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Assessment of U.S. Bilateral Programs

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the results of our evaluations of key elements of U.S. assistance to the newly independent states of the former Soviet Union (FSU). As you know, the U.S. bilateral effort to help FSU republics transition to democratic societies with market economies has been an extraordinary undertaking. At least 23 U.S. government departments or agencies obligated \$5.4 billion for technical assistance, exchange programs, training, food and commodity donations, and other projects through 215 separate programs. An additional \$10 billion was made available for loans, guarantees, and insurance from fiscal year 1990 through December 1994.¹

At a recent hearing before this Committee, executive branch witnesses described the overall program objectives for this large infusion of assistance, so I will not discuss them at length. But as context, it is important to recall that U.S. objectives are to

- help establish open and competitive market economies,
- promote democratic governments and civil societies, and
- enhance U.S. national security through cooperative threat reduction.

Our work over the past few years has focused on the following questions:

- Has the executive branch established an effective mechanism and structure for ensuring program and policy coordination among federal agencies as called for in the Freedom Support Act?
- Have assistance projects managed by the U.S. Agency for International Development (USAID) which is responsible for most of the direct assistance projects, met their objectives and contributed to systemic reform, and were there common characteristics that contributed to their successful or unsuccessful outcome?
- Has the Department of Defense's (DOD) Cooperative Threat Reduction (CTR) program stayed on schedule, have its objectives been achieved, has the Department implemented an auditing and evaluation plan, and what are its long-term prospects?

¹For information on the (1) source of funds based on budget function classification, (2) agencies involved with programs in the FSU, (3) expenditures for each FSU country, (4) per capita expenditures by country, and (5) expenditures by program area, see appendix I. More detailed information on bilateral programs in the FSU is contained in our report entitled Former Soviet Union: Information on U.S. Bilateral Program Funding (GAO/NSIAD-96-37, Dec. 15, 1995).

SUMMARY OF OBSERVATIONS

In summary, our work has shown that until about April 1995, when the President strengthened the role and authority of the Coordinator for assistance to the FSU, the program lacked effective coordination. Evidence over the past several months indicates that this situation has markedly improved.

The USAID projects we examined in Russia, both those aimed at helping to promote economic reform and fostering the transition to democracy, have had mixed results, but the successful projects generally had common features: they had strong support at all levels of the Russian government, they were fairly broad in scope, and their sustainability was a consideration from the projects' beginning.

The CTR program has made progress over the past year, and the long-term prospects for achieving its objectives appear promising; nevertheless it still has numerous challenges and problems to overcome.

With that overview, let me now go into a little more detail on each of these issues.

Coordination of FSU Program

We reported in February that the U.S. bilateral assistance and economic cooperation programs lacked effective coordination. Although the Coordinator had issued strategy papers on assistance to and economic cooperation with the FSU, these documents did not clearly articulate the strategy for achieving the goals of the Freedom Support Act. Also, coordination among agencies was poor, and there were continual disagreements primarily among USAID and other implementing agencies. Finally, and the Coordinator had no authority over some assistance to the FSU.²

In March, State and USAID officials acknowledged these problems and told this Committee that improvements would be made. You, and others, asked that we evaluate the promised improvements in the coordination process. We are pleased to report today³ that (1) the FSU Coordinator's role has significantly expanded, and his authority over the total effort has been strengthened, although we believe there may be a continuing problem regarding the anti-crime assistance activities, and (2) interagency cooperation in implementing Freedom Support Act programs has improved, with fewer disagreements on program content. With regard to the anti-crime effort, we noted that it has not been fully

²Former Soviet Union: U.S. Bilateral Program Lacks Effective Coordination (GAO/NSIAD-95-10, Feb. 7, 1995).

³Former Soviet Union: An Update on Coordination of U.S. Assistance and Economic Cooperation Programs (GAO/NSIAD-96-16, Dec. 15, 1995).

integrated into the rule-of-law programs or economic restructuring programs in order to maximize the benefits of all these activities. For example, the anti-crime program has not been integrated with banking reform, privatization, or capital markets development, all areas susceptible to financial crimes.

We remain concerned about the difficulty that the lack of a clearly articulated strategy for achieving the Freedom Support Act objectives continues to pose for the administration as it attempts to develop criteria for determining when countries no longer require assistance in transitioning to open and competitive market economies and developing democratic governments and civil societies. We recently began a more detailed study of this issue.

Assistance Projects in Russia

The U.S. government has provided assistance to Russia and the other FSU countries to help them transition to market economies and more democratic societies. We have evaluated specific projects in both of these areas.

In August 1995, we provided our assessment of 10 selected USAID projects in Russia.⁴ We evaluated the program building blocks to determine whether each project had met its objectives, contributed to systemic reform, and would be sustainable. What we found were mixed results:

- Two projects (coal industry restructuring and housing sector reform) met all their objectives.
- Five projects (voucher privatization, officer resettlement, small business development, district heating, and agribusiness partnerships) met some, but not all, of their objectives.
- Three projects (health care, commercial real estate, and environmental policy) met few or none of their objectives.

Three projects (coal industry restructuring, voucher privatization, and housing reform) were contributing significantly to systemic reform--that is, they were leading to fundamental structural changes--whereas the other 7 projects' contribution to systemic reform was likely to be limited.

The successful projects had certain common characteristics that were lacking in the less successful projects. Successful projects had strong support and involvement at all levels of the Russian government (at the local and Federation levels), a long-term physical

⁴Foreign Assistance: Assessment of Selected USAID Projects in Russia (GAO/NSIAD-95-156, Aug. 3, 1995).

presence by U.S. contractors in Russia, and a relatively broad scope; they supported a Russian initiative; and sustainability was built into the projects' design. For example, in the housing sector project, a series of pilot activities related to housing maintenance, mortgage lending, rent reform, and property rights could be replicated in many parts of the country. Critical to a project's success was the degree to which Russian officials were committed to reform in a particular sector.

Our preliminary evaluation of projects intended to promote democratic reforms in Russia, including efforts to support and promote pro-democracy political activists and political parties, pro-reform trade unions, court systems, legal academies, and the media, indicated that U.S. funded democracy programs have contributed to the democracy movement in Russia. Organizations and institutions at the center of the democratic reform process have been identified and supported, as have thousands of Russian activists working at these organizations at the national, regional, and local levels.

However, individual democracy projects had mixed results in meeting their stated developmental objectives. Although many grantees provided valuable assistance to Russian reformers, in only three of the six areas reviewed--independent media, electoral assistance, and trade union development--did projects contribute to significant changes in Russia's political, legal, or social system. Projects in the areas of political party development, rule-of-law, and civil/military relations have had considerably less impact. Our analysis indicated that the most important factor determining project impact was the conduciveness of the Russian environment to reform rather than project management problems, although in one area, the rule of law, the project got off to a slow start because of project implementation problems. In judging the effectiveness of democracy initiatives, one needs to have realistic expectations and recognize, as some State and USAID officials indicated, that democratic reform in Russia may not be consolidated as quickly as initially anticipated. These officials indicated that some form of assistance to help Russia and the other FSU countries develop strong democracies may be needed long after assistance efforts in the economic reform arena have been ended.

Now let me turn to DOD's efforts to reduce the threat from weapons of mass destruction inherited by FSU countries.

The CTR Program

As I earlier indicated, progress is being made in meeting the goals of the CTR program, but there are still many challenges and problems to overcome.

In 1991, Congress authorized the DOD to establish a CTR program to help FSU states (essentially Russia, Ukraine, Belarus, and Kazakstan)

-- destroy FSU weapons of mass destruction,

- store and transport those weapons in connection with their destruction, and
- reduce the risk of proliferation from the FSU.

Between fiscal year 1992 and 1995, Congress provided about \$1.2 billion to achieve these objectives.⁵ DOD has undertaken more than 50 CTR projects since the program began. It had obligated about \$880 million and spent about \$362 million as of December 5, 1995,⁶ indicating a significant acceleration in program expenditures over a year ago. DOD has allocated almost three-fourths of its CTR funds for dismantling and destroying strategic delivery vehicles and chemical weapons and for storing and transporting nuclear weapons and components. Beginning in fiscal year 1996, several CTR projects not directly related to these two objectives (e.g., the International Science and Technology Center, nuclear materials controls and accountancy, and export control improvements) will be turned over to the Departments of State, Energy, and Commerce.

In 1994, we reported that DOD had not estimated total requirements for achieving CTR objectives and that its annual requests for \$400 million were driven primarily by perceptions of congressional acceptability.⁷ We recommended that the Secretary of Defense institute a proactive, long-term CTR planning process to help DOD allocate CTR funds among competing demands and to guide preparation of annual budgets. DOD accepted our recommendation, and Congress required DOD to include such a plan and a total cost estimate as part of its fiscal year 1996 budget justification materials.⁸ We are currently assessing DOD's multiyear plan at the request of the House Budget Committee.

In June 1995, we reported that, by some measures, the CTR program had made progress and its long-term prognosis for achieving its objectives appeared promising.⁹ Nevertheless, we noted that the overall direct material impact--as contrasted with the

⁵The fiscal year 1996 Defense Appropriations Act, includes \$300 million for the CTR program.

⁶DOD generally provides goods and services, rather than direct cash payments, to CTR recipients.

⁷Weapons of Mass Destruction: Reducing the Threat From the Former Soviet Union (GAO/NSIAD-95-7, Oct. 1994).

⁸Congress called for an estimate of total U.S. expenditures required to achieve CTR objectives and a multiyear plan "for the use of amounts and other resources provided by the United States for CTR projects and to provide guidance for the preparation of annual budget submissions."

⁹Weapons of Mass Destruction: Reducing the Threat From the Former Soviet Union--An Update (GAO/NSIAD-95-165, June 9, 1995).

diplomatic or negotiating impact--of CTR assistance provided as of June 1995 had been limited and the program still had to overcome numerous challenges and problems to realize its long-term objectives. Let me make it clear that some CTR projects appeared to have already had a direct material impact--for example, they facilitated the return of hundreds of nuclear warheads from Ukraine to Russia--but the overall material impact of actual CTR assistance provided had been limited. This was due in part to (1) the long-term nature of several key projects, such as a fissile material storage facility, which were still in their early stages; (2) the fact that significant deliveries of key CTR aid did not begin until 1994; and (3) difficulties in working with the Russians in resolving certain key issues.

An example of these issues concerns Russia's proposed chemical weapons destruction facility. The United States and Russia have yet to agree on the applicability of a Russian technology to be used in a chemical weapons destruction facility. Even if the United States and Russia do agree on the applicability of a technology by March 1996, as currently scheduled, and the facility is completed on schedule, uncertainties concerning resources, schedules, and costs may compromise Russia's ability to destroy its chemical weapons stockpile in compliance with the Chemical Weapon Convention's anticipated timetables (assuming the Convention enters into force in 1996).

Our work also indicated that although DOD had made some progress in its first year of CTR audits and examinations, DOD's report to Congress contained incomplete, outdated, and inaccurate data.¹⁰ We concluded that the limited number of projects reviewed by DOD raised some doubt about the validity of DOD's overall determination that CTR assistance was being used as intended. According to DOD's report, this determination was based on information on 9 of 23 projects for which CTR-provided assistance was being used. Of these nine projects, only three had actually been audited. Other sources of information for the projects included random observations by U.S. technical teams, recipient-provided data, and data derived by national technical means. DOD agreed with our recommendation that any future reports (1) contain accurate data, (2) integrate sources of data on CTR aid to show how it is being accounted for and is being used, (3) link this data to its overall determination, and (4) provide more information on planned audits and examinations.

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Mr. Chairman, this concludes my remarks. I would be pleased to respond to any questions you or other members may have.

¹⁰Weapons of Mass Destruction: DOD Reporting on Cooperative Threat Reduction Can Be Improved (GAO/NSIAD-95-191, Sept. 29, 1995).

Table I.1: Obligations and Expenditures for All Agencies for All Noncredit Programs and for Donations (Fiscal Year 1990 through December 31, 1994)

Dollars in thousands

OMB budget function classification ^a	Obligations	Expenditures
050 Defense	\$749,124	\$374,052
150 International Affairs	2,854,879	1,543,387
250 General Science	249,370	128,263
270 Energy	53,787	28,881
300 Natural Resources	2,602	2,450
350 Agriculture	778,600	687,230
370 Commerce	1,500	64
400 Transportation	9,056	5,957
550 Health	19,763	19,724
750 Justice	119	119
800 General Government	14	14
Value of donated commodities	652,150 ^b	699,527 ^b
Total	\$5,370,964	\$3,489,668

^aTo determine the Office of Management and Budget (OMB) budget function classification for agency programs, we asked agencies to provide the appropriation source used to finance their programs. We then assigned OMB budget function classifications to the appropriation sources, based on our knowledge about the purposes of each program and budget account descriptions in the U.S. budget.

^bFor donations, obligations represent the estimated value of signed donation agreements plus estimated transportation costs. Expenditures are the estimated values of donated commodities actually shipped plus the transportation costs incurred. Expenditures are shown greater than obligations because of increases in commodity prices between the time the agreements were signed and when the commodity was actually shipped.

Table I.2: Obligations and Expenditures by Implementing Agency for Noncredit Programs
(Fiscal Year 1990 through December 31, 1994)

Dollars in thousands

Agency	Obligations	Percent of total obligations	Expenditures	Percent of obligations expended
USAID	\$1,983,051	36.92	\$851,391	42.93
USDA	1,638,660	30.51	1,577,006	96.24
DOD	823,282	15.33	482,772	58.64
NASA	235,296	4.38	117,830	50.08
Department of Energy	231,035	4.30	122,535	53.04
U.S. Information Agency	219,326	4.08	162,427	74.06
Department of State	83,751	1.56	70,848	84.59
Peace Corps	33,813	0.63	32,908	97.32
Trade and Development Agency	31,274	0.58	11,447	36.60
Department of Commerce	22,796	0.42	9,020	39.57
Department of Health and Human Services	23,512	0.44	22,629	96.24
Treasury Department	11,095	0.21	6,006	54.13
Department of Interior	8,397	0.16	2,118	25.22

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Nuclear Regulatory Commission	6,950	0.13	4,142	59.60
National Science Foundation	6,377	0.12	6,377	100.00
Environmental Protection Agency	6,145	0.11	5,682	92.47
Overseas Private Investment Corporation	2,814	0.05	1,881	66.84
Department of Transportation	1,407	0.03	1,229	87.35
Arms Control and Disarmament Agency	814	0.02	598	73.46
Congressional Research Service	721	0.01	375	52.01
Department of Justice	414	0.01	414	100.00
Securities and Exchange Commission	34	0.00	33	97.06
TOTALS	\$5,370,964	100.00	\$3,489,668	64.97

Note: The figures in this table represent which agency expended the funds. For funds transferred between agencies, we used the recipient agency's data for obligations and expenditures.

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Table I.3: Expenditures by Country, Noncredit Programs (Fiscal Year 1990 Through December 31, 1994)

Dollars in thousands

Country	Total expenditures	Percent of total expenditures
Russia	\$1,661,064	47.60
Armenia	350,897	10.06
FSU-wide	258,330	7.40
Ukraine	253,794	7.27
Georgia	243,301	6.97
Kyrgyzstan	156,012	4.47
Belarus	136,677	3.92
Kazakhstan	128,201	3.67
Moldova	68,772	1.97
Tajikistan	64,235	1.84
Turkmenistan	63,909	1.83
Azerbaijan	52,198	1.50
Uzbekistan	32,608	0.93
Soviet Union	12,527	0.36
Non-Russia FSU ^a	4,716	0.14
Nuclear Weapon States ^b	2,429	0.07
Total	\$3,489,668	100.00

^aExpenditures for programs where the agency could provide a specific country breakout, but knew nothing was expended in Russia.

^b Russia, Ukraine, Belarus, and Kazakhstan.

Table I.4: Per Capita Expenditures by Country, Noncredit Programs, Fiscal Year 1990 Through December 31, 1994

Country	Population ^a (thousands)	Per capita expenditures ^b
Armenia	3,625	\$96.80
Georgia	5,429	\$44.82
Kyrgyzstan	4,476	\$34.86
Turkmenistan	3,983	\$16.05
Moldova	4,355	\$15.79
Belarus	10,300	\$13.27
Tajikistan	5,704	\$11.26
Russia	148,200	\$11.21
Kazakhstan	16,683	\$7.68
Azerbaijan	7,457	\$7.00
Ukraine	51,700	\$4.91
Uzbekistan	22,192	\$1.47
Total	284,104	\$11.30

^aPopulation data are 1994 figures from PlanEcon Review and Outlook for the Former Soviet Republics (Aug. 1995).

^bCalculations for this table exclude expenditures for the following categories of table I.3: FSU-wide, Non-Russian FSU, Soviet Union, and Nuclear Weapon States.

Table I.5: Obligations and Expenditures by Program Area, Noncredit Programs (Fiscal Year 1990 Through December 31, 1994)

Dollars in thousands

Program area	Obligations	Percent of total obligations	Expenditures	Percent of total expenditures
Food aid	\$1,548,559	28.83	\$1,446,576	41.45
Private sector development	765,735	14.26	307,081	8.80
Emergency humanitarian assistance	608,910	11.34	574,704	16.47
Weapons of mass destruction	367,655	6.85	88,290	2.53
Democratic reform	306,701	5.71	187,052	5.36
Energy	289,662	5.39	129,337	3.71
Other	269,177	5.01	252,544	7.24
Space research	227,553	4.24	112,888	3.23
Exchanges and training	188,324	3.51	109,928	3.15
Environment	187,596	3.49	72,189	2.07
Resettlement for military officers/ housing	172,447	3.21	16,008	0.46
Food systems improvement	111,132	2.07	49,381	1.42
Economic restructuring & finance	110,089	2.05	51,473	1.48

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Health care improvement	87,537	1.63	41,296	1.18
Defense conversion	72,838	1.36	14,300	0.41
U.S. export market development	32,314	0.60	12,487	0.36
Scientific research awards	21,432	0.40	20,831	0.60
Military education and training	3,303	0.06	3,303	0.09
Total	\$5,370,964	100.00	\$3,489,668	100.00

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