model to take into account such local knowledge and concerns are almost impossible.[57] Indeed, the huge pressure to

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57 A very interesting example arose very recently in one Bosnian city involving one of the major donor agencies. After a previous failure in the region with the approved BSC model expensively established under an earlier donor project framework (it was taken over by its three employees and is now a private company offering interpreting, transport and conference management facilities to the donor community), a new donor has arrived to offer the region another chance to benefit from a functioning BSC focusing upon local economic development. However, the local government officials wanted to avoid mistakes and so wanted to learn from the collapse of virtually all of the donor supported BSCs established in Bosnia since 1995, and their own BSC not so long ago. They eventually began to express serious reservations over the wisdom of the standard neo-liberal model of a BSC and very much wanted to discuss modifications to the basic design to facilitate greater sustainability and its continued focus upon the key economic development issues facing the city. They were keen that the BSC not end up simply preparing and charging for business plans as a way of surviving, which they felt other local private companies could likely do better and more cheaply. However, though the local official of the donor agency in question has been very understanding of their predicament, it proved impossible to convince the senior donor officials involved to consider modifying the standard BSC design in any meaningful way. The preferred neo-liberal BSC model is thus being established at some considerable expense without any real local confidence in its operations, a situation hardly conducive to long run success no matter what the design (information supplied to the author by senior local government officials in the city in question, for which I offer many thanks).

persevere with the ideologically correct model is apparent also at the national level, in relation to national enterprise development agencies. For example, the World Bank and the EU remain adamant that even national agencies being established in the region can be self-funding through developing their own commercial revenue opportunities (see World Bank and EU, 2001, p 102). With no evidence whatsoever to justify making such a claim, it is as if the last ten years and more of failed attempts to commercialise development agencies have simply never happened.

Exactly as in central and eastern Europe, therefore, the need to “earn their keep on the market” has meant that most of the BSCs established in south-east Europe have all very quickly lost sight of the most important tasks and interventions that can benefit the local economy over the longer run. Their preoccupation with preparing business plans and credit applications for new entrepreneurial ventures – the mainstay of the majority of BSCs that manage to survive in practise – cannot be construed as local economic development. In too many cases, it not even a contribution to local economic development since it usually ends up substituting for existing private sector activities, meaning no additionality. Real local economic development, instead, involves inter alia a wide range of organisational and mobilisation (of finance, effort, etc) activities, pressure for policy and legislative change, long term capacity-building measures and institutional development programmes (such as technology transfer, sub-contracting and cluster development) that move the local economic base in the direction of sustainability. In some senses it can be considered as the local equivalent of what Weiss (1998) has termed in the context of central state activities as “transformative capacity”. Accordingly, the focus upon the neo-liberal BSC concept meant that a local institutional vacuum arose; the micro-economic (local) parallel of the “state desertion” outcome noted by Standing (2002). Previously solidly functioning local government economic departments operating throughout the Yugoslav successor states, and indeed during the period of the worker self-management system as well (World Bank, 1981; Bateman, 1993), were ignored as possible dynamic facilitators of local economic development. Such departments, no matter how effective, were virtually all passed over for donor funding because of their unfortunate location within state structures (Bateman, 2000b). As noted above, this took place even in Slovenia, where the dynamism and efficient enterprise support operations of many municipalities prior to 1990 was probably the highest in all of central and eastern Europe (Petrin et al, 1988).

These examples of policy rigidity with regard to the BSCs clearly follow what Stiglitz (1999, p 22) has caustically noted as the crude tendency whereby the international assistance agencies "..seem to have seen themselves on a mission to level the "evil" institutions of communism and to socially engineer in their place (using the right textbooks this time) the new, clean, and pure "textbook institutions" of a private property market". It very much seems, therefore, that the large amount of support for non-governmental BSCs in South East Europe is quite unrelated to their actual performance as enterprise development instruments, and has much more to do with ensuring that the ideologically preferred institutional structure becomes accepted and embedded within the emerging post-communist society.

The social capital "industry"

The concept of social capital – that is, the value of social relationships, norms of reciprocity and trust-based interaction - is an ostensibly new source of value of particular relevance to local economic and community development. The concept was widely popularised by Putnam's (1993) analysis of regional economic success in Italy and the supposed role of social capital therein. Putnam's concept of social capital was energetically taken up by the World Bank and others, ostensibly as a way to rebuild the social and economic foundations of distressed communities through the linking together of the poor and disadvantaged in mutually beneficial ways. Three types of social capital were distinguished; "bonding" that binds together people within a particular group; "bridging" that links together different groups of people within the community; and "linking" that is supposed to connect particular groups to those outside of the community holding positions of power and influence. Such has been the impact of the social capital concept within development circles that the World Bank has gone so far as to term it the "missing link" (Grootaert, 1997). In south-east Europe a raft of new social capital projects has been established, each claiming to be either constructing social capital, or at least using social capital to underpin other important social, economic and community development initiatives and objectives. The World Bank has begun to sponsor a number of projects that focus upon the role of social capital as an aspect of poverty reduction and community development (for example, World Bank, 2002).

However, the analysis of the new social capital "industry" is actually misleading and incomplete. In fact, the social capital "industry" may actually prohibit and, even worse, appears to have been designed to prohibit, the establishment of some of the key building blocks that underpin a sustainable local economic development trajectory. It is not going too far to say that the de-contextualised concept of social capital associated with Putnam's (1993) contribution has been largely de-bunked, devastatingly effectively by Tarrow (1996), Fine (2001) and Harriss (2002). Fine (ibid, pp82-96) has gone so far as to term Putnam's work on social capital a "benchkin", a reference to a widely discredited piece of research in the 1970s by Benjamin and Kochin that maintained the cause of mass unemployment in 1930s UK was high benefit levels relative to wages, and so mass unemployment actually reflected an option deliberately chosen by large numbers of lazy workers. Not surprisingly, this piece of research was comprehensively attacked from all quarters. But it nevertheless became the starting point for a wider literature on the same topic, though almost all of the subsequent research began with an attack on the original article as a starting point. Putnam's work on social capital is denoted to be a "benchkin" because it too has been universally trashed without any substantive reply to the many criticisms, and yet it too has failed to disappear from view as might be expected, but has instead served as the (false) starting point for a huge literature on the topic. So what is so wrong with Putnam's work on social capital, and thus, perhaps, by implication, the social capital "industry" too?

First, Putnam's social capital model is almost entirely context-specific, meaning that it can either have positive, negative or neutral value depending upon the context in which it is being described. Social capital can be a positive factor, such as when poor people link together in the community to achieve some common aim. But social capital can also be a negative phenomenon, as when elite groups use it to exclude those not within their circle of connections or when criminal gangs enforce loyalty and discipline via their close family or regional connections. We thus need to specify in what context social capital is to be deployed before we can conclude whether or not it is a positive development; it cannot just be seen as a positive factor to be constructed and maintained wherever it transpires in practise. But, as

Harris (2003) concludes, because of this indeterminacy the social capital concept surely has very limited analytical power. It cannot explain anything at all without an overlay of context so large as to make the context itself the object of enquiry.

Second, the emerging social capital "industry" is unjustifiably dismissive of the role of the state in both promoting and sustaining positive forms of social capital. Most communities have stocks of social capital. But it seems that well-functioning state structures are critical not only in being able to nurture such stocks into being, but also to convert them into meaningful action (Evans, 1996). This is also why social capital has declined everywhere where the state has withdrawn from the provision of important community support and development institutions and functions (Leys, 2001). And nowhere are these points more evident, paradoxically, than in northern Italy, the area in which Putnam first extensively researched. For electoral reasons the various post-war communist/socialist regional governments in northern Italy were determined to build a flourishing civic consciousness, a sense of social justice, a myriad of "grass roots" networks, forms of local co-operation and associations, and large numbers of self-employed and small enterprises embedded within supportive networks (see Brusco and Pezzini, 1990) – that is, they set out to build (or at least build the foundations of) local social capital. Social capital was very much an outcome of state mediated development processes in northern Italy, such as infrastructure provision, minimum wage structures, well paid public sector employment, numerous job creation and training programmes for all, and high quality education and social welfare provision. The regional and local state also took to supporting a host of other important institutions, such as laws, codes, professional standards, and the like, that also served to promote local trust, tolerance, commitment (to the goals of the local reconstruction plans) and a sense of fair play. However, Putnam entirely failed to capture the nature of the many underlying state-led processes and policies of social capital creation. Of course, as Harriss (ibid) notes, if Putnam had more thoroughly investigated the origin of social capital accumulation on the northern regions, he would have had to conclude that the communist/socialist administrations were often largely responsible, and this might perhaps have been an uncomfortable conclusion to arrive at. Such a conclusion might have invalidated the work in much of the US academic community and, for sure, in the eyes of those – particularly the World Bank - who subsequently and so energetically ran with the concept from the mid-1990s onwards.

A closer look at the development of the co-operative sector in northern Italy helps to further illustrate the important role of the state in creating and maintaining high levels of local solidarity/social capital. In the aftermath of the Second World War, the elected communist/socialist regional and local state structures in Emilia-Romagna were very determined to promote the co-operative sector as an ideologically preferable middle ground between large capitalist companies (mainly based in Milan and Turin) on the one hand, and the old class of small private entrepreneurial ventures, traditionally reflexively hostile to any form of collectivism, on the other. The aim inter alia was to help to underpin the overall post-war goal of (re)building the confidence, tolerance, mutual support structures and solidarity (i.e., social capital) structures within the much larger working class in the region, which should eventually translate into wide electoral support for the communist and socialist regional governments. An extensive array of state policies were established to support co-operatives, including technical assistance through government economic development departments, a very favourable tax regime, dedicated financial support programmes, public purchasing programmes, and high quality training. These initiatives, and others, helped the co-operative movement to grow fast.[58] By the 1970s Emilia-Romagna had both the highest number of co-operatives in Italy and the highest proportion of economic activity in the co-operative sector in Italy (Birchall, 1997). As co-operative "anchors" within a wider sea of self-employed and investor-driven companies they helped to demonstrate the practical and ethical benefits of co-operation, participation, high wages, and mutual support, and they exerted strong pressure on other investor-driven enterprises to follow suit. In a variety of ways co-operatives became the lynchpin for the wider and successful construction of solidarity/social capi-

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[58] It also helped that the central government saw co-operatives as an important way to rebuild *inter*-class solidarity in Italy - the middle (management) class and the working class coming together once more - and so also took very clear steps to promote the co-operative movement. The most practical form of national support for the co-operative sector was the founding of a special branch of the *Banco Nazionale del Lavorio* dedicated to providing financial support packages for co-operatives (see Bartlett and Pridham, 1991).

tal within the northern Italian regions, and they were greatly supported by the state precisely because of this fact.

A third damning twist to the Putnam-ian social capital concept, as strongly emphasised by Harriss (2002), is that it is completely devoid of any reference to power. It fails to register the fact that very often powerful people have by far accumulated the most social capital - rich connections, club and board memberships, old school and University networks, and so on - and can retain their advantages, and block and/or undermine other social groups from achieving any progress within the community at their expense, through the judicious deployment of these very valuable assets. This aspect of social capital was at the core of Bourdieu's (1993) powerful exposition on the concept, but his pioneering work has largely been dropped by the new social capital "industry" because of it. Instead, the concepts introduced first by Bourdieu morphed into the much weaker notion of there being "linking" social capital – social connections between the poor and those in powerful positions within the community that might respond to the pressing needs of the former. "Linking" social capital was thenceforth portrayed as the best possible channel through which the poor and marginalised should work to remedy their plight. Importantly, the "linking" social capital concept very much implied that there was no need for state agency to be used as the channel through which poor people and communities could seek to redress poverty and inequalities. The twin notions of self-help and the delegitimisation of state agency thus made the social capital concept an exceptionally attractive idea within the IFIs, though it meant that the social capital concept had almost no connection to the situation on the ground. Harriss (2002) concludes that the "linking" social capital concept is "an extraordinary expression of the weakness of reasoning that takes no real account of the context of power and of class relations" (p 10).

The social capital concept translated into an "industry" over the 1990s, thanks to the promotional efforts and subsequent financial support of the World Bank and other development bodies keen to find an ideologically acceptable way to be seen to help the poor and disadvantaged. However, a number of more specific problems and contradictions also quickly began to arise that countered the heady claim that the concept could be sensibly applied to a range of local economic development issues on the ground.

First, a central policy aspect of the social capital "industry" is for the replacement of state capacity with non-governmental organisations (NGOs). The increasing NGO-isation of many transition and developing countries works to marginalise the local state in several ways. This is clear when it actually replaces state capacity, as when economic development departments are closed down and replaced by non-governmental bodies purporting to have an interest in developing the local economy. In addition, however, NGOs are increasingly linked into the public policy formulation process in order to reflect the views of business and private sector groups. Given that the local state can be responsive to the poorest groups via the electoral process, whereas community mobilisation operations and NGO sector are far less within the orbit of poor people and more the preserve of the middle class and elite groups, then it is difficult to argue that the process best serves the interests of the poorest and most marginalised. Such concerns clearly animate policy programmes in South East Europe too. Moreover, as Kekić (2001, p 22) argues, NGOs have some benefits but their massive expansion in south-east Europe will clearly "further weaken already weak states. It is also undemocratic to give precedence to self-appointed NGO guardians of the public good rather than to elected representatives". Simply inserting NGOs and voluntary citizen action can seriously undermine not only local state capacity per se but also democratic accountability.

Second, the practical goal of the key social capital advocates in wanting to establish high levels of local social capital as the basis of community renewal and revitalisation is in quite fundamental contradiction to the programmatic goals of their main IFI sponsors. There is an accepted link between inequality and social capital formation. People interact together more productively and generate trust, motivation, commitment and norms of reciprocity within a social context they see as dignified, just and equitable (for example, see Bowles, 1999). This is an important point that Putnam appears to fully agree with.[59] Yet we also know that World Bank and IMF policies are quite clearly and deliberately predicated on their being a major increase in inequality and social differentiation within the community (though these notions are, of course, rarely aired in such stark terms within

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59 For example, see Putnam, 2000, (p 294), where he concludes that "Inequality and social capital are deeply incompatible".

public discourse). Increasing inequality is an ideological fundamental of neo-liberalism (see Friedman and Friedman, 1980) as well as a perfectly reasonable programmatic outcome because it is seen as being the only way to galvanise the most entrepreneurial individuals into action. Such individuals, it is assumed, must be offered substantial incentives if they are to give of their best. Allied to these "top down" freedoms is for the enforced deterioration of wages and working conditions of those individuals at "the bottom of the ladder". The "flexible labour market" approach, as neo-liberal labour market policy is better known, holds out that in order to facilitate greater activity and investment by entrepreneurs and foreign investors, existing and potential employees must be encouraged to abandon all possible obstacles, such as reasonable wages, social benefits, decent working conditions, security of employment, and so on. Indeed, the growing support for the "flexible labour market" approach in South East Europe has seen much pressure to promote the reduction of employee compensation, job protection structures and social benefits packages; very much so in Croatia recently.[60] But how can this legitimation, sometimes outright celebration,[61] of extreme

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60 The government in Croatia is being encouraged from a number of directions to move toward the neo-liberal "flexible labour market" approach (Rutkowski, 2003; UNDP, 2003b). This pressure is being exerted in spite of little evidence that the "flexible labour market" thesis has achieved very much in the two countries – the USA and UK – where it has most ardently been operationalised. In terms of employment creation, Schmitt and Wadsworth (2002) found no meaningful correlation between increased flexibility and employment creation. Moreover, the greater freedoms given to employers may have been a factor in creating in both countries the highest levels of poverty and inequality for fifty years. Zweig (2000) notes that in the USA the declining level of real rewards accruing to labour over the 1980s and 1990s, rather than generating new job creation dynamics benefiting from relatively cheap labour, effectively precipitated an orgy of failed speculative activity in the "dot-com" sector and in an associated real estate boom.

61 The many glossy brochures advertising the "attractions" of particular regions and countries to foreign investors often glory in the *lowering* of social standards, working conditions and all round community liveability. For example, routinely claims are made to the effect that the wages or the "burden" of social contributions in country X or region Y are very attractive to businesses "because they are some of the lowest in the world", or else that the environmental

inequality and descent into poverty for many people, be reconciled with the supposedly determined efforts of the social capital "industry" to lay the foundations within the community for accelerated social capital accumulation? Surely the concept of social capital and the neo-liberal "narrow" model of development operationalised in South East Europe – development, to repeat, that primarily benefits local elites, does not address poverty and actually increases inequality (Addison et al, 2000) – are quite incompatible? And, indeed, in many parts of South East Europe we have ample evidence that high levels of inequality and social injustice quite clearly precipitate the breakdown of solidarity and trust – social capital – within many communities.[62]

A third inconsistency in the supposed goals of the social capital "industry", as we have already alluded to above, concerns the obvious, but unfulfilled, role of worker self-management, the co-operative sector and other form of participative enterprise structures in the social capital narrative. Social capital is well recognised as being exceptionally strong in co-operative and employee-controlled organisations and communities of co-operatives. Levels of "bonding" and "bridging" social capital are likely to be very high indeed. In the context of the increasingly adverse economic globalisation impacts upon local communities, this social capital building rationale is now being deployed by international agencies and some western governments as one of the main reasons why co-operatives urgently need to be more aggressively promoted and protected (see CEC, 2001; Parnell, 2001; ILO, 2002; Birchall, 2003). However, ideas to promote genuine worker-managed enterprise structures in South East Europe after 1990s,

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legislation in country X is "business-friendly" because it is essentially non-existent.

62 Croatia is one obvious example where the concentration of wealth in society achieved through so-called "tycoonisation" – many state assets were distributed shortly after 1991 to a handful of people close to Croatian President Franjo Tudjman – greatly undermined the level of solidarity, tolerance, concern and the general legitimacy of legal business methods in Croatia (see Bartlett, 2003). Such was the extent of financial, industrial and social destruction wrought by this artificially created class of business-men (there were very few business-women) that in common slang they are often referred to as the "typhoons", rather than tycoons.

such as worker co-operatives, were largely ignored by the main IFIs, and sometimes even equated to a desire to provide a life-line for communism. And, of course, the entire worker self-management system in the former Yugoslavia was forcibly broken up without any concern for the possible adverse implications in terms of a breakdown of residual trust, motivation, tolerance and mutual support within the enterprise sector. Here one need only reflect upon what Branko Horvat has argued (1982; 2002), that the worker self-management system actually performed a pivotal role in the extremely rapid and equitable reconstruction and development of the country after the huge devastation of World War Two precisely because it was able to construct a very high level of motivation, social solidarity, independent forms of mutual support, tolerance for others, and trust in government.

Fourth, paradoxically, the two aforementioned cornerstones of neo-liberal local policy - "new wave" MFIs and commercialised Business Support Centres – are intrinsically damaging to social capital accumulation processes. In general, by re-casting individual survival as a function of individual entrepreneurial success, the bonds of solidarity, trust and co-operation that traditionally exist within, and serve to bind together, communities are inevitably undermined. This is a truism. More specifically, whenever community development and support activities are recast as commercial operations – a central operating principle of both local models - the unavoidable consequence is the degeneration of the level of local solidarity, interpersonal communication, volunteerism, trust-based interaction and goodwill (see Leys, 2001). As commercial bodies increasingly operating to profit-maximising goals, the many "new wave" MFIs and Business Support Centres (BSCs) established in the region have so far been largely unable to build longer term local commitment, identification and trust within the community. There is ample evidence of this trend. For example, in Albania in 1991 "new wave" MFIs entering the poorest mountain and upland villages soon moved away in search of more profitable opportunities in the urban areas, leaving their unfortunate clients once more to go without support. When the already better off communities began to receive the additional attention of donor projects and a further injection of external funds, and when inequality between the communities grew even faster as a result (the injection of new money largely helped the urban-based traders and importers to increase their activity and get even richer), typically there was a collapse of solidarity both within communities and across communities. That is, both "bridging" and "bonding" social capital were severely undermined by the entirely logical and to be expected development of "new wave" MFIs. In Bosnia and Montenegro, a number of the most successful "new wave" MFIs have already converted into commercial banks, and they too have largely abandoned working with very poor clients in favour of comparatively well-off individuals able to afford high interest rates and provide substantial collateral (and very often the loans go to projects that serve the consumption needs of the rich, further exacerbating the problem). There has also been significant resentment towards the very many BSCs in the region that were privatised by their employees as a way of securing personal enrichment. The quite reasonable presumption is that donor funding has once again been diverted away from the service of the wider community and into the hands of small groups of self-interested and well connected people. The donors have tolerated such obvious developments because not only is privatisation quite in keeping with the overall "grab what you can" philosophy permitted by neo-liberal policy in the region, but also because it presents a useful face-saving strategy for them – better a privatised BSC still in operation no matter if it is doing nothing at all for small business, than a very publicly collapsed BSC. Taking all this into account, it has to be noted that if social capital is construed as being critical to development, as the World Bank steadfastly maintains (see Grootaert, 1997) then it should surely be of real concern to the social capital "industry" that the two core local interventions supported by their very same sponsors undoubtedly serve to significantly undermine its local accumulation. To date, however, no such concern has been registered.

Fifth, and finally, one cannot but reflect upon the enormous pressures that have typically been placed upon developing and transition country governments to "change course" when they actually do opt to prioritise the needs of poor communities over the richer strata of local society, which we must assume would be seen as a very welcome development by the social capital "industry". Yet it is very well documented (Veltmeyer et al, 1997; Hardstaff, 2003), that the World Bank and IMF have consistently sought to undermine the policy orientation of governments that choose, for whatever reason, to prioritise the immediate needs of the poor, rather than focus upon the needs of local elites and foreign investors. As Stiglitz (2002) has noted, aid conditionality and other pressures are quite routinely and forcefully exerted upon governments across the world in order to avert all such heterodox policy directions. Structural Adjustment Programmes (SAPs) did the job very well indeed from the 1970s to the mid-1990s (Mohan et al, 2000), and since then the Poverty Reduction Strategy Papers (PRSP) process has largely taken on the task (SAPRIN, 2001). Moreover, it is also very well documented that the US government – undoubtedly the main driving force behind the policy prescriptions offered by both the World Bank and IMF - has historically seen it as a strategic foreign policy imperative to actually block, very often violently, the efforts of some governments seeking to prioritise the needs of the poor over those of local elites.[63] Thus, if the overarching foreign and economic policy imperatives of the social capital industry's main IFI and government supporters has been to consistently oppose

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63 The US government's determined opposition to pro-poor governments is very well known in Central and South America. Perhaps the most obvious example concerns Nicaragua in the 1980s and 1990s. During the mid-1980s the government in Nicaragua was highly commended by many organisations, including by such as Oxfam (Oxfam America, 1985), for its comprehensive social and pro-poor development programmes, judged to be by far the best in Central America. However, the success of these emerging pro-poor programmes represented to the US government at the time the "threat of a good example", and with it the possibility of neighbouring countries also adopting development policies that prioritised the poor and marginalised rather than local business elites that traditionally allied themselves to Washington. The Reagan administration therefore targeted the elected Sandinista government for removal. Putting together a 12,000 strong terrorist army based in Honduras and Costa Rica – the "Contras" – the Nicaraguan government was put under enormous pressure, the cross-border attacks launched by the Contras killed many thousands and injured many tens of thousands, and by the early 1990s the economy was effectively destroyed. Even a comprehensive World Court ruling in June 1986 calling for the US-led aggression to end, and for the US government to pay substantial financial reparations to the Nicaraguan government, was unable to end the suffering - the US government simply ignored the World Court's decision. Against this unhappy background, and with the threat of more US-sponsored violence to come if they failed to heed the correct message this time, the Nicaraguan electorate finally voted in the 1990s to remove the Sandinista government and bring in an administration composed of key members of the local business elite and some former officials linked to the previous Somoza dictatorship (see Chomsky, 2002).

the poor when they manage to organise effectively and address their plight directly and legitimately through the democratic process, it thus requires some degree of explanation - to say the least - as to how workable/genuine is the social capital "industry's" proposition that poor communities can use their "linking" social capital to successfully petition those in positions of power to accept meaningful change.

In sum, a great deal of ambivalence surrounds the concept of social capital and the purported goals of the social capital "industry". On the one hand, it is for sure very clear that solidarity, trust, norms of reciprocity, mutual support and grass roots community organisations do matter and can very effectively advance the needs of poor communities in a number of socially constructive ways. But on the other hand, the social capital "industry" that has emerged to orchestrate matters on behalf of the poor in South East Europe may actually be doing more harm than good. By narrowly restricting their efforts to developing greater solidarity/social capital within poor communities, though latterly supporting the idea of initiating some weak connecting activity to those in positions of power, the social capital "industry" risks creating vibrant entrepreneurial ghettos and nothing more. All this much too conveniently serves the interests of those who do not wish to address the structural factors and institutional constraints that perpetuate poverty, inequality and under-development. In addition, far more direct strategies are on offer to poor communities to improve their position and at the same time construct social capital, such as, very simply, electing a government that puts a very high priority on the needs of the poor and marginalised. But in a number of countries these high social capital accumulation strategies have been deliberately and consistently blocked by the IFIs and key western governments. Arguably, what seems to be happening in South East Europe, therefore, is that to the extent that poor communities can accept the idea that they can improve their situation only through such weak forms of pressure as the Putnamian concept of social capital – "bridging", "bonding" and "linking" social capital - then the social capital "industry" is able to very neatly head off any serious "bottom up" challenge to systemic legitimacy and gross malfunctioning.

Conclusion

The three main local strands of neo-liberal policy supported by the IFIs in south-east Europe to date have probably contributed to the overall economic decline that has transpired since 1995 (and before). These local policies are, therefore, as problematic as their neo-liberal macro-economic counterparts. However, if the situation is so bad, one needs to explain why it is that such local policies are persisted with. Here I would agree with the broad conclusions reached by Chang (2002), reflected also in the earlier work of the conservative institutional theorist Douglass North (1990), that very often economically and socially inefficient institutions are reproduced because it is in the interests of the powerful for this to happen. As with the macro-economic counterpart, I conclude that local neo-liberal policies and programmes are crucial to the IFIs less because of what they are supposed to achieve on the ground - which has been very little to date - and more because they "lock in" core neo-liberal ideological/political policy and institutional imperatives within emerging post-communist societies. It thus remains to be seen whether continuing economic deterioration in south-east Europe combined with increasing local, national and international pressure for change can actually succeed to any great extent in changing the content and direction of either macro- or micro-economic policy.

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