

# CRS Report for Congress

## The Former Soviet Union and U.S. Foreign Aid: Implementing the Assistance Program

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January 18, 1995



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## SUMMARY

In FY1994, the new states of the former Soviet Union (FSU) collectively became the second largest recipient of U.S. foreign assistance made available from all sources, reflecting the exceptional importance attached by the U.S. Government to the region. Whether and how the assistance program is helping to bring about democratic systems and free market economies is increasingly a question of interest to Congress and the public at large.

Since FY1992, the United States has made available roughly \$6.7 billion in grant assistance and \$6.2 billion in credits or guarantees. Russia accounts for about 58% of total grant obligations from Foreign Operations Appropriations through FY1994. However, Russia is only the fifth largest recipient of assistance on a per capita basis.

Since implementation for most of the aid program is only in its second year, it is too early to judge success or failure. However, the program has attracted widespread comment and criticism on a number of fronts. Questions include:

- Is the program being implemented fast enough? Although measures have been taken to speed up the process, past obstacles have included the slow pace of reform, lack of knowledge of the region, an inability to identify reformist elements, and congressional notification procedures.
- Is the program well-coordinated? At least 16 U.S. agencies are playing a role, making coordination a complicated and cumbersome process. It is the responsibility of the State Department's New Independent States (NIS) Coordinator to develop a strategy and allocate assistance to meet that strategy.
- Is assistance reaching the grassroots? Some believe that an approach favoring small non-government organizations (NGOs), volunteer programs, and exchanges is the best way to reach the people of the FSU.
- What is the appropriate role of U.S. consultants and contractors? Some suggest there are too many, highly paid consultants performing a questionable job.
- How is the program helping U.S. investment and trade? The program is attempting to market development for U.S. private sector interests.
- Is assistance being used for corrupt purposes? Despite the limited potential for corrupt uses of U.S. funds, concerns remain.
- Is U.S. assistance being used effectively? A U.S. strategy of emphasizing reformers, bringing different programs together, creating person-to-person linkages, and leveraging U.S. private sector participation suggests a coherent strategy for making U.S. assistance effective.

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*NOTE: Graphic figure production assistance was provided by Terrence Lisbeth of the Foreign Affairs and National Defense Division.*

# The Former Soviet Union and U.S. Foreign Aid: Implementing the Assistance Program

## INTRODUCTION

In FY1994, the new states of the former Soviet Union (FSU)<sup>1</sup> collectively became the second largest recipient of U.S. foreign assistance made available from all sources.<sup>2</sup> This leap from no program at all only three years before reflected the exceptional importance attached by the U.S. Government to the region and the multiple foreign policy objectives -- political, economic, and strategic -- that the aid program is intended to meet. In the pronouncements of both the Bush and Clinton Administrations, as well as in a series of authorization and appropriations bills approved by Congress, the United States seeks to foster democratic systems, free market economies, and responsible security policies in the FSU.

Whether and how the assistance program is helping to bring about these objectives is increasingly a question of interest to Congress and the public at large. Oversight hearings, congressional delegation visits, and, most recently, amendments to the FY1995 foreign aid bill have focused on implementation issues. Prominent members of both parties have criticized the program for its slowness, misplaced priorities, and administrative disarray, and have raised concerns regarding possible corruption and waste. Critical press reports, most prominently in major publications such as *U.S. News and World Report*, *Forbes*, and *The Wall Street Journal*, have generated additional interest. Largely as a result of these multiple concerns, Congress cut the Administration request for FY1995 NIS aid funding from \$900 million to \$850 million. Further efforts to trim funding have been initiated. On December 12, 1994, Senator McConnell, new chairman of the Senate Foreign Operations Appropriations Subcommittee, issued a foreign aid proposal for FY1996 that includes a 12% cut in assistance for the FSU from the FY1995 level.

The issue, wrapped in hyperbole and distortion, needs clarification. This report first describes some essential features of the aid program, types of assistance, and specific activities being undertaken. It then frames the basic issues that have arisen during its early implementation period and those that are likely to arise in future years and places the debate in a perspective that will facilitate reasoned congressional deliberation.

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<sup>1</sup> Also known as new independent states (NIS), consists of 12 of the former republics, excluding the Baltic states which were never recognized by the United States as part of the Soviet Union.

<sup>2</sup> The FSU received \$2.2 billion in Foreign Operations Appropriations grants, including a \$1.6 billion FY1993 supplemental, signed into law on September 30, 1993. The supplemental is treated by the State Department as part of the FY1994 aid budget. Counting food aid and DOD Nunn-Lugar disarmament assistance, total grant aid in FY1994 was approximately \$2.8 billion. In FY1995, the region is likely to hold the number three position in U.S. aid with more than \$1.3 billion.

## OVERVIEW OF THE U.S. ASSISTANCE PROGRAM TO THE FORMER SOVIET UNION

### PURPOSE OF ASSISTANCE PROGRAM

Judging by the FREEDOM Support Act authorizing legislation, subsequent appropriations bills, and executive branch aid strategy statements, Congress and both Bush and Clinton Administrations have held to the same objectives with regard to the use of foreign assistance in the FSU: that is, chiefly

- the establishment of democratic societies;
- the promotion of free market economies;
- the meeting of humanitarian needs; and
- control and dismantlement of nuclear weapons.<sup>3</sup>

In its January 1994 strategy paper, the Clinton Administration added to these a cross-cutting theme -- the environment -- reflecting its emphasis on this subject in its worldwide foreign policy/assistance program.

While all foreign aid is meant to serve U.S. foreign policy, the aid program for the FSU has been framed by Congress and two Administrations as more closely tied to this purpose than others. What many believe to be the most important foreign policy focus of the United States is in large part an effort to facilitate an internal make-over of the new states, something many believe foreign assistance can help advance. The program's foreign policy tie is particularly reinforced by the appointment of the State Department as coordinator of the program. And the State Department has repeatedly emphasized the program's unique and distinct -- "historic" -- foreign policy purpose by noting that it is short-term, that the bulk of the Russia program is destined to end by FY1998 and the others shortly thereafter.<sup>4</sup>

To some extent, the delivery of U.S. aid is at the very least a strong statement of U.S. support for the changes occurring in the new states. But assistance is intended as more than that. U.S. Government commercial guarantees and insurance programs can facilitate U.S. private investment, considered by many to be key to the economic and political transition in the FSU. Technical assistance and training programs can help bring the recipient

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<sup>3</sup> The latter objective is dealt with directly by the Defense Department-funded Nunn-Lugar program and is not part of the traditional economic assistance program. It is aimed exclusively at the four nuclear states, Russia, Belarus, Ukraine, and Kazakhstan. Although included in some specified aggregate aid amounts in this paper, Nunn-Lugar fund activities are not discussed in this report. See CRS Report 94-985 F, *The Nunn-Lugar Cooperative Threat Reduction Program for Soviet Weapons Dismantlement*, for further details.

<sup>4</sup> Limited aid budget resources and the sense that Russia and some of the other republics are not underdeveloped in human and natural resources lead State Department policymakers to make a distinction between more long-term aid to developing countries and that to the FSU. "Russia is not Rwanda", is one such refrain.

countries a step closer to achieving an economic and political environment that would encourage that investment. Humanitarian aid can alleviate social and political stress. Strategic assistance can help encourage and facilitate disarmament. To the extent it meets these multiple objectives, the assistance program is playing a useful role as an instrument of U.S. foreign policy.

## AMOUNT AND TERMS OF ASSISTANCE

### U.S. Bilateral Assistance

Something as seemingly straight-forward as the amount of assistance provided by the United States has become the source of much confusion and misinterpretation. Yet getting it right is central to any judgment of the efficacy of the aid program. Since the program began, some have argued that funding has been insufficient while others argue that large sums have been spent to no effect.

How much does the United States in fact provide? The answer to the question hinges in large part on what one counts as "foreign assistance." During the first two years of the program, for example, the State Department tried to make the size of U.S. contributions look significant, presumably to demonstrate strong U.S. support for the political and economic transition to an FSU as well as a G-7 audience.<sup>5</sup> Although State has since developed a somewhat more sound presentation of U.S. aid contributions, its old claims -- \$17.6 billion as late as January 1994 -- may easily be viewed as overstated and are instructive in the potential for widely varying interpretations of the size and content of the aid program.

For example, at one point, more than half of the State Department's "aid" total was made up of credit guarantees and insurance. This sum included Commodity Credit Corporation (CCC) agriculture credit guarantees, a program that insures the repayment of market rate loans used to purchase U.S. food commodities. It is a commercial program, rarely, if ever, considered "foreign aid," and, in fact, is prohibited by statute for such use. State Department figures even included \$1.9 billion in loans provided to the region prior to the dissolution of the Soviet Union (Russia has assumed responsibility for this debt). Further, although the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank (Eximbank) are part of the annual Foreign Operations bill, which appropriates most foreign aid, the face value coverage of their guarantee and insurance programs has never before been calculated and purveyed as a specific dollar benefit to a recipient aid country. Like the CCC program, the Eximbank is also a commercial program designed to benefit U.S. exporters. Finally, unlike government reporting for other countries, the State Department aid levels included private donations delivered with publicly funded transport.

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<sup>5</sup> The Group of 7 industrial nations -- the United States, France, Germany, Britain, Canada, Italy, and Japan -- has taken a leadership role in organizing donor assistance to the FSU.

On the other hand, it can be argued that the State Department has been correct in including the face value of credit guarantee programs because other donors do so for the FSU program (although none appear to include insurance coverage of the sort provided by Eximbank and OPIC). In addition, Russian defaults in the CCC program and rescheduling of debt have given it a temporary concessional element.<sup>6</sup> Finally, all these programs can be defended as instrumental in supporting the region's economic and democratic transition.

Some also suggest that aid totals might appear exaggerated because much of the claimed assistance -- either credit or grant -- has not yet been either obligated or disbursed. Further, some charge that the aid is not directly benefitting the recipients, but is remaining in the United States. These last two concerns are discussed in more detail below.

**Table 1. U.S. Bilateral Grant Assistance  
for the Former Soviet Union<sup>a</sup>**  
(in millions of U.S. dollars)

	FY92	FY93	FY94	FY95	Total
<b>Humanitarian Assistance</b>					
<i>Medical</i>					
USAID Disaster Assistance	12	--	--	--	12
DOD Excess Medical Donations	100	106	--	--	206
<i>Food Assistance</i>					
USDA Food Aid	167	658	160	77	1,062
DOD Excess Stock Donations	62	42	--	--	104
<i>Transportation</i>					
DOD Transportation Funds	<u>100</u>	<u>46</u>	<u>--</u>	<u>--</u>	<u>146</u>
Subtotal	441	852	160	77	1,530
<b>Technical Assistance</b>					
NIS Assistance Account	--	417	2,158 <sup>b</sup>	850	3,425
Economic Support Funds	230	--	--	--	230
USAID Development Assistance	5	5	--	--	10
P.L. 480, Farmer-to-Farmer	10	10	11	--	31
Other USG Technical Assistance	<u>32</u>	<u>69</u>	<u>63</u>	<u>--</u>	<u>164</u>
Subtotal	277	501	2,232	850	3,860
<b>DOD Nonprolif./Disarm. Fund</b>	<u>188<sup>c</sup></u>	<u>283<sup>c</sup></u>	<u>400</u>	<u>400</u>	<u>1,271</u>
<b>Total Grants</b>	<b>906</b>	<b>1,636</b>	<b>2,792</b>	<b>1,327</b>	<b>6,661</b>

Source: Department of State and CRS calculations.

a. Prior to the dissolution of the Soviet Union, in FY1991, the United States provided \$10 million in grant aid, \$1.9 billion in CCC credit guarantees, and \$51 million in Eximbank guarantees.

b. Includes \$1,609 billion FY1993 supplemental approved Sept. 1993. H.R. 3759 rescinded \$55 million of the FY1994 and FY1993 supplemental appropriations for the FSU.

c. Original appropriation in FY1992 and FY1993 was \$400 million. Of these amounts, \$212 million from FY1992 and \$117 million from FY1993 were "lost" due to failure to obligate funds by end of FY1993 and FY1994, respectively.

<sup>6</sup> Some suggest that, given the odds of default, the subsidy amount currently required to back up loans is insufficient. See General Accounting Office, *Credit Reform: U.S. Needs Better Method for Estimating Cost of Foreign Loans and Guarantees*, (GAO/NSIAD/GGD-95-31, December 1994).

Given the varying interpretations that might be made of aid figures, it is difficult to put a precise dollar amount on U.S. assistance to the FSU. Grant aid since FY1992, that has been made available (but not necessarily obligated yet), is roughly \$6.7 billion.

In addition, an estimated \$669 million in concessional food loans and \$5.5 billion in a variety of commercial credit guarantee programs have been provided since FY1992. In fact, the actual budget outlays for these programs are as little as one-fifth of these amounts, since only the subsidy cost has to be appropriated to back up the loan or guarantee.

**Table 2. U.S. Bilateral Credit Assistance  
for the Former Soviet Union (Face Value)<sup>a</sup>**  
(in millions of U.S. dollars)

	FY92	FY93	FY94	FY95 <sup>b</sup>	Total
USDA CCC Export Credit Guarantees	2,567	523	20	20	3,130
USDA Concessional Food Credits <sup>c</sup>	35	529	65	40	669
Eximbank Guarantees	66	184	1,276	--	1,526
OPIC Financing	--	135	700	--	835
<b>Total Credits (Face Value)</b>	<b>2,668</b>	<b>1,371</b>	<b>2,061</b>	<b>60</b>	<b>6,160</b>

**Source:** Department of State and CRS calculations.

a. Prior to the dissolution of the Soviet Union, in FY1991, the United States provided \$1.9 billion in CCC credit guarantees, and \$51 million in Eximbank guarantees.

b. FY1995 credits are figures available as of October 1994.

c. Food for Progress and P.L.480 Title I programs -- loans made at low interest rates with longer than normal repayment terms.

### U.S. Assistance and International Financial Institutions (IFIs)<sup>7</sup>

From the start, it has been generally understood that, however much assistance the United States promises to provide to the region, it is merely a fraction of what is needed. For example, the International Monetary Fund (IMF) calculated that Russia alone would require at least \$20 billion in outside assistance to meet its foreign exchange needs in both 1992 and 1993. As they put together programs of assistance in those years, the G-7 anticipated that the bulk of funding would come from three international financial institutions: the IMF, the World Bank, and the European Development Bank (EBRD).<sup>8</sup> A member of these institutions, the United States contributes between 10% and 20% of their costs and has often argued that a similar proportion of their programs in the FSU may be viewed as a U.S. contribution to the region, additional to its bilateral program.

<sup>7</sup> The activities of the IMF are discussed in more detail in CRS IB92128, *Russian Economic Reform and the IMF: Mission Possible?*, by Pat Wertman.

<sup>8</sup> The Asian Development Bank also provides loans to Central Asian republics. To date, it has committed \$60 million to Kazakhstan and \$40 million to Kyrgyzstan.

For several reasons, both the IMF and World Bank have provided much less assistance than was originally anticipated by the G-7.<sup>9</sup> The IMF bases its loans on policy reforms which Russia and the other states have been slow to adopt. The G-7, led by the United States, have pressured the IMF to forego its usual reticence and provide loans prior to reforms as a way of encouraging progress rather than rewarding implementation. The World Bank has sent numerous experts to design prospective loan projects in a wide range of sectors. But few were approved by the Russian Parliament which was reluctant for the country to assume more debt.

In the past year, however, IFI programs have moved much more rapidly. As of November 1994, they had provided or reached agreements to provide an estimated \$11.3 billion. Of this sum, the IMF has lent \$5.4 billion, \$4.2 billion of which went to Russia. In all, the World Bank approved \$3.7 billion in loans (57% in 1994 alone) for 28 projects. Russia accounts for \$3 billion (82% of this total) followed by Kazakhstan with \$276 million (7% of total). The EBRD has approved roughly \$2.1 billion, \$1.3 billion of which is for Russia.

## DIRECTION OF FUNDING

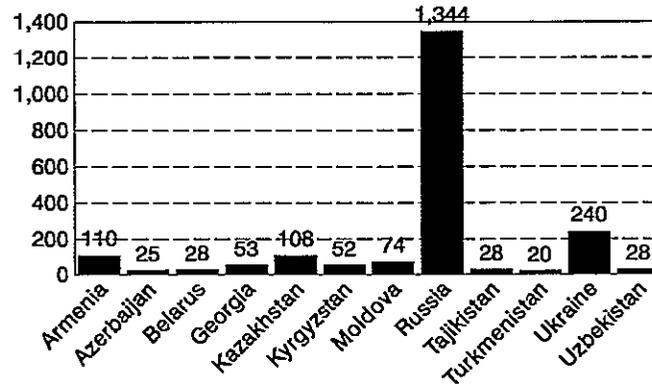
Which of the dozen new states receives U.S. assistance has been a continuing issue. Some observers, including Members of Congress, have expressed concerns that Russia has been getting too high a proportion of U.S. assistance relative to the other republics. Indeed, in absolute terms, most aid to date has gone to Russia, a reflection of its reformist policies, enormous geography, larger population, and its importance in U.S. security and economic policies. As of September 30, 1994, Russia accounted for about 58% of total NIS account obligations, the bulk of the grant program.

Although difficult to capture an ever-changing program, figures suggest that Russia was receiving a little more than half of bilateral grant aid allocations under the Bush Administration. Under the Clinton Administration, the 1993 Vancouver and Tokyo announcements shifted allocations dramatically, so that as much as two-thirds of the U.S. program was targeted for Russia. Congress approved this formula in the \$2.5 billion FY1993 supplemental/FY1994 Foreign Operations bill in September 1993, after conferees overrode Senate report language that criticized the emphasis on Russia. At the same time, however, it earmarked \$300 million for Ukraine, although this could come from other aid spigots, including Nunn-Lugar. After the December 1993 Russian parliamentary election and increased criticism of the perceived Russia focus, the Administration promised to provide future assistance on a fifty-fifty basis. Some members of Congress have continued to push for greater funding of the non-

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<sup>9</sup> In April 1992, the G-7 proposed \$10.5 billion in multilateral assistance for Russia, including a \$6-billion ruble stabilization fund, to be allocated in 1992. In the end, only \$1.6 billion was offered. In April 1993, the G-7 proposed \$18.4 billion in multilateral assistance for Russia. To present, it has received roughly \$6.6 billion of this. See Jeffrey Sachs, *Toward Glasnost in the IMF*, Challenge, May-June 1994, p. 4-11, for another view of what has been provided.

**Table 3. U.S. Grant Obligations by Republic:  
NIS Account FY 1992 - 1994  
(in \$ millions)**



Source: Agency for International Development

Russia republics. As a result, in the FY1995 aid appropriations (P.L. 103-306), Congress recommended, but did not require, that \$150 million, \$75 million, and \$50 million be provided to Ukraine, Armenia, and Georgia, respectively. Russia is currently expected to receive 44% of FY1995 appropriations.

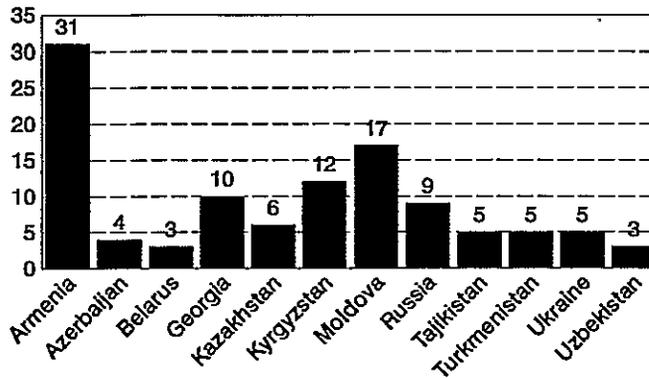
Critics have taken the view that U.S. policy is too Russia-centered and, given the political uncertainties there, greater emphasis should be placed on fostering the transition in the new countries on its fringe. Some would counter, however, that the reason other countries have not until now received a larger share of funds is that they have been far behind Russia in meeting the basic conditions imposed by Congress for such aid -- economic and political reform. Further, according to the State Department, although Russia receives the most funding in absolute terms, it does not on a per capita basis. Taking population into account, Armenia is the main beneficiary of U.S. NIS-account grant assistance and Russia is only fifth. (See table 4, next page.)

### MAJOR CATEGORIES OF ASSISTANCE

The chief vehicle authorizing assistance for the former Soviet Union -- the FREEDOM Support Act of 1992 -- laid out thirteen sectors in which assistance could be provided. The FY1994 Foreign Operations Appropriations bill broke the assistance program down into six, more generic, categories, and, unlike the authorizing legislation and the FY1993 appropriations, earmarked specific amounts to be spent under each. The FY1995 bill does not categorize the assistance.

Many of these categories of assistance under what is now called the NIS account overlap with one another. For instance, housing, energy, and democracy

**Table 4. U.S. Grant Obligations on a Per Capita Basis: NIS Account FY 1992-94**  
(\$ per capita)



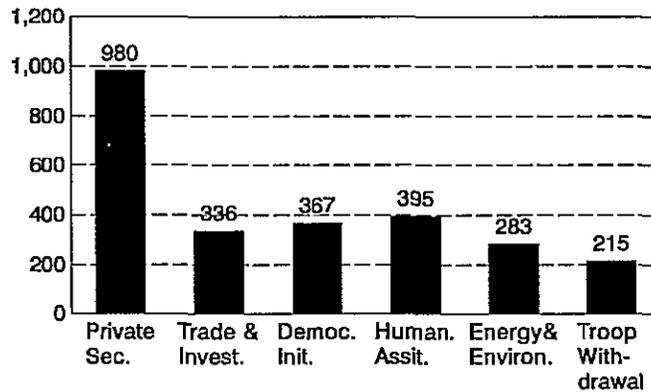
Source: Agency for International Development.

activities will facilitate private sector development. The exchanges and training activities under democratic initiatives will bolster all the other sectors. The commodity import program helps both the environment and U.S. trade. Most, but not all, of the NIS account assistance programs are managed by the Agency for International Development (AID).

Programs lying outside the Foreign Operations appropriations are also providing assistance. These include the Department of Defense managed Nunn-Lugar Cooperative Threat Reduction Program (FY1992-FY1995: \$1.271 billion available) and Department of Agriculture grant, concessional, and commercial programs (FY1992-FY1994: \$1.1 billion, \$669 million, and \$3.1 billion, respectively). In addition to Defense and Agriculture programs, a wide range of U.S. government departments and agencies have been conducting their own small programs of technical exchanges, many of which pre-date the fall of the Soviet Union and are funded from their own budgets (FY1992-1994 activities estimated at \$164 million).

Set out below are descriptions of the major sectors and estimates of NIS account grant obligations (and other funds directed at the FSU under the Foreign Operations bill) through FY1994. Most of the projects described under each sector only started operating in 1993 or later and are only located in those states where they are expected to have an effective impact. Specific project activities noted are illustrative; this is not a comprehensive list.

Table 5. Total Direct Obligations or Transfers  
by Sector FY 1992 - 1994 \*  
(\$ in millions)



Source: Agency for International Development and CRS.

\* Foreign Operations Accounts. Table does not include Nunn-Lugar DOD funds, or export credit subsidies, food aid, and other government agency grants not directly appropriated for FSU, with exception of \$227 million utilized to date of the \$300 million export subsidy amount provided to Eximbank under FY1994 Foreign Operations bill. Of \$2.8 billion total direct obligations, \$178 million is not categorizable.

**Private Sector Development** (estimated FY92-94 obligation: \$980 million, or 35.6% of total)

The bulk of U.S. grant technical assistance has gone toward a variety of efforts to promote the development of a private sector in the FSU. The main activities are:

- **Privatization.** This project, considered by many to be the most successful U.S. effort to date, has provided technical assistance and equipment to GKI, the Russian body that has privatized 80,000 small businesses and 14,000 medium and large enterprises. Much of this privatization has been done through a national auction system that is the progenitor of a stock market. Other republics are beginning to follow suit. The project is also providing advice in land titling and privatization of farms.
- **Post-Privatization.** U.S. advisors are beginning to implement a number of activities in Russia to help businesses and farms once privatization has occurred. One effort is to find ways to break-up monopolies that are the heritage of large government enterprises, including the food warehouse system and trucking industry. Another is to help set up the basis of a payments system, allowing the transfer and deposit of funds throughout

the country, and an independent securities and exchange commission. U.S. experts are also assisting in the development of commercial laws. Further, a number of credit related activities are underway, as noted below.

- **G-7 Sponsored Programs.** The United States has pledged \$125 million to the Special Privatization and Restructuring Program, a G-7 effort to provide post-privatization capital and technical assistance. Of this, \$100 million has created a Fund for Large Enterprises (1,000 to 10,000 employees) sponsored by OPIC and AID. The United States has also contributed \$9 million to an EBRD Small Business Fund to assist microenterprise lending.
- **Enterprise Funds.** The Russian-American Enterprise Fund, approved in September 1993, is eventually expected to receive a total of \$340 million to lend funds to and invest in small and medium (up to 2,500 employees) business ventures and provide some technical assistance. A Central Asia Fund and a Western NIS Fund were established in 1994.<sup>10</sup>
- **Economic Restructuring/Financial Sector Reform.** This project provides technical assistance to government and NGO (non-governmental) entities to help reform basic economic structures, including banking, regulatory, and taxation institutions, the latter considered particularly important in creating a positive environment for foreign investors. Projects include establishment of institutes to train tax service employees and banking and financial service providers.
- **Agribusiness.** Major U.S. agribusiness organizations are conducting training and technical assistance programs in conjunction with their own efforts to establish investments in the FSU agricultural sector.
- **Eurasia Foundation.** Since July 1993, the Foundation has been providing small grants to private organizations working in private sector development, public sector reform, and the media. Through September 1994, it has made 274 grants, averaging \$46,071 in size.
- **Person-to-Person Volunteer Technical Assistance.** The Farmer-to-Farmer Program (1,264 volunteers through FY1994),<sup>11</sup> and the International Executive Service Corps, respectively, provide short-term individualized on-site training to farmers and businessmen. Up to now, the Peace Corps (465 volunteers) is concentrating its efforts on providing advice to small businesses and English language training in eight of the new states.

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<sup>10</sup> In addition, a Defense Enterprise Fund, provided through the Nunn-Lugar program, is providing loans to joint ventures converting defense industries to civilian activities in the four FSU nuclear weapon states.

<sup>11</sup> The farmer-to-farmer program, managed by AID, is funded by USDA and not through the Foreign Operations bill.

**Trade and Investment** (FY92-94: \$335.8 million, or 12.2% of total)

In addition to direct funding provided from the NIS grant account to facilitate U.S. trade and investment in the FSU, some U.S. agencies are involved in an effort to encourage such relations using their own budgets. The major programs are listed below.

- **Energy and Environment Commodity Import Program (CIP).** This AID program will provide \$90 million in foreign exchange for purchase of U.S. energy efficiency and pollution control equipment, serving the dual purpose of demonstrating U.S. environmental technologies and encouraging U.S. business in this sector.
- **Trade and Development Agency (TDA).** TDA finances feasibility studies for foreign infrastructure projects, thereby assisting the entities concerned and U.S. business that might be more competitive in winning project implementation contracts through its involvement at the feasibility stage. Through FY1994, TDA approved over \$30 million in studies for the FSU and anticipates another \$21 million in FY1995.
- **Department of Commerce.** With funding from AID, Commerce is conducting several trade and investment programs. BISNIS collects and disseminates information to U.S. businesses on how to do business in the FSU. American Business Centers (ABCs) established in locations throughout the FSU provide administrative -- phone, office space, secretarial -- facilities to U.S. businesses exploring commercial possibilities in the region. The Consortia of American Businesses in the Newly Independent States (CABNIS) funds representation costs for U.S. associations promoting commercial opportunities for U.S. business in specific sectors, including the homebuilders, environmental technology, semiconductor, telecommunications, and food processing industries.
- **Export-Import Bank.** The Bank provides export financing in the form of insurance, direct loans, and guarantees. Although previously drawing on its general budget, for FY1994 the Eximbank received \$300 million in subsidy costs to support its program in the FSU, the first time Congress has earmarked a specific regional appropriation for the Bank. Most activities to date have been in Russia, but the Bank has also established operations in Belarus, Kazakhstan, Turkmenistan, and Uzbekistan. So far, it has approved \$1.5 billion in medium-term guarantee commitments for Russia, including the first tranche of a projected \$2 billion oil and gas equipment deal.
- **The Overseas Private Investment Corporation (OPIC).** OPIC offers political risk insurance,<sup>12</sup> provides investment loans and guarantees, and sponsors investment missions. In FY1994, it guaranteed roughly \$700

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<sup>12</sup> Its insurance programs are self-financing. To date, OPIC has provided \$1.7 billion in face value insurance coverage to U.S. firms investing in the FSU.

million in investment financing. OPIC has contributed to three private equity funds to support U.S. business investment -- the Russia Partners, NIS Major Project, and NIS Regional funds.

**Democratic Initiatives (FY92-94: \$366.6 million, or 13.3% of total)**

Democratic initiatives encompass two categories of assistance. There are technical assistance activities targeted on aspects of democratic systems: governance, judicial process, NGOs, and the media, in particular. There are also exchanges and training programs which, while dispersed over an array of sectors, share the notion that exposure to the United States, its people and business will inculcate an appreciation for democratic ideals and behavior more successfully than other means. The major initiatives under these categories are listed below.

- **Exchanges and Training.** The SABIT program implemented by the Commerce Department provides internships in U.S. businesses (more than 288 to end of FY1994). The USDA-implemented Cochran Fellowships (174 in FY1994) and the newly initiated AID reverse farmer-to-farmer program bring agriculture sector individuals to the United States. The U.S. Information Agency (USIA) and AID, however, are responsible for the bulk of exchanges of varying lengths and academic and non-academic programs, directed at, among others, businessmen, local government personnel, journalists, teachers, and students at all levels of education (\$234 million in NIS funds for AID and USIA through FY1994). AID training programs generally supplement their sectoral activities. Including other sources of funding, more than 27,000 exchange and traineeships have occurred to date.
- **Technical Assistance.** The National Democratic Institute and International Republican Institute are assisting political party development. The Congressional Research Service is providing training and equipment to facilitate legislative processes of the parliaments of Ukraine and Russia. The Rule of Law program, run by the American Bar Association and others, is helping institute jury systems, train judges, and develop bar associations. Linkages are being established between U.S. and proliferating, but weak, indigenous NGOs in the FSU. Equipment and training are being provided to encourage the growth of an independent news media. In the FY1995 appropriations, Congress directed that \$15 million be used for law enforcement training. The FBI, Drug Enforcement Administration (DEA), and other U.S. agencies are expected to implement programs in the areas of organized crime, financial crime, and narcotics smuggling.

**Humanitarian Assistance (FY92-94: \$394.8 million, or 14.3% of total)**

The NIS/AID account represents only a portion of the humanitarian assistance that has gone to the FSU since FY1992. In addition, roughly \$1.5 billion in food and medical assistance has been provided under the auspices of USDA administered food aid programs and Department of Defense food and

medical excess stock donations and transport assistance programs. The main Freedom Support Act efforts are listed below.

- **Food and Medical Aid.** Although the United States is not paying for the so-called "social safety net," it is transporting and providing food and medical assistance to some of the most highly vulnerable groups affected by the transition and political disruptions in some of the new states -- particularly infants, pregnant women, lactating mothers, pensioners, and families displaced by ethnic strife.
- **Health Support.** A hospital partnerships program links U.S. and FSU institutions [227 partnerships to date], through which training and equipment are being provided. In an effort to improve vaccine and pharmaceutical production, technical assistance is being supplied on manufacturing standards and regulatory practices, equipment and raw materials have been supplied, and efforts are being made to stimulate U.S. private sector investment.

**Energy and Environment** (FY92-94: \$283.1 million, or 10.3% of total)

Much of the FSU is an environmental disaster area with severe consequences for human health and productivity. Furthermore, the region could save millions every year if it instituted energy efficiency measures. Some of the major aid efforts are listed below.

- **Nuclear Reactor Safety.** The Department of Energy and the Nuclear Regulatory Commission are providing technical assistance and equipment to make existing water cooled reactors in Ukraine and Russia safer.
- **Energy Efficiency.** Technical assistance and demonstration project equipment is being provided to help electric power utilities achieve efficiencies and find energy alternatives. AID is also assisting in the privatization of the electric power industry and establishing appropriate regulatory mechanisms for the energy sector.
- **Environmental Reform.** A number of AID projects provide advice to governments on policy reform and U.S. technologies in environmental and natural resource management, particularly in the areas of water and air pollution. For example, a sustainable land use program has been developed and is now being implemented for Lake Baikal. Further, AID is funding partnerships between U.S. and indigenous environmental NGOs in order to strengthen local capacities.
- **Ukraine Energy Grant.** In November 1994, the United States provided Ukraine with a \$72 million grant to cover the import of gas from Russia (FY1995 obligation -- amount not included in above total). As a result, Ukraine has promised to adopt policy reforms in this sector.

**Housing Reform and Troop Withdrawal** (FY92-94: \$214.5 million, or 7.8% of total)

The United States is taking a two-pronged approach to help develop a private housing sector in the FSU -- policy reform and actual housing construction.

- **Housing Sector Reform.** AID is helping to develop solutions to various problems of housing ownership -- it has helped privatize the maintenance of apartment buildings whose individual units have themselves already been privatized, it has helped establish a condominium model of ownership, and is advising banks and governments on the creation of a housing finance market and mortgage lending.
- **Officer Resettlement.** In April 1993, President Clinton promised the construction of 450 housing units for officers returning from the Baltics. Construction is currently underway. An additional 5,000 units were to be constructed, but problems in the pilot project -- scarcity of serviced land, local corruption, inflation in construction costs -- led to a change of plan. Now, 2,500 units will be constructed and 2,500 vouchers worth up to \$25,000 will be provided allowing officers to find their own housing. Many credit the successful withdrawal of Russian troops to this program.<sup>18</sup>

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<sup>18</sup> See CRS Report 94-812 F, *Russian Officer Resettlement Program*, by Steve Woehrel, for further information.

## ASSISTANCE IMPLEMENTATION ISSUES

Between December 1991 and April 1992, the first significant allocations of funds for technical assistance and training were made.<sup>14</sup> AID teams were sent to the former Soviet Union to assess problems and propose projects. By the time contracts were signed and the first wave of contractors, AID, and other Government personnel appeared in Moscow and several of the other new states, it was late summer 1992.

What the assistance implementors encountered were societies with few of the legal, political, economic, or social institutional frameworks that characterize most modern free market industrial democracies: deficient or no commercial, taxation, or civil law; a meager private sector with almost none of the financial or other service institutions that support that sector elsewhere; and weak and undeveloped non-governmental organizations of the sort that compose the bedrock of democracy in the West. The U.S. assistance program sought to help change this.

At this time only a small part of the assistance program is more than two years into implementation, and less than one-fourth of available funds for technical assistance have been spent. Concrete achievements include the shaping of privatization programs in Russia, Kazakhstan, and Kyrgyzstan; formulation of a Russian civil code (part of which has been approved by the Parliament), and introduction of jury trials in Russia. While there is movement on many fronts, it is still too early to judge the success or failure of specific projects. Nevertheless, much can be said regarding aspects of project implementation that might have a bearing on success of the whole aid program and U.S. policy in the region.

The program has attracted widespread comment since its inception. Members of Congress, analysts, and other observers question the pace of program implementation, the development of an aid strategy, and the success of efforts to coordinate a program implemented by numerous government agencies. They question whether the assistance is getting beyond recipient governments to reach the man-in-the-street and if the aid is being used for corrupt purposes. Many also are concerned regarding the impact an extensive use of consultants and contractors is having on the program and if the program is sufficiently utilizing and helping U.S. business. Finally, observers -- critics and supporters alike -- want to know if U.S. assistance is being used effectively to meet U.S. policy objectives in the region. This section examines the range of such concerns.

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<sup>14</sup> In December 1991, the Bush Administration notified Congress of a \$5 million Economic Support Fund allocation. On March 31 and April 1, 1992, the House and Senate respectively approved H.J.Res. 456, the further continuing appropriations bill, allowing the President to utilize re-programmed ESF resources for further assistance. Another \$230 million was provided.

**IS THE PROGRAM BEING IMPLEMENTED FAST ENOUGH?:  
PRESSURES TO ACCELERATE AND DELAYING FACTORS**

Since the attempted coup in August 1991 that led to the dissolution of the Soviet Union, policymakers and analysts have viewed this period as a rare and perhaps fleeting window of opportunity to affect a successful transition to democracy and free market economies. Prior to introduction of the FREEDOM Support Act in April 1992, many in Congress were highly critical of what they perceived as the Bush Administration's failure to react to these changes with an appropriate sense of urgency in bringing foreign aid programs to bear on events in the region. In fact, the Bush Administration had begun to formulate a program using the existing Economic Support Fund (ESF) in December 1991. But the slow pace of implementation of this program, even after it was supplemented with FREEDOM Support Act-based appropriations in October 1992, continued to draw criticism.

Therefore, when the Clinton Administration sought to show support for President Yeltsin's reforms at the Vancouver Summit in April 1993, it made a point of promising rapid implementation of its \$1.6 billion package of assistance.<sup>15</sup> By the end of July 1993, officials stated that 64% had been obligated, and, by September 30, 97% had been obligated.<sup>16</sup> The issue, however, was raised again following passage of the \$2.5 billion aid package for FY1994. By the end of June 1994, only \$694 million of the \$2.1 billion<sup>17</sup> in FY1994 funds available under the NIS account had been obligated.<sup>18</sup> However, by December 1994, \$1.8 billion, 86% of the FY1994 funds had been obligated.

Although obligations are a sign of movement, there can be a considerable gap between the signing of contracts and the placement of technical assistance experts and other in-country project activities leading to actual expenditures. For example, the Russian-American Enterprise Fund, whose contract was signed at the end of September 1993, did not provide a loan until July 1994. There is

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<sup>15</sup> The Vancouver aid package consisted mostly of \$700 million in Food for Progress concessional aid, \$194 million in food aid grants, \$215 million in Nunn-Lugar. Only about \$260 million was AID assistance.

<sup>16</sup> Obligations are the legal commitment of funds by the U.S. to recipient governments, contractors, and other entities. Expenditures or outlays represent funds paid from the U.S. Treasury.

<sup>17</sup> Of the \$2.5 billion, \$300 million was provided directly to Eximbank, \$55 million was rescinded, and DOD kept \$55 million earmarked for transfer (using it for NIS programs).

<sup>18</sup> There were a number of plausible reasons for this delay, including congressional holds and the sizable growth in the appropriation. Nevertheless, a three to four month gap between the appropriation and transfer of DOD funds to AID appears to have been a delay caused by bureaucratic snafu.

no question, however, that, overall, more and more projects are coming "on line" and their activities becoming visible in the field.<sup>19</sup>

AID has taken steps to shorten the project timeframe typical of projects elsewhere in the world. Officials have eliminated paperwork and delegated responsibility so that, at least in the case of the high priority privatization project, a workplan for up to \$2 million can be initiated without a cumbersome approval process and a team can be put in the field 30 days after the workplan is completed -- a process that used to take 4-5 months now takes one. This policy, however, is inconsistently applied, and many contractors complain of lengthy delays in getting workplans approved. Procurement procedures have also been accelerated, but it still takes five to seven months to select new contractors.

**Obstacles.** Ironically, in the name of expediency, most of the programs were developed and, until recently, largely run from Washington rather than in the field as is the case with most AID activities. Most decisions still have to be reviewed and approved by Washington, both by AID and by the State Department's NIS Coordinator's office. Further, squabbling between agencies has also slowed the process (see below). AID, in particular, has been criticized for the length of time it takes to approve the six month-workplans that each contractor has to submit prior to taking action in the field.

In authorization and appropriations language, Congress established general criteria and specific conditions on provision of assistance. Failure to meet these conditions has been an obstacle to aid delivery. Many countries -- Ukraine and Belarus are examples -- have not adopted basic economic reforms that might assure U.S. assistance will not be wasted (recent commitments by Ukraine have led to a dramatic increase in promised U.S. aid). Turkmenistan's political and economic situation discourages a large aid program there. The security situation in some countries -- Tajikistan, for example -- prevent more than provision of humanitarian aid. Those who criticize the Administration for not disbursing aid more widely to non-Russia republics ignore these constraints, arguing that the assistance would help to move events in a more positive direction.

Initial ignorance on the part of U.S. policymakers and aid implementors regarding conditions, players, and problems in Russia and the rest of the FSU has been a severe obstacle to rapid implementation. Contractor personnel -- some with no experience of the region -- seem to have had difficulty getting their bearings and establishing working projects on the ground.

The lack of knowledge of an uncertain and fluctuating situation within the FSU led AID to establish broad sector projects using a "rolling design" process, in which technical resources are drawn from pools of consultants as needs and appropriate local counterpart organizations are identified. But the imprecise and flexible nature of these projects has made the detailed notifications

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<sup>19</sup> Annual expenditures have increased from \$231 million in FY1993 to \$609 million in FY1994. AID expects expenditures to rise to \$1 billion in FY1995.

congressional committees are accustomed to receive difficult to draft. Some projects were put on hold while negotiations were conducted with the appropriations committees. Consequently, notifications to obligate funds are provided only 30 to 90 days prior to obligation when greater detail of project activities can be supplied. Some believe this process diverts AID staff time to briefings and paperwork rather than project implementation.

A variety of legal and procedural concerns have further slowed things down. Nuclear industry representatives refused to begin work on an AID project to help improve safety at FSU nuclear power plants until their liability in the event of a future accident was established. The enterprise funds for the FSU were unable to go forward until problems and concerns raised in practice by the Eastern Europe funds were resolved to the satisfaction of the House Appropriations Foreign Operations Subcommittee. And, according to one report, lengthy congressional review delayed by 11 months independence for the Eurasia Foundation.<sup>20</sup>

**Too fast?** Some would argue that the program has in some ways been implemented too rapidly. They say that the political impetus to show U.S. action led to poorly thought out projects. Some suggest that, in order to obligate funds quickly, the larger U.S. consulting firms received amounts of funding far greater than these regionally inexperienced firms knew what to do with them. Meanwhile, smaller, more grassroots and culturally knowledgeable organizations, they say, were left to await funding as sub-contractors.

### **IS THE PROGRAM WELL COORDINATED?**

At least 16 U.S. agencies are playing an implementing role in the U.S. assistance program, leading to early criticisms of coordination. Project duplication, little project complementarity, and no coherent aid strategy are among the complaints heard during the past two years.

As the FSU program got underway in December 1991, President Bush, having already faced similar criticisms of the Eastern Europe aid program, appointed an aid coordinator in the Department of State -- Deputy Secretary of State Lawrence Eagleburger, and Richard L. Armitage as his deputy. Under President Clinton, Ambassador Thomas W. Simons, Jr., has served as aid coordinator and the focal point for the U.S. assistance program.<sup>21</sup>

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<sup>20</sup> Management Systems International, Evaluation of Cooperative Agreement with Citizens Democracy Corps, April 15, 1994, p. 11.

<sup>21</sup> Strobe Talbott, who served as Ambassador-at-Large for the NIS, until he was replaced in February 1994 by James Collins, has played a prominent role in the program. Until he became Deputy Secretary of State, the appointment of Talbott was said to have improved aid coordination partly because, unlike Eagleburger, he could devote full attention to the region and add his clout to interagency squabbles.

Congress, in the FREEDOM Support Act, made the State Department Coordinator responsible for designing an overall assistance strategy, ensuring coordination among U.S. agencies, pursuing coordination among other donors, insuring proper management, implementation, and oversight by those agencies, and resolving disputes between them. In recognition of the foreign policy importance of the assistance program, a Presidential charter of May 1993 put Ambassador Simons in charge of the Assistance Coordination Group, an interagency body under the direction of the Policy Steering Group, headed by Strobe Talbott, and all under the National Security Council. According to the charter, the Assistance Coordination Group was responsible for the "allocation of U.S. assistance resources and the interagency process for design and implementation of all policies and programs dealing with bilateral assistance."

Both Bush (January 1993) and Clinton (January 1994) Administration strategy statements contain general guidelines that tell what the U.S. objectives are, outline specific approaches (i.e., emphasis on use of the private sector, for example), and explain broad country goals and priorities. Changes in the assistance strategy during the first year of the Clinton Administration illustrate the role of the Coordinator's office in setting broad guidelines for assistance. In the course of 1993, an effort was made to make the assistance program target more grassroots, people-to-people, activities, focus added assistance on the private sector and non-governmental organizations, and concentrate on areas outside Moscow. This approach is reflected in the January 1994 strategy statement. It may be some time before its programmatic changes are actually implemented in the field by the numerous agencies involved in the program. But, in theory, the assistance strategy is the marching order for the U.S. assistance program in the FSU.

**TABLE 6. Major U.S. Government Assistance Providers:  
Obligations from NIS Account through FY1994**  
(in \$ millions)

AID	1,922.5
Department of Commerce	30.6
U.S. Information Agency	149.2
Department of State	17.6
Securities & Exchange Commission	1.0
Health & Human Services	.6
Department of Agriculture	70.3
Department of Energy	100.9
Nuclear Regulatory Commission	13.6
Peace Corps	13.9
Environmental Protection Agency	11.8
OPIC	61.2
TDA	31.0
Department of Treasury	17.1
Congressional Research Service	2.9

During the past year, the Coordinator's office, with input from other agencies as well as U.S. embassies in the FSU, has also begun to develop and produce individual country aid strategies. These are slightly more detailed than the regional statement, and try to tailor the program to fit country needs. The strategy for Russia was approved on May 19, 1994, for Ukraine on June 23, for countries of Central Asia on July 8, and Armenia and Azerbaijan on October 31. Strategies for Belarus and Georgia are expected to follow.

The ability of the Coordinator to translate broad policy into aid programs and projects has been questioned. Some believe that the Coordinator acts more as an arbitrator of agency differences than a dictator of policy. Much of the time, it handles the bickering and disagreements of the numerous implementing agencies. In the face of agency heads with their own influence in the Administration, it appears that the Coordinator has had insufficient clout to dictate action in many cases.

The Coordinator's authority to allocate resources does allow him to mold program content. The Coordinator strongly supported the housing construction program, the enterprise funds, and a special OPIC fund, in the face of adamant opposition from some agencies. When it was decided to spend \$200 million on educational exchanges and training, the Coordinator reviewed the different programs and allocated funds between AID and USIA. He mandated funding of Peace Corps operations through the FSU account budget over AID opposition. When the Trade and Development Agency (TDA) proposed support for the Russian land commission's privatization effort and AID opposed it on the grounds that the body was not sufficiently reformist, the Coordinator's Office led the inter-agency discussions that led to a final determination on which Russian body would receive U.S. support. The Coordinator was also reportedly responsible for a new shift in emphasis and resources from technical assistance to trade and investment leading up to the Yeltsin summit in September 1994.

Nevertheless, there has been a widespread impression that the Coordinator Office has little power. Part cause or part effect of this is the rise of other centers of decisionmaking on assistance issues. The White House National Security Council and the Gore-Chernomyrdin Commission have played major roles in determining assistance priorities during the past year.

In April 1994, then congressional leaders, Richard Gephardt and Robert Michel, produced a memo to Secretary Christopher severely criticizing the coordination effort. The initial response to this congressional criticism was to seek replacement of Coordinator Thomas W. Simons, Jr., despite wide respect for his competence and knowledge. The State Department was said to have been looking for a higher profile person who might have more clout with other agencies. Two such people reportedly turned down the position and Ambassador Simons has been continuing in his post. Many, however, believe it is the power of the office, not the occupant, that needs strengthening.

**AID and other agencies.** Much of the NIS Coordinator's time has been employed allocating resources and resolving turf wars between agencies. Most

of the disputes appear to involve friction between the Agency for International Development and other agencies, not surprising because most of the assistance funds ostensibly flow through AID. Allocations or transfers from AID to other agencies totalled \$524.6 million, or about 21% of NIS Account fund obligations made to the end of FY1994.

Although AID sees assistance programs as its charge, the unusual foreign policy motivation of the FSU program and the weakness of AID in recent years - - resulting from poor management and perceptions of incompetence -- have given other agencies an opportunity to carry out these programs, first in Eastern Europe and now in the FSU. Some argue that Russia is not like a number of developing countries, and AID is ill-equipped to run a program there. But other agencies have not operated in the FSU either and do not have the management experience AID can argue it possesses for insuring effective project monitoring and financial accountability.

The legal argument for or against AID's sense of ownership of the funds -- "they call them 'our' funds, not the taxpayers," say critics -- is not entirely clear cut.<sup>22</sup> House report language on the FREEDOM Support Act suggested that, where there was expertise within the U.S. Government, it should be used, but it also expected that AID would be responsible for overseeing and implementing the majority of U.S. bilateral assistance. The final bill adopted a Senate provision that provided a blanket authorization for all agencies conducting Eastern Europe activities to conduct activities in the FSU as well, but it did not attach specific agencies to projects in the way the SEED Act had done.<sup>23</sup> It gave chief authority for implementation to the State Coordinator, but subsequent appropriations legislation has insured that funds would be funneled through AID to other agencies involved in the program.

Funds move from AID to other agencies in two ways. Under section 632(a) of the Foreign Assistance Act, funds are transferred to other agencies which then obligate them under certain terms and conditions. AID is not expected to monitor or evaluate the use of those funds. Alternatively, under section 632(b) transfers, AID has oversight responsibilities. Funds are provided for use by another agency, but they are considered part of AID's budget, obligated by it, and the recipient agency must allocate funds and meet AID reporting requirements as though they were an AID contractor. In the first year of the FSU aid program, most transfers were 632(b). Now they are mostly 632(a) and inter-agency friction has reportedly diminished.

According to the FREEDOM Support Act (sec. 102(d)), implementing agencies are accountable for funds made available to them. Providing funds to other agencies through AID, whether 632 (a) or (b), unfortunately, creates the

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<sup>22</sup> See AID/IG Report of February 26, 1993, *AID's Oversight Role for Interagency Agreements Under the Central and East Europe and NIS Programs Needs Clarification*, #8-000-93-02.

<sup>23</sup> The Support for East European Democracy Act of 1989, P.L. 101-179, authorizes assistance to the states of East and Central Europe.

problem of focusing all blame on AID and, in the view of its own Inspector General, is no excuse for not monitoring their use. However, other agencies have much less experience monitoring programs and do not have many or any field personnel in place. One AID officer who dealt extensively with 632(b) transfer agencies has remarked on the inability or unwillingness of some to provide AID with even the most basic budget information.<sup>24</sup> If true, this may stem from a simple failure to recognize congressional requirements for accountability, lack of experience with corruption in other countries, or agency resistance to being managed by AID like a contractor. From AID's point of view, contractors are preferable to agencies -- the former have a financial incentive to show impact, while the latter cannot be controlled.<sup>25</sup>

**Field Coordination.** How coordination or the lack of it affects actual project implementation in the field is a concern for policymakers. When many agencies and contractors fail to coordinate programs, redundancy -- the most often cited consequence -- is only part of the problem. In the Volga region, there were repeated seminars during 1993 on privatization, banking, and related topics conducted by the Peace Corps and AID's privatization contractors. It is not so much that one may repeat what the other has done, but that there may be an overload of activities targeted at the same audience that produces a level of frustration and disillusionment with the aid program among the recipients. This is particularly exacerbated by the lack of strategic planning that a failure to coordinate simply reflects. Everyone in the field admits that the real need of fledgling businessmen and farmers alike is credit at reasonable interest rates. But U.S. aid projects have until recently only been able to offer seminars and advice. A comprehensive and integrated program might link up Peace Corps business advisers with private sector consultants and a micro-and small business-credit program in one region alone where sufficient funds might be made available to make a difference.

Until the past year, there has been a failure to make the assistance program one of teamwork. As late as September 1993, Peace Corps volunteers most in touch with local businessmen in the Volga region had no contact with USIA regarding exchanges that might benefit their clients. VOCA (Volunteers in Cooperative Assistance) farmer-to-farmer officers were aware of some of the exchange opportunities offered by AID and USDA, but only because of their own spadework, not any coordinated outreach on the part of U.S. Government officials. During 1994, however, AID began to develop a more integrated program. It is establishing at least ten small business development centers

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<sup>24</sup> According to the AID/IG report, "reports are often not submitted....", p. vi, Feb 26, 1993 report.

<sup>25</sup> According to AID, OMB Circular A-76 says that government agencies should be used only where they are uniquely suited and not competitive with private enterprise. Two examples suggest that an inclination of agencies to use their own personnel, rather than contractors, can cause problems. EPA reportedly had begun sending a stream of its staff to do a series of tasks, leading the Russians to complain about the lack of continuity and having to explain the same things over and over again. The Center for Disease Control reportedly sent out junior fellows to advise the Russians.

throughout Russia that draw on IESC, Peace Corps, the MBA Enterprise Corps, the AID Education and Training projects, the Citizens Democracy Corps, and other assistance efforts.

There are a number of factors in the field that have exacerbated the coordination problem up to now. Decisionmaking is still made in different agencies in Washington and feedback from field personnel has been dispersed among them, rather than directed at the State Coordinator's office. The AID mission presence remains small, concentrated solely in Moscow for the Russia program; Almaty for all of central Asia; Kiev for all the Ukraine, Moldova, and Belarus; and Yerevan for all of the Caucasus. Only a few other agencies -- USIA, Commerce, Peace Corps, Agriculture -- have field mission personnel who could be responsible for developing complementary programs. While relationships between agency personnel in the field are said to be cordial and interagency meetings are regularly held in the AID office to discuss what others are doing, there was little effort in the first two years of the program to create an inter-relationship and teamwork among consultants and project implementors. There was no mandate for them to do so; contractors coordinated activities among themselves on an ad hoc basis.

To insure that coordination has an impact at the implementation level of the assistance program, the Gephardt/Michel memo recommended that a deputy coordinator be placed in Moscow. The idea of a local "coordination czar" had been considered for some time previously and appears to have been adopted by State in the form of an assistant to the Ambassador, Susan Johnson, who arrived in Moscow in early autumn 1994.

### **IS ASSISTANCE REACHING THE GRASSROOTS?**

Many critics argue that U.S. assistance does not directly reach the man-in-the-street and is not allocated in a way that lets the general public in the FSU know the United States is supporting reform. In response to these concerns, the Clinton Administration announced in April 1993 that it was seeking to make its assistance program more visible to the average Russian citizen. The President claimed that 75% of new Russian assistance would be used outside of Moscow and the same proportion would be provided to non-governmental bodies.

It is plausible that the Administration's numerical target will eventually be met. However, it likely to take a long time before FSU populations are broadly cognizant of the impact or source of U.S. assistance programs. For one, the level of U.S. assistance is simply not substantial enough to blanket the FSU with programs. Secondly, different types of assistance affect discrete groups and have different repercussions for the economic and political transition in the region. These impacts should be kept in mind when the United States allocates assistance or observers judge its success.

For example, humanitarian activities -- food aid to vulnerable groups and provision of vaccinations in Central Asia -- directly benefit the grassroots.

However, while these are highly beneficial to particular groups, and possibly serve to still political discontent, they are short-term solutions, not contributing directly to the political and economic transition (and represent only a small proportion of the NIS account). Although the idea of providing a social safety net was supported by a number of prominent analysts, including Harvard economist and Russian government adviser Jeffrey Sachs, the United States never considered it as something it could do alone -- it would require immense sums.

Policy reform projects deal closely with FSU government agencies and often appear to have the least direct impact and least visibility at the grassroots level. However, many would argue that it is precisely such programs that might have the most long term and widespread impact on people's lives and on the success of the transition. Privatization reform, for example, although largely conducted at the national level, has pervasive impact on how the grassroots live and conduct business. Although many consider these activities the most successful use of U.S. aid funds in Russia, the concern that Russian nationalist sensitivities not be exacerbated by an overt and obtrusive U.S. presence has led the program to maintain a low profile. Further, as local reformers are identified, policy reform technical assistance is increasingly being provided at the oblast and municipal levels.

Those favoring "grassroots" programs, while not opposing humanitarian or policy reform assistance, call for greater support -- financial and programmatic -- for a wholly different approach. They argue that grassroots programs are often more effective in transferring skills and knowledge to emerging entrepreneurs and government personnel than other technical assistance programs because they are more responsive -- and quicker to respond -- to the needs of people, are more culturally sensitive, establish long term relationships with the U.S. private sector and therefore carry a multiplier effect, and build local non-governmental institutions that are the building blocks of both free markets and democracies.<sup>26</sup>

There are many different grassroots programs and each has different impacts. "Volunteer" technical assistance programs -- the farmer-to-farmer program, the Peace Corps, and the International Executive Service Corps (IESC) -- bring U.S. volunteer specialists to the FSU. "Exchange" programs bring FSU nationals to the United States, including educational exchanges, the reverse farmer-to-farmer program, and the SABIT program that provides internships in U.S. businesses. NGO support programs -- Eurasia, ISAR, and the NGO development program -- fund institutional development of local organizations.

The key feature of most of these programs is that they attempt to reach out to local people and assist them directly. To do this most have set up field offices outside of the major capitals, often employing young and culturally sensitive Americans, and many more FSU nationals. Eurasia Foundation grants and the

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<sup>26</sup> A forthcoming study by Nancy Lubin for the Project to Reform Aid to the NIS, funded by private foundations, highlights the achievements of grassroots projects.

development projects of NGOs and PVOs (private voluntary organizations) are good examples of grassroots activities that may have a broad impact. Although a high proportion of their funds go through U.S. organizations,<sup>27</sup> the emphasis of their small grants is to reach local NGOs and others in joint programs that might develop the local organization, assist in local policy reform, or facilitate management and administrative training to entrepreneurs. Tens of thousands of small local NGOs have sprung up throughout the FSU in the past few years. In a country which always depended on government and has lost its charitable traditions, the success of these PVOs and NGOs is essential to any sustainable democracy. But assisting them carries some risk in that many are likely to fail due to poor management and limited funding sources and many are suspect in their intentions and leadership.

Environmental programs run by a U.S. organization, the Institute for Soviet-American Relations (ISAR), are repeatedly praised by observers. With AID funding, ISAR has supported environmental organizations throughout the FSU. It has established an electronic mail network linking these organizations (currently more than 60 groups are linked in this way), provides grants to support educational and other programs, disseminates information on environmental activities elsewhere in the world, and is supporting joint projects between U.S. and FSU groups. Reports on farmer-to-farmer volunteers consistently attribute significant increases in production or sales to well-placed advice -- for instance, a five-fold increase in the productivity of a private fruit and vegetable storage facility due to suggestions on use of labor incentives and better hiring practices.<sup>28</sup>

Some, however, question the cost effectiveness and impact of grassroots approaches. They argue that grassroots technical assistance generally affects only individual farms (actually, former collectives -- now budding agribusinesses), industrial firms, or NGOs, not the agricultural or commercial systems as a whole the way assistance to governments can. In fact, while volunteers tend to be targeted on a specific farm or organization, they are often utilized on a wider scale and the demonstration effect of their work also has a broader impact. While small-scale grassroots operations -- volunteers and for-profit -- are usually, if not always, less expensive than experts, when operational costs and length of service are taken into account, it is difficult to calculate the relative value of these activities vis-a-vis "experts".<sup>29</sup> In the end, impact depends on the match of volunteer or grassroots worker to recipient

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<sup>27</sup> As Eurasia Foundation establishes more field offices (three new ones in FY1994), it expects a higher proportion of direct grants to FSU organizations.

<sup>28</sup> *ISAR Mid-term evaluation*. July 22, 1994, by Mary Heslin and Edward Hodgman. *Internal Evaluation for Farmer-to-Farmer Program in Russia of Tri Valley Growers, Inc.*, March, 1994, by Ted Weihe.

<sup>29</sup> During 1993, 153 IESC volunteers each served roughly 8 weeks in the FSU, at a cost to taxpayers, calculated on a worldwide basis, of roughly \$31,000 each. In 1994, Peace Corps volunteers serving one year in Russia cost about the same. Expert costs (both salaries, housing, and benefits), by comparison, can be as high as \$252,000 per annum.

organization, the length of service, and the experience, connections, and knowledge of the individual concerned.<sup>30</sup>

Similarly, some believe that educational exchanges and training, strongly promoted by some members of Congress, are costly and have an impact on the relatively few who can be brought to the United States.<sup>31</sup> These exchanges (in FY1994, there were 8,300 funded by AID and 9,300 by USIA) appear to be largely discrete activities, not bonded together as part of any coherent program as was the case, for instance, during the Marshall Plan.<sup>32</sup> But, again, their impact depends largely on who is targeted (from what sector, and qualifications) and what kind of training they receive (length and quality, i.e. internships, degree programs, specialized tour). High school student exchanges managed by USIA have little immediate impact on institutions in the FSU but may be good public relations and an investment in the future.<sup>33</sup> Short term -- up to 6-week -- visits for government and business people may have little impact unless tailored for individual needs, perhaps making specific business connections or transferring a particular skill.<sup>34</sup>

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<sup>30</sup> Even volunteers must be matched to reformers if there is to be an impact. For example, see "Underwhelmed in Ukraine", *Across the Board*, May 1994, p. 48-50.

<sup>31</sup> Perhaps the best defense of bringing people to the United States is the old Russian saying, "better to see once than to hear seven times."

<sup>32</sup> Some analysts argue that a cost-effective exchange model provided by the Marshall Plan be extended to the FSU program. The "productivity campaign" provided highly specialized study tours of U.S. industry to managers, labor officials, engineers, and the like with an emphasis on how U.S. management, marketing, and production techniques had made it the world's most productive country, a lesson not without relevance to the FSU. The campaigns had the virtue of extensive follow up. For instance, they required participants to write handbooks of what they learned for later dissemination to their peers back home, and they helped set up productivity centers in each country to provide training materials and other assistance to enterprises. A media campaign worked in tandem.

According to some analysts, enterprises experienced a 25- to 50-percent increase in productivity within a year of exposure to the campaign. While industrial conditions in the FSU require more than this -- a complete restructuring and a dramatic change in the policy environment -- the model shows what good follow-up and a comprehensive approach -- thousands of enterprises participated -- can do. See "Jump-Starting Ex-Communist Economies: A Leaf from the Marshall Plan", by James M. Silberman, Charles Weiss, Jr., and Mark Dutz, in *Foreign Affairs*, Jan-Feb 1994, v. 73, p. 21-26. According to AID officials, the FSU assistance program does pay some attention to follow up concerns. For each trainee or student, \$1,000 is allocated to support follow-up activities -- it can be used for a course, professional workshop, or journal subscription, and many trainees are part of a larger project that may maintain contact in the long-run.

<sup>33</sup> In FY1994, 4,631 NIS students came to the United States and 2,195 U.S. students went to the NIS.

<sup>34</sup> A September 1993 AID/IG audit of the Department of Commerce SABIT program that sends Russians to intern in U.S. businesses found returned interns interviewed reporting favorably of the experience. Participants said it exposed them to U.S. business practices and promoted understanding between Americans and NIS citizens, but half (of a rather small sample) doubted they would be able to use their training.

Some charge that exchanges are chiefly benefitting the old guard elite -- who are more likely to speak English and to have access to U.S. officials. If volunteer and NGO programs located in the field are drawn upon for candidate nominations, the exchanges are more likely to represent grassroots needs. There is evidence to suggest this is beginning to happen.

Alternatively, many believe setting up management and accountancy training facilities in the FSU itself would affect more people and be more sustainable in the long-term. The Director of the volunteer MBA Enterprise Corps, for example, asserts that the "most useful" assistance would be education and training to create an understanding and prepare people for participation in the private sector, and most effective would be instruction of the entire staff of an enterprise, something that could only feasibly be done in the FSU.<sup>35</sup> AID has begun to support a series of training institutes located throughout the FSU.

### **WHAT IS THE APPROPRIATE ROLE OF U.S. CONSULTANTS AND CONTRACTORS?**

A corollary to the assertion that aid funds are not making it to the people of the FSU is the complaint that all the funds are going to U.S. consultants. As a *Wall Street Journal* article put it, "hordes of U.S. consultants...are gobbling up much of the U.S. aid pie."<sup>36</sup> Among other concerns, some have suggested that consultants get paid too much, there are too many of them, and contracting procedures are unfair and bureaucratic.

**Consultants.** In addition to other major components of U.S. assistance -- humanitarian aid, educational exchanges, infrastructure equipment, and loans to business -- technical assistance provided by U.S. consultants, whether high-priced financial market specialists or low-stipend Peace Corps volunteers, is an essential element. The purpose of U.S. consultants here, as in foreign aid programs worldwide, is to transfer knowledge and skills in short supply in the recipient country. In this case, it can be argued that Americans have no experience in the transition process from communism, but they do know substantially more than locals regarding the structure and function of free markets and democratic institutions.

There are, however, a number of legitimate concerns regarding the use of consultants. Russians are bothered that they have to rely on others for help -- but to some extent this is an unavoidable price of receiving aid. There is, nevertheless, a concern regarding a strategy of assistance that might ignore the

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<sup>35</sup> Jack Behrman, *Assisting Private Sector Transformation in Russia*, Business & the Contemporary World, 1994. Behrman specifically argues against training of single managers in the United States.

<sup>36</sup> "U.S. Aid to Russia is Quite a Windfall -- for U.S. Consultants," *Wall Street Journal*, February 24, 1994, p. 1. See also, "Faltering Western Aid Helps Bring Defeat for Russian Reformers", *Wall Street Journal*, Europe edition, December 15, 1993.

cultural norms of a recipient country or fail to utilize sufficiently the expertise and skills of local people, which in the case of the FSU is considerable. Such a program would not be likely to successfully adapt U.S. advice to the social and political environment of that country and would fail to be accepted. At times, the assistance program has been charged with exactly this deficiency.

The gap between announcement of the aid program and actual implementation in the field, the predominant use of U.S. contractors, and the delay in establishing grassroots programs noted above helped foster the sense that local people were not being used at all. Lack of familiarity with the recipients and difficulty in identifying appropriate local expertise likely inhibited their use in the early stages and may still be a factor. However, while for practical and political reasons most project experts are going to be drawn from the United States, local personnel are being used increasingly in support and other roles. For one thing, as U.S. contractors have set up offices and initiated their projects, they have generally hired local staff at all levels. Especially in the chaotic political and economic environment of the new states, successful contractors will lean heavily on local expertise.

One example of this is the large privatization project that has essentially joined forces with the State Property Committee (GKI), the government body it largely assists. The secret of its success to date, according to AID staff, is the high level of Russian involvement and commitment to the purposes of the project throughout. Actual privatization activities began at a grassroots level with various pilots -- first one in one region, then ten in ten regions. Once a model was perfected, the project expanded to the national level. In addition, while foreign experts were dominant in its early experimental stages, once it became a highly visible national program, it evolved much more into a Russian program, run largely by Russians trained for the tasks required.

Russians have also expressed displeasure at the "fly-in and fly-out" methods of many consultants.<sup>37</sup> In the first two years, the majority of technical assistance experts were in the FSU on a short-term basis of a few months or less.<sup>38</sup> This approach has been criticized because it implies a lack of knowledge of the local situation, but, some suggest, is also less effective because the FSU culture is a highly personalized one -- where ideas are more likely to be accepted

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<sup>37</sup> According to a Moscow-based U.S. official, Russians also complained regarding the number of assessment teams at the beginning of the Rule of Law project. They did not understand the visits and delays in project activities, leading to a perception that the United States was doing little except talk.

<sup>38</sup> Most egregious according to some American Peace Corps volunteers were the public relations activities on privatization -- one-day seminars provided by fly-in consultants with little or no advance preparation in different centers around the country.

on the basis of friendship than merit alone. Both AID and State say they are now aware of this problem and are emphasizing longer-term assignments.<sup>39</sup>

Another concern regarding use of U.S. consultants arose when it was suggested by the *Wall Street Journal* and others that they were paid extremely high salaries, funds that could have been spent "directly" on Russians. Except in the case of Peace Corps and the other volunteer programs, it is true that U.S. experts are paid substantially higher salaries than those of the recipient country. First, the discrepancy between recipient country economies and that of the United States is one of the reasons the aid program exists. Second, in the case of the FSU in particular, the United States is seeking to provide the most sophisticated expertise to facilitate a complex economic transformation. In some cases, U.S. financial market, accounting, etc. experts have accepted less than their usual salaries to gain experience in the Russian market.<sup>40</sup> Even so, U.S. aid salary levels were distorted in the press to include the overhead for their office operating expenses. There is a fixed U.S. Government-wide ceiling on salaries -- low by U.S. private sector standards -- that, according to AID, has only been breached for ten individuals, all in FY1993.

As a result of these criticisms of technical assistance, some have suggested that other types of assistance -- specifically some kind of cash transfer -- might be emphasized. Many in the Russian government would have preferred direct grants made to the foreign aid body they set up to coordinate the activities of the various donors -- the Office for International Cooperation and Development. It would then delegate funds to the programs it thought useful. Others recommend using assistance funds for central government budgetary support, to reward policy reform efforts. However, U.S. funding levels may not be high enough to make much of a dent on FSU debt or have much leverage over policy. The one exception is Ukraine to which the United States in November 1994 committed \$72 million to cover costs of gas imports from Russia. Some energy-related policy reform will be a condition of this aid.

Meanwhile, in Russia, requests for cash transfers have been replaced by requests for more support for trade and investment. In September 1994, the Administration responded by shifting \$100 million in resources from the NIS account to OPIC and related agencies. In a November letter to Secretary Christopher, Russian Ambassador Vorontsov specifically requested that trade and investment funding be emphasized in the Administration's FY1996 aid

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<sup>39</sup> Even the volunteer programs, IESC and farmer-to-farmer, by their short term nature, are subject to this criticism. The farmer-to-farmer program, for example, has been asked repeatedly by Russians to lengthen the term of service for its volunteers, now roughly three weeks. But this move has to be weighed against the numerous demands for experts in other locations and a possible diminishing value over time. Limiting short-term assignments means a loss of specialized expertise. One response, by the Treasury Department has been to assign long-term economic advisers who provide continuity for both the recipient government and short-term advisers brought in for specific tasks.

<sup>40</sup> Some critics see harm in this. It is, however, consistent with the U.S. strategy of "leveraging" assistance.

request. Although the long-term trend in the aid program will likely be for increased amounts for this sector while technical assistance begins to dwindle, Foreign Minister Kozyrev has told a delegation of U.S. Senators that Russia also needed U.S. technical assistance and wished it to continue.<sup>41</sup>

**Contractors.** Within the United States, many concerns have been raised regarding the contractors, i.e. the private for-profit firms or charitable private voluntary organizations (PVOs), which provide the consultant experts. These implement the vast majority of U.S. assistance projects worldwide. In the case of the FSU, there have been complaints regarding the absence of a competitive selection process, the amount of paperwork involved in applying for AID grants, a geographical imbalance in those selected, and an unfair preference for those with prior AID experience.<sup>42</sup>

Presumably due to its high profile and political import, thousands of public organizations, universities, and private firms have sought to participate in some fashion in the FSU program. In addition to formal project bidding, there have been numerous unsolicited proposals submitted to AID -- 983 to date, requesting up to \$4.7 billion in funding. Of this amount, roughly \$84 million has been granted. While there are legitimate grievances regarding the contracting process, it is difficult to discern them among the gripes that emanate from hundreds of unsuccessful bidders, many of whom lobby their representatives and the press.

Since undertaking AID work is a new experience for many successful as well as unsuccessful bidders, the onerous paperwork requirements of the AID proposal and contracting process are a shock.<sup>43</sup> Many agree that reform of this process has been long overdue, although a lot of the accountability requirements exist in order to protect the interests of the taxpayer and are not peculiar to the FSU aid program.

Under political pressure, steps were taken early in the FSU program to try to circumvent the traditional contracting process and speed up the program. For one, instead of tens of small projects being put up for bid, several large "umbrella" projects were established in major sectors. These were contracted to major firms who then sub-contracted pieces of the whole project to other firms. This imposed less burden on the sub-contractees and freed AID of much of the accounting and program responsibility and consequent personnel and paperwork

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<sup>41</sup> *Interfax*, September 6, 1994.

<sup>42</sup> For example, see the testimony of Linas J. Kojelis, President of the U.S.-Baltic Foundation before the Subcommittee on Foreign Operations, House Committee on Appropriations, April 25, 1994, in FY1995 Hearings, part 3, page 608-615

<sup>43</sup> In a dramatic gesture meant to illustrate the point, at hearings of the House Appropriations Foreign Operations Subcommittee on May 10, 1994, Chairman David Obey held up a foot high stack of paper saying that one contractor claimed that was what he had to respond to in applying for an AID contract. According to an AID official, the stack included an internal procedural handbook not related to contract requirements.

requirements that managing numerous small projects would entail. Second, using its FREEDOM Support Act waiver authority, AID let some contracts without going through standard bidding procedures.

A consequence of these novel contracting procedures were complaints that AID favored its usual roster of contractors, i.e. those with experience in developing countries, and that, therefore, most of the contracts went to firms in the Washington area. Members of Congress, in particular, have criticized the possible geographic imbalance in the program, in some cases, pointedly remedying the situation by recommending funding for Northwestern U.S. efforts in Siberia, and noting its concern on this issue in report language.<sup>44</sup> In selecting the primary contractor for its umbrella projects, it stands to reason that AID, under time pressures imposed by the State Department, would tend to go with known, experienced, quantities.<sup>45</sup> Further, AID would point out that the far more numerous sub-contractors represent a more diverse pool of organizations and geographic locations. A rough count of major AID beneficiaries as of August 1994 shows that Washington area firms and organizations represent 57% of total primary contractors and grantees, but only 24% of sub-contractors and grantees. Responding to congressional criticism, AID has increasingly sought to attract procurement from outside Washington, advertising opportunities in a wider range of publications, opening an office in California, and holding procurement conferences in different regions.

Some critics reserve a special disdain for the larger contractors because they appear to encapsulate their perception of the worst features of the assistance program -- lack of knowledge of the region, high expenses, and little to show for it in the field. To highlight these failures, these critics point out a disparity in performance between the large firms and the small U.S. NGOs conducting programs throughout the FSU. In the effort to spend money quickly, AID provided these large contractors with tens of millions of dollars -- technical assistance contracts amounted to \$714 million in FY1994.<sup>46</sup> The firms, critics say, had no experience of the region and ended up spending much time and money sending out teams to help them figure out what they should do with the funds. Several are still reportedly wondering how to spend the money. In contrast, the NGOs have been able to act quickly, disbursing funds rapidly, and working with local people. While there is an element of truth to each of these charges, there may also be elements of distortion. AID does not possess sufficient staff to monitor hundreds of small contracts; this is the job of large contractors. The large contractors may not be versed in FSU culture, but they are supposed to hire people who are to carry out the programs (this may not always occur). Finally, some contractors have moved slowly, partly because

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<sup>44</sup> Most recently, in Senate Report 103-287 accompanying H.R. 4426, the Foreign Operations, Export Financing, and Related Programs Appropriation bill, 1995, p. 72, reported June 16, 1994.

<sup>45</sup> On AID official has stated that, in general, only 25% of bidders had never worked with AID before.

<sup>46</sup> This was 34 percent of the NIS account. It should be noted that many of these funds are later sub-contracted to smaller firms and NGOs.

project objectives changed, FSU relationships have been slow to develop, and, poor management.<sup>47</sup>

## **HOW IS THE PROGRAM HELPING U.S. BUSINESS AND INVESTMENT AND TRADE?**

Consultants and contractors are not the only Americans who benefit financially from the FSU aid program. Through both Bush and Clinton Administrations, the executive branch and many members of Congress have argued that the U.S. private sector, not government, would ultimately provide the critical financial resources to transform the Russian economy and that one role of the aid program was to "mobilize the U.S. private sector" to this end. Given the limited amounts of foreign aid available, this was pure realism, but it has also been a way to draw political support for the program, inasmuch as U.S. companies are expected to benefit substantially from the increase in trade and investment in a more stable FSU.

As noted earlier, there are a number of ways in which U.S. agencies facilitate U.S. private sector trade and investment in the FSU -- TDA feasibility studies, OPIC risk insurance and investment guarantees, USDA CCC agricultural credit guarantees, P.L.480 concessional loans, Eximbank export guarantees, Commerce Department business information and service centers, and trade missions conducted by all of these. In addition, AID focuses considerable effort on getting the recipient countries to make their political and economic environment more hospitable to U.S. business. All these spigots received greater attention and emphasis during the visit of President Yeltsin in September 1994, when roughly \$1 billion in trade and investment understandings were signed, including \$100 million in greater assistance through OPIC, TDA, and Department of Commerce.

Of course, a major advantage of OPIC, USDA, and Eximbank guarantee programs is that their main cost to the United States is the subsidy amount needed to support repayment in case of default. Depending on the risk involved, a small subsidy can leverage large sums of loan coverage. Of the \$300 million subsidy provided to Eximbank in the FY1994 appropriations bill, the \$227 million utilized in FY1994 leveraged \$1.3 billion in loan guarantees.<sup>48</sup> Some argue, however, that the subsidy is too low and does not account for the high risk involved in lending to the region. A recent GAO report calculates a 67.6% risk that Russia will default on a loan and a 80.7% chance that Ukraine will

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<sup>47</sup> See forthcoming study of the Project on Reform of Aid to the NIS for further views on NGO successes.

<sup>48</sup> OPIC and Eximbank claims of funding activity represent face value coverage, not U.S. government expenditures. Further, OPIC insurance is entirely paid for by the business and brings a profit to the U.S. Government.

default.<sup>49</sup> Such concerns led the Eximbank to structure a possible \$2-billion oil and gas framework agreement so that loan collateral will be generated from current production proceeds.

In the first two years of the aid program, trade and investment activities moved slowly. On the Russian side, there was some reluctance to incur further debt, especially following a temporary default in November 1992 on repayment of CCC guaranteed loans that brought use of that program to a halt. Of roughly 165 applications referred by Eximbank for Russian approval in FY1992-93, Russia approved about ten. In addition, FSU governments, which remain the largest potential purchasers of U.S. goods and developers of projects that could utilize U.S. investment, were not yet in a position to launch major development projects that might use foreign investment. The uncertain business climate and lack of investment laws also had its effect on U.S. businessmen. And like AID, OPIC has been criticized by U.S. businessmen for being too slow in making decisions and offering difficult terms for credit. Although OPIC and Eximbank reported large numbers of "registrations" and "expressions of interest" in their programs by U.S. business early on, actual commitments and final approvals were few. These numbers have grown substantially in the past year. In FY1993, Eximbank guaranteed \$184 million in face value loans and OPIC \$135 million. In FY1994, they covered \$1.3 billion and \$700 million, respectively.

It is not possible to say whether the insurance and guarantee programs, intended to compensate for inherent risks, are having an impact on those who, otherwise, would not have invested in the region or that the investments supported to date -- mostly in extractive industries -- are helping to restructure FSU economies. However, their very establishment, requiring agreements with the FSU governments, is one factor in helping to create the "right" business environment. As noted above, Russian officials have called for increased U.S. support for these programs.

In addition to these programs, the U.S. Government has also used its political pull -- through summits, the Gore-Chernomyrdin process, and trade delegations led by high profile U.S. officials -- to encourage completion of business deals. In particular, the U.S.-Russian Joint Commission on Economic and Technological Cooperation co-chaired by Vice President Gore and Russian Prime Minister Chernomyrdin, initiated by the Vancouver summit in 1993, has been effective in reaching agreements in the fields of business, energy, space, technology, and defense conversion, that have in turn led to development of significant business transactions supported, in part, by U.S. trade and investment agencies.

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<sup>49</sup> GAO, *Credit Reform: U.S. Needs Better Method for Estimating Cost of Foreign Loans and Guarantees*, GAO/NSIAD/GGD-95-31, December 1994.

## IS ASSISTANCE BEING USED FOR CORRUPT PURPOSES?

Evidence that Russia and the other republics are suffering from widespread corruption and criminal activity coupled with suspicions regarding the susceptibility to corruption of all foreign aid has led to charges that U.S. assistance to the region is being used for corrupt purposes.<sup>50</sup>

To the extent that the FSU is riddled with corrupt officials and businessmen, the program may be marginally benefiting these individuals. For example, some believe members of the corrupt elite are benefitting from free trips to the United States provided by exchange opportunities or, if they occupy key policy positions, that their influence is increased by having a say over where U.S. technical assistance and exchanges are provided. To the extent that aid is truly targeted at reformers, these situations will be rare. Some would also add that the constructive purposes of the aid are more important than whether a few members of the corrupt elite benefit peripherally from it. A similar response might be provided those critics who charge that criminal elements have benefitted from the privatization program, first by forging vouchers that allow them to accumulate more than their legal share of newly privatized company stock, and second, by evidently thriving in an emerging free market economy.<sup>51</sup> It seems unlikely that the privatization program was specifically designed to facilitate criminal elements. Growing concern in the Administration and Congress regarding the impact of crime on success of democracy and free markets, however, has led to a \$30 million earmark in the FY1995 appropriations to help the FBI, Treasury, and Justice provide law enforcement technical assistance and training to their FSU counterparts.

For the most part, however, the U.S. aid program is not structured in a manner conducive to fraud or corruption by recipients in the FSU.—Technical assistance, the bulk of the aid program, is provided largely by American citizens. And much procurement funded out of the NIS account -- office equipment and energy and environment equipment -- is conveyed to Russian citizens under the presumably watchful eyes of U.S. PVOs and consultants.

Foreign assistance can most easily be used corruptly where there are large monetary sums or fungible goods made available. In this regard, the major opportunity to put U.S. activities to corrupt uses has been the food aid program. Two magazine articles in August 1993, though filled with errors and distortions, presented examples of how U.S. food aid shipments to Russia and the other new states encountered problems at ports as officials sought bribes and payoffs. They also described the suspect roles of three Russian organizations responsible

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<sup>50</sup> For example, see Seymour M. Hersh, *The Wild East*, in the *Atlantic Monthly*, June 1994, p. 61-86.

<sup>51</sup> Seymour Hersh says an unidentified government employee guessed that 30 to 50 percent of AID money for privatization "is spent in a way that ultimately benefits criminal interests." (p. 82).

for handling the donated commodities and shipping them to their end destinations.<sup>52</sup>

Following the shift from commercial agricultural exports to food aid shipments as a result of Russian default in payments on USDA guaranteed loans in late 1992, different laws and program terms took effect. Russian officials and others took advantage of the chaos and the opportunities for financial gain that the new importing arrangements offered, and in turn, some problems the articles allege likely did occur. In response to these charges, Secretary of Agriculture Espy, however, countered that food aid: (1) served the objective of delivering adequate volumes of food to those who needed it, requiring that USDA deal with former state monopolies in Russia that were the only organizations capable of doing so, and (2) constituted part of the comprehensive U.S. assistance package - important to avert potentially destabilizing food shortages in the short term and to ensure the survival of President Yeltsin's reform-minded government.<sup>53</sup>

The use of local currency funds generated by the sale of U.S. agricultural commodities donated under section 416 presented another opportunity for corruption. Here, food aid is monetized and provided to the Russian Humanitarian Commission which is required to allocate it for rural development projects. Some knowledgeable Americans report that the first round of grant distributions decided by the Commission's Tender Committee provided funds directly benefitting members of the committee itself and for other questionable uses. Later, the Committee refused to provide assistance to selected beneficiaries unless they maintained funds in a bank selected by the Committee. It was inferred that members of the Committee were receiving benefits from the particular bank. Although USDA has a representative on the Committee, some believe it was more interested in getting food commodities into Russia than in what happens to the monetized aid later.<sup>54</sup> Reportedly, the State Department has since raised the issue with USDA. As a result, local currency is now distributed through new rural commissions, based on a successful model employed in Poland. Both a USDA and U.S. NGO representative participate, and loans are repaid to local communities which have a vested interest in insuring accountability.

While food aid is dwindling, ruble and dollar allocations of assistance are increasingly likely to be made available directly to Russians through the growing number of enterprise funds and grassroots grant programs intended to help the private sector and encourage democratic institutions. Up to \$25,000 in grant funding can be provided without requiring a U.S. government audit -- something most small FSU organizations are not equipped to accommodate. Many Eurasia

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<sup>52</sup> "The old guard feeds at the aid trough", *U.S. News and World Report*, August 23, 1993, p. 38-42. "Food mischief", *Forbes*, August 16, 1993, p. 40-41.

<sup>53</sup> USDA's response also offered a detailed rebuttal of the examples and incidents these articles mentioned. In *Congressional Record*, September 23, 1993, p. E2240-2242.

<sup>54</sup> For one version of this story, see "U.S. Aid to Russia Farmers Fails to Make It to the Silo", *Los Angeles Times*, Washington Edition, January 31, 1994, p.A1.

Foundation grants are, therefore, limited to this amount. Funds so allocated may not be used as promised, but the issue here is not so much corruption as it will be careless programming of the funds to begin with. One early AID project that provided grants to FSU environmental NGOs dealt with fears of corrupt use of these funds by providing initial grants of roughly one to two thousand dollars, offering more if these sums were well used. Unfortunately, this is a highly labor intensive administrative process, not practicable on a large scale.<sup>55</sup> Managers of enterprise funds have indicated that efforts would be made to insure that funds are not lent to criminally-owned businesses, but identifying such business may be problematic.

Ultimately, the best defense against corrupt uses of assistance (as well as bad project design and ineffective projects), is the presence of AID and other implementing agency accountants and program managers in the recipient countries. Identifying who can best utilize the aid and monitoring its use are two of the main purposes of AID mission personnel. However, the large number of other agencies now responsible for components of the assistance program may not be accustomed to implementing projects abroad in a manner that will ensure adequate accountability. Catching malfeasance after the fact would be facilitated by more regular auditing by agency inspector general offices. As of September 1994, the AID Inspector General has completed ten audits of projects representing roughly \$117.8 million in obligations. No criminal misuse of funds was found, but audits of large projects still need to be done.

### **IS U.S. ASSISTANCE BEING USED EFFECTIVELY?**

Ultimately, the success of U.S. assistance programs will be measured by the outcome of political and economic events in the FSU, and this is dependent on a great many more factors than the inputs of U.S. assistance.<sup>56</sup> Some analysts view the current flow of events in the region favorably, others are not so sanguine. It is just too early to tell.

For the moment, without knowing ultimate outcomes, many policymakers are wisely seeking to insure that the U.S. aid program is being run in the most effective manner possible and the impact of U.S. assistance maximized to the extent possible. The U.S. aid program has been in existence for less than three years and actual implementation on the ground is, for most projects, much less than two years old. While it hardly seems fair to make judgments at such an early stage, patterns and problems have emerged in this time that may need

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<sup>55</sup> ISAR Mid-term Evaluation, July 22, 1994, by Mary Heslin and Edward Hodgman.

<sup>56</sup> Political events may have a very direct affect on the U.S. aid program as indicated by the January 5, 1995, ban on foreign advisers by the new head of the privatization agency (GKI). U.S. assistance to GKI has been a centerpiece of the U.S. aid program. Although overruled by Anatoly Chubais, the first deputy premier and former head of GKI, the outcome was not known as this report went to press. "Emboldened Russian Hard-Liner Threatens Privatization Drive", *Washington Post*, January 10, 1995, A14.

correction if the program as a whole is to be more effective in achieving U.S. aims.

Views abound regarding possible flaws in the aid policy process, program priorities, and project design and implementation. Many of these are subject to skepticism; they generally fail to note constraints faced by the program, they overlook its rapidly changing nature, and they are rarely argued with specific examples. Although agreement on the ultimate objective -- free markets and democracy -- is universal, everyone seems to have a different idea of how to use assistance to get there.<sup>57</sup> But certain underlying and inter-related problematic issues -- concerning focus, implementation, and risk -- have troubled enough people that some steps have been announced to address them, much to the credit of those who have raised them and those in government who are moving to correct them.

**Strategic Focus.** Many of the criticisms of the aid program, most notably those made by House leaders Gephardt and Michel in their April 1994 memo, congregate around the issue of focus. There has been a general sense that no one has a firm hand on the tiller. This relates strongly to the issues of coordination and slow implementation discussed above, but ultimately leads one to ask what is being coordinated and implemented -- in what direction is the program going?

As the spending figures show, the United States is doing a little of everything, diluting the effect of executive branch strategy statements. During 1992, the Bush Administration initiated a range of projects, and Congress has since encouraged this trend with multiple program and project allocation earmarks and recommendations. State and AID officials argue that, without these allocations, they might provide aid differently, on a more "rational" basis, foregoing sectors that, in their view, are less critical and providing greater funding to countries and sector ministries that are more reformist.<sup>58</sup>

While the executive branch may argue that congressional politics has skewed "rational" prioritizing, others argue that the FSU aid program -- profoundly foreign policy-driven -- has been "politicized" by the State Department. They say a number of programs -- SABIT and Peace Corps, for example -- were started up to fulfill a political need for visibility, for programs that sounded good or met desires of different parts of the U.S. Government to

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<sup>57</sup> Among more interesting or well-argued viewpoints during the past year: Charlie Flickner, "The Russian Aid Mess", *The National Interest*, Winter 1994/95; Laurence Eubank, "Soul of an Old Regime", *WorldView*, Spring 1994; Kristin Brady and Michelle Maynard, *Assistance to the Newly Independent States: A Status Report*, Staff Report to Committee on Foreign Relations, U.S. Senate, February 1994; Ariel Cohen, *Restructuring Aid to Russia: Revising H.R. 4426*, Heritage Foundation Bulletin, July 14, 1994; and Fund for Democracy and Development, *A New Strategy for United States Assistance to Russia and the Newly Independent States*, January 10, 1994.

<sup>58</sup> In order to maintain its flexibility and not give the new states and supporting interest groups the idea of aid entitlements, State avoided providing specific country budget figures in the first years.

be involved without due consideration of a strategy of assistance or meeting specific development goals. One of the few projects that most agree has been an utter failure -- an effort to provide temporary grain storage silos to Russia -- was reportedly begun at the insistence of Secretary of State Baker in the interest of offering a demonstration of U.S. support.<sup>59</sup>

Dispersing aid among numerous agencies and the rise of alternative power centers has potential drawbacks; each has its own "policies" to promote. It appears to be an accepted fact among many U.S. observers in Russia that all USDA-run programs are designed primarily to facilitate agricultural exports, and that development aspects of their projects are secondary. The Gore-Chernomyrdin process skews the aid program toward promotion of environmental programs.

In the first two years of the program, the "little of everything" approach was exacerbated by political pressure from both State and Congress to get activities quickly on the ground. It was further aggravated by an environment where all decisions were made in Washington and where information was still scanty on who supported reform, who was corrupt, and who was worth helping in local government. The first years were characterized by an effort to push out all kinds of assistance at once, without a coherent strategy to guide the timing - training bankers when there is no banking system, sending Peace Corps business advisors to assist new entrepreneurs when no credit programs were yet available. This is what U.S. media, business, and congressional observers reported that helped create a negative impression in the United States of the initial aid program.<sup>60</sup>

Further lost in the play between different interests, some suggest, has been the presumed target of this foreign policy, the citizens of the FSU. The periodic U.S.-led pronouncements promising G-7 aid and then not appearing to deliver, the stream of technical assessment team visits to FSU government and private sector officials that appeared to lead nowhere, the apparent failure to cut

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<sup>59</sup> In early 1992, when many were concerned regarding possible famine due to the incapacity of the food production and distribution system, the United States offered the region grain storage silos (despite opposition from AID). Many observers believed the program was inappropriate because the planned facilities were temporary; required a large investment (a \$3,000 contribution) on the part of the private farmers for whom they were intended; that, for a similar investment, a permanent structure could have been designed; and that, at 2,000 metric tons capacity, they were too large for the small farmers for whom they were supposedly intended. Eighty facilities were to be built by December 1992, but, as of March 1994, only one was fully installed, the others in varying stages of completion. A decision to terminate the project was made in June 1994.

<sup>60</sup> To some, the State Department appeared opposed to a strategic approach. AID interviewees asserted that they were forbidden to use the word strategic on this program, and that State had rejected AID proposals for strategic country planning. One outside evaluation of the range of AID democracy projects, based on interviews with more than a dozen AID officials (Management Systems International. *Supporting Democracy*. April 20, 1994, p.16.), states, "The initial grants were described as having been 'written on the back of an envelope' at a time when the Agency was specifically enjoined from conducting assessments or developing a strategy." According to an AID official, it was AID that initiated the FSU strategy development process.

through U.S. cultural and political ignorance regarding the region by hiring sufficient numbers of FSU specialists and requiring more grassroots programming despite the administrative obstacles, may all have contributed to the reportedly disillusioned FSU public. If the conduct of the assistance program is leading to the alienation of its targets, one U.S. foreign policy objective is well on its way to being lost.<sup>61</sup>

It must be said that none of the negatives described above have ever been true across the board. Despite problems and obstacles, there have always existed good projects welcomed by Russian officials as well as ones appreciated by local people. And, by 1994, there were a number of positive signs for program implementation generally. Knowledge of field conditions had certainly improved. A track record of existing projects had begun to take shape. A Coordinator's Office representative had been placed in Moscow. Program weaknesses, some of which were pointed out by congressional leaders of both parties, were being addressed in both regional and more focused individually tailored country strategies. As a result, if sectoral priorities were not as explicit as some would like, a number of guiding strategic principles of the program seem to have become more sharply defined. The four most prominent are approaches that support targeting of reformers, complementarity, linkages, and leveraging of resources.

Targeting reformers is a strategy perpetuated from the first executive branch statement in January 1993. It has always been U.S. policy to favor reforming republics, as the levels of aid for Russia and most recent increases for Ukraine demonstrate. Beyond this, at the local level, was the idea of bundling projects to create what Secretary Eagleburger called "symbols of success", under the principle of, as Ambassador Simons put it, "aid following reform". To support this concept, officials in Simons' office proposed concentrating all resources in select reformist regions of Russia, to achieve maximum success. Congressmen Gephardt and Michel called for a concentration on five regions. Current policy is to focus efforts on 13 cities in 5 reformist regions.

Related to the targeting of reformist efforts, is the bringing together of diverse programs run by the different agencies in a way that would complement each other, creating "synergy". For example, AID and USIA are working together on a joint media project, with AID doing the financial management technical assistance and training and USIA handling journalist training.

A recurrent theme in program rhetoric is to create linkages between people in the United States and the FSU. It links the desire for grassroots impact with those who support U.S. private sector solutions. The argument made is that FSU nationals are at a level of development and education to benefit most from people-to-people experiences. Farmer-to-farmer, hospital partnerships, business internships, etc. also create long term relationships that might benefit both parties beyond the immediate U.S.-supported assistance activity.

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<sup>61</sup> See "Overrun by Ugly Americans", by Yelena Khanga, for one view. *New York Times*, August 20, 1994.

Related to the creation of linkages is the idea of leveraging private sector assistance that runs throughout much of the assistance program and is likely to grow as trade and investment programs develop. It recognizes that the United States has insufficient funds to maintain the program indefinitely, and that the Russians and Ukrainians, in particular, are seeking private investment and trade opportunities. The agribusiness projects, enterprise funds, OPIC, TDA, Eximbank, and other activities are seeking to stimulate U.S. private sector commercial programs.

These approaches form a coherent strategy that, arguably, would make the assistance program more effective. However, it is not yet clear whether the Administration strategy is being enforced at the project level in a coherent, consistent, and forceful manner.

**Management and Evaluation.** Actual implementation of whatever programs and strategies are approved could be made more effective through improved management and evaluation capacities.

One problem -- contributing to ignorance of the recipient country and inadequate coordination -- has been the lack of a field presence. In its early stages, projects were developed and run entirely by Washington-based management. AID and other agencies formulated projects based largely on reports from visiting teams. This approach, argued the State Department, was necessary for rapid creation of programs.

The AID mission presence in Moscow only began in September 1992 and a workable, although arguably still inadequate, staff presence of 23 direct hires cannot be said to have been established until early in FY1994. These manage an AID program with obligations ranging from \$270 million in FY1993 to \$843 million in FY1994. By comparison, the FY1991 Kenya program of \$35.5 million was managed by 23 direct hires.<sup>62</sup>

As AID staff resources have grown, the Clinton Administration has shifted some project development responsibilities and most project monitoring to the field. U.S. embassy restrictions on the number of AID staff permitted in Moscow -- partly due to the need for reciprocity with the size of Russian embassy staff in Washington -- have hampered AID in this respect. There was, reportedly, a year-long hold on new Moscow posts in 1992-93 because State needed to approve them, and State rejected some AID posts in Ukraine. Even for the smaller posts in the NIS the approval process had been time-consuming. Several positions requested in the spring of 1994 had not been approved by September.

Most other agencies have little or no monitoring presence in Moscow. In 1993, USDA had three Americans and two nationals in Moscow to monitor and implement a program in eleven countries. Other agencies now responsible for components of the assistance program have been vying for posts in Moscow. It

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<sup>62</sup> This comparison is a bit rough as mission management is supported as well by non-national personal service contractors. In FY1994, the Moscow mission had 39 of these. Kenya had 15.

has been argued that Eximbank in particular should have a presence, but instead it relies on the Department of Commerce to represent its interests.

One important role for monitoring agencies is to learn from the inevitable mistakes and feed this knowledge back into the system. This is particularly important in a tumultuous and shifting political environment where recipient agencies -- both the U.S. contractors and FSU organizations and political bodies -- are relatively unknown quantities. The evaluation process is an important indicator of efforts to learn and correct mistakes. When the FSU program began it suffered from a dearth of evaluations of Eastern Europe programs from which to learn, but evaluations of on-going FSU projects seem to be occurring earlier in their term. As of September, 17 formal outside project evaluations had been completed by AID, representing, however, only \$30 million in 1992 projects. None of the very large programs, such as the privatization program, have been evaluated yet, although these are scheduled for 1995.

The first round of inter-agency agreements neglected to include a budget line for evaluations of project progress. This, reportedly, has been corrected. Further, the Coordinator's Office now requires that agencies receiving transfers have an evaluation plan, a budget, and a description of the project with milestones, goals, program for meeting goals and regular reviews. The Office also sends out its own people to conduct periodic in-house assessments.

Ultimately, the extent to which evaluations and audits are utilized is a more important issue. A negative audit of the crop storage program led to termination of that program in June 1994. However, severe criticisms of that project had been in circulation for more than a year prior to project termination. On the other hand, a viable response to the question of misuse of local currencies by the Russian Humanitarian Commission was formulated by State Department in the form of the rural commissions. Whether the aid coordinator office is willing to take strong action to identify, correct, or terminate questionable programs or activities does remain an issue and crucial test of the usefulness of the position.

**Risk and Accountability.** From the start, the assistance program has suffered from a tension between the desire for risk and accountability. From the outset, the Bush Administration explained the FSU program as an experiment - they were functioning in unknown territory, under pressure to act quickly, and with no assurance of success at the end of the day. Although Russia is increasingly stabilized as a political and economic entity, reports of corruption and crime and the sudden plunge of the ruble are reminders of the unpredictability of the situation there. All the other republics remain economically and politically fragile. Both Bush and Clinton Administrations have had to face the issue of how much risk they are willing to take with U.S. taxpayer dollars in order to achieve U.S. foreign policy ends.

In the FREEDOM Support Act, Congress allowed the executive branch an unusual amount of flexibility, tempered by the need to inform and gain approval for appropriations. It approved a "notwithstanding" clause that would allow the

President to ignore other legislative restraints.<sup>63</sup> As the program was implemented, Members of Congress and other observers encouraged the executive branch to act boldly. On the other hand, Congress limited flexibility by earmarking funds for specific sectors, pressuring the Administration to fund specific countries, and put holds on proposed programs until they were explained in detail and accountability concerns laid to rest.

These conflicting messages translated into an assistance program in which, some believe, the United States has been too cautious in its approach and that aid programming has not been creative enough to meet the challenges posed by the transition. They assert that aid programs, including enterprise funds supposedly designed to make risky investments, may be overly encumbered by accountability requirements. The notwithstanding language is rarely applied. Both Administrations have turned a deaf ear to radical suggestions for such things as social safety nets to direct funding of Russian organizations and been accused of being overly conservative and unimaginative as a result.

These charges must be weighed against the need for accountability. Many believe the entire aid program would be undermined if reports of corruption, waste, and bad programming became common. That is why a monitoring agency presence and forceful action on the part of the aid coordinator to correct or terminate questionable programs are necessary.

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<sup>63</sup> According to the State Department, "notwithstanding" authority was used sparingly to disregard certain bureaucratic procedures and accountability requirements. In effect, its use has allowed non-competitive selection of some contractors, permits the enterprise funds to adopt a more private sector orientation, and allows hiring of "personal service" contractors in Washington to beef up scarce career staff capabilities.

## CONCLUSION: THE ROLE OF CONGRESS

One of the most striking aspects of the FSU aid program has been its broad bipartisan support in Congress. Each year, the program has been approved by wide margins and, during the first two years, the chief criticism made by congressional opponents in both parties was that the dollars requested were better spent helping Americans.

In 1994, however, critical attention increasingly shifted to implementation of the program itself, with both praise and condemnation delivered on a bipartisan basis. Following a House delegation visit to the FSU in April, House leaders Gephardt and Michel, reportedly with the close participation of then Minority Whip, Newt Gingrich, wrote a well-publicized memo, laying out their critical concerns regarding the leadership of the program and project priorities.<sup>64</sup> In May, an amendment to the foreign aid appropriations bill was offered by Representative Callahan that would cut funds for Russia, partly on the grounds that the assistance program had had no impact yet on democratization and free markets. The House rejected the amendment in a 286-144 vote. In September, a bipartisan Senate delegation, led by the chairman of the Appropriations Foreign Operations Subcommittee, Senator Leahy, visited the region. Their trip report contains an extremely positive assessment of the assistance program and its own set of project preferences.<sup>65</sup> By the end of the year, there were suggestions that the assistance issue was becoming more partisan.<sup>66</sup> Surely, the program will be closely scrutinized in 1995.

The FSU aid program is intended to support what many in Congress and elsewhere continue to believe is the most important purpose of U.S. foreign policy -- assisting a peaceful transition in the FSU to stable, free market democracies. As the program has developed over time, it was always likely to attract more criticism from U.S. interest groups, consultants, business people, and analysts. Weeding out the important criticisms from irrelevant or self-

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<sup>64</sup> Specifically, the Members of Congress criticized the slow delivery of assistance and the lack of strong coordination leadership, suggested targeting specific reformist regions for assistance, recommended that the Russia Enterprise Fund target small investments, and proposed greater emphasis on exchanges (50,000 visitors in FY1995) and assistance in tax policy reform and law enforcement. According to the memo: "America's current assistance program is simply inadequate in its strategy, its intensity, and its implementation."

<sup>65</sup> With Senators Thad Cochran, J. James Exon, and Hank Brown. Specifically, they praised the privatization, agricultural exchange, farm privatization, OPIC, Peace Corps, and Eurasia Foundation programs; recommended law enforcement programs and efforts to construct the legal framework for private sector activities; and expressed caution regarding the New Business Development program. According to the Codel report: "Although it took time, the U.S. assistance program for Russia is now in full operation. Russian government and non-government representatives with whom the delegation met were virtually unanimous in praising the contributions of the program, and many requested increases in technical assistance for elements of the reform program." *Congressional Record*, December 1, 1994, S15450-15453.

<sup>66</sup> "Russian Aid Under Siege by G.O.P.", *New York Times*, November 25, 1994, p. 25.

serving ones is of congressional concern because unfounded criticism undermines support for the program while legitimate critiques can be used to strengthen it.

Because its interest has been strong from inception -- the Senate Foreign Relations Committee called the FREEDOM Support Act "a joint executive-legislative commitment" -- many believe Congress itself must take some of the responsibility for what happens to this program.<sup>67</sup> Some suggest that it has been sending mixed messages regarding the direction the program should take. Congress provides unusual flexibility with its notwithstanding clause and other language, yet adds program earmarks and report language recommendations; it asks that funds go only to reformers, and then recommends funds for non-reformers. Individual Members have criticized the program in every way this report has mentioned: not enough risks are taken; too much waste; too much paperwork for contractors; too many contractors; the program should be run with flexibility; AID should provide more detail on programs, and so forth.

The disparity of congressional views on implementation of the aid program is not unusual, except in terms of the relative unanimity of views that existed in establishment of the program. There are clear signs that the congressional consensus has begun to fall apart. How to maintain consensus and work to strengthen the effectiveness of the program is a concern to many in Congress.

Some would suggest that Congress might both evaluate the criticism and improve congressional guidance of the program if it exercised more extensive oversight. In 1992, as an aid policy for the region was being formulated and debated, Congress held dozens of hearings, culminating in passage of several important pieces of legislation, most notably the FREEDOM Support Act. In the past two years, the number of hearings on the subject have dwindled to a handful. It continues to be the most important foreign policy interest and therefore the details are a legitimate concern of Congress.<sup>68</sup>

The FSU aid program has been evolving at a rapid rate. Many criticisms that were legitimate a year ago, no longer hold true for the current program. Nevertheless, there remain issues that Congress will likely wish to track carefully, including **the extent to which:**

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<sup>67</sup> Senate Foreign Relations Committee, Report on S. 2532, Senate Report 102-292, June 2, 1992, p. 2. For complete discussion on congressional role in the Freedom Support Act, see CRS Report 93-907F, *The Former Soviet Union and U.S. Foreign Assistance in 1992: The Role of Congress*, by Curt Tarnoff, October 12, 1993.

<sup>68</sup> The Marshall Plan, often held up by analysts and others as a model for foreign assistance and for the FSU program in particular, might also offer an idea for congressional oversight. As the Plan was formulated, it was subject to among the most extensive hearings and study in congressional history. Recognizing its importance, Congress wrote into the authorizing legislation the establishment of a non-legislative joint committee of Congress to conduct oversight studies of the Marshall Plan program. Known as the Watchdog Committee, it helped provide Congress with a continuing series of informative reports on all aspects of program implementation, supplementing the ongoing oversight activities of authorization and appropriations committees on the subject.

- programs reach the grassroots,
- corrupt uses of aid are avoided,
- privatization advances with U.S. assistance,
- agencies and disparate programs work together,
- programs produce visible results,
- projects are regularly evaluated,
- bad programs are terminated,
- reformers are targeted, and
- private sector funds leveraged.

The Administration has assured Congress that these steps are being taken. Congress may now seek to insure these promises are kept.