

STATEMENT OF  
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ADMINISTRATOR  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
BEFORE THE SENATE APPROPRIATIONS  
SUBCOMMITTEE ON FOREIGN OPERATIONS

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Thank you, Mr. Chairman, for this opportunity to bring the Subcommittee up to date on our program in the Newly Independent States of the former Soviet Union. This program is measurably helping the people of the NIS build democratic societies and market economies. Allow me to cite some early achievements we share with our partners in the NIS:

**To promote private ownership and economic reform**, American experts are providing technical assistance to the Russian State Privatization Committee. One hundred and fifty million vouchers have been issued, entitling Russians to bid for shares in newly privatized firms. One hundred and ten million Russians have used their vouchers, half to purchase shares in privatized state enterprises, half to invest in voucher mutual funds. A total of 125,000 small businesses have now been privatized, representing fully 70% of the private enterprises in Russia, and the process is continuing at a rate of 3% per month.

**To address problems with energy and the environment**, we have supported a program to improve the efficiency of district heating plants, reaching over two million people in seven demonstration cities. Similar programs to help other cities make their municipal energy systems more rational are planned.

**To facilitate better delivery of health care**, USAID is orchestrating the Medical Partnerships Program which has enabled 21 hospitals and medical facilities in the United States to develop working relationships with counterpart institutions in the NIS. Mrs. Clinton, together with Mrs. Yeltsin, recently visited the Moscow birthing center at Municipal Hospital No. 70, a facility linked with the Magee Women's Hospital in Pittsburgh. It soon will become a demonstration center whose methods can be replicated elsewhere in the NIS.

**To help provide safe drinking water**, USAID has supported the design of a potable water system which will reduce the incidence of diseases whose economic and social costs are disproportionately borne by women and children in the Aral Sea basin. This will benefit a million people in Uzbekistan, Kazakhstan, and Turkmenistan.

**To help the Russian people build the institutions of a civic society**, USAID has provided grants to over 300 indigenous non-governmental organizations and provided technical assistance to encourage formation of additional NGOs. Four years ago, such organizations were all but unknown. Today there are at least 12,000 of them in the NIS. As in our own country, NGOs provide avenues for ordinary citizens to express their concerns, petition government, and serve to check government excesses and inaction.

This is just a snapshot of some of our activities. We also are helping the people of the NIS build up independent news services, reform their business laws, acquire practical skills in managing municipalities, invigorate the banking system, launch modern, private farms, and much more. In all our

work, we are developing the partnerships we need for success on the ground and in managing a large, complex program. The sheer volume of project work and the velocity of this program has increased exponentially in the past year.

Mr. Chairman, these projects share a single goal: helping the people of the NIS make political, economic, and social reform a reality, and in so doing, helping to ensure that the peaceful transformation of the former Soviet Union is irreversible.

The Freedom Support Act mandated a program that would provide technical assistance

"on a long-term, on-site basis and shall emphasize the provision of practical management and other problem solving advice."

It identified specific needs, such as assistance for urgent humanitarian needs; democracy; free market systems; trade and investment; food distribution and production; and health and human services.

Our program hews closely to these strategic objectives. This prescription plays exactly to our strengths as a nation and USAID's abilities as an agency. Moreover, the most valuable thing we can bring to the transition in these countries is our ability to find and deliver technical expertise and sheer know-how.

The human talent and natural resources needed for economic growth are already present throughout the NIS, but a new learning process also needs to occur. We cannot afford to provide the financing for economic restructuring or extensive social safety nets. But we can provide technical assistance in critical fields, and we are doing it in working partnership with Russians, Ukrainians, Kazakhs, and the other peoples of this region.

The achievements I have noted are a good first step. They have demonstrated the seriousness of our intentions and our ability to achieve results to the American people, and most especially, to the people of the NIS. The achievement of the mandate in the Freedom Support Act demands a coherent and cohesive strategy that will reinforce the process of reform and can weather the turns and reversals that inevitably occur.

We have such a strategy. It embodies the principles of our Strategies for Sustainable Development, which will govern our work throughout the world and which will be published in document form this week. Our strategy aims precisely at the objectives designated in the Freedom Support Act. It will promote development that is sustainable -- that is, achievements that permanently enhance the capacities of the nations we assist, that will not crumble when donors direct their resources elsewhere. Most important of all, our strategy recognizes that our primary task in the NIS is to assist the NIS in redirecting its resources to open and participatory political and economic systems. Our mandate is not a protracted program of economic support, but one that is strategically targeted to support a critical period of economic and political transition and then phase out.

Our strategy reflects the realities of change in the NIS today. Transition in the NIS entails the wholesale transformation of society -- its institutions, its laws, its practices, its attitudes, its assumptions, and its expectations. While the Soviet empire indeed collapsed, there is no "vacuum" just waiting to be filled with new institutions and new skills. On the contrary, there is an entrenched political, social, and economic culture characterized by fear, apathy, and the overwhelming presence of the state. In my earlier work with the National Democratic Institute, I learned that overcoming fear and the inertia born of apathy and habit must be the first objective of any development effort in former communist countries.

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As Ambassador Talbott stated earlier, Russia must occupy the central place in our thinking about the NIS. The transformation of Russia is really three transitions in one.

The first transformation that Russia is experiencing is the transition from authoritarianism to democracy. The second transformation is the transition from a command economy to a market economy. Russia's third transformation is from an empire into a nation-state. A development strategy for the NIS that addresses these transitions must entail more than building new institutions and practices. It must also help the people of the NIS change the practices of the past in fundamental ways.

These are the two faces of development in the NIS: Acquiring the new, and stepping away from the old. This approach reflects the precise realities we confront today. Historically, reform in Russia came from the top down. By helping the Russian people build new institutions themselves, beginning locally, we help them acquire a personal stake in the reform process. Moreover, we help them convince themselves that this era of reform, unlike those in the past, need not collapse into chaos or renewed repression.

We are not doing **for** the people of the NIS; we are helping them **do for themselves**. Participatory development is both the point and the mechanism of our strategy. Joining a local interest group, becoming part owner of a business, working with other citizens who are as daunted and hopeful about the task of building a new society -- all these things are necessary steps to empowerment, and to permanent change. In a society where citizens existed only to serve the state, participation allows people to see first-hand how democracies are accountable to the people. In a society that knew only fear, where people lived in the thrall of unelected powers, participation brings to life the concept of a society of law. By helping the people of the NIS walk this path, we speed the process of reform and help make it irreversible.

Our strategy for the NIS takes these realities into account. Because of the size and scope of the challenge, we are designing and supporting programs that make the maximum impact, both on the immediate beneficiaries and throughout the NIS. The NIS is no place for isolated, "stovepipe development." Projects must touch every realm: the political, and the economic, and the social. To achieve this, USAID is supporting programs that have certain characteristics:

In identifying problems and seeking solutions, they consult with, involve, respond to, and are accountable to ordinary citizens and local communities.

They provide models and lessons that can be replicated readily.

They teach skills and help participants teach others.

They resonate systemically. Our parliamentary programs and programs to train people in the skills of municipal governance are examples.

They build civic attitudes, by mandating ownership, encouraging participation at all stages, and by building and reinforcing local NGOs -- institutions of free discourse and inclusive decision-making.

They facilitate connections with counterparts -- people, institutions, NGOs -- in the West.

They rely increasingly upon shared experiences among citizens of other former communist nations.

They utilize existing economic strengths and extant technical skills. Our energy and

environment programs are prime examples of this.

They help build markets and real-world attitudes toward capitalism.

They show regard for the very needy -- those most affected by change and least able to cope.

They are conducted in close coordination, as the Freedom Support Act specifies, with similar activities of friendly and allied donor countries and international financial institutions.

In so doing, our program is helping decrease the feeling of isolation and inertia, encouraging a sense of progress, helping to build institutions and attitudes of empowerment that are a direct antidote to communism, and helping to lay a foundation for broader, equitable growth.

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Much has been made of the economic hardship that Russians have experienced during the transition. There is no doubt that serious pain and temporary dislocation result from meaningful reform. Our humanitarian programs attempt to deal with some of this pain. We have shipped \$1.5 billion worth of food and medicine to the NIS region and we are prepared to do more. But our hope is that our technical assistance programs will help increase the food and medicine supply by giving the people of these countries the skill and knowledge to produce and distribute -- even to make a profit in doing so.

No small portion of the present economic difficulties can be traced to the longer legacy of communism. Yet this is no simple matter, since it is Russia's current safety net -- notably subsidies to agriculture and industry -- that is a driving force of the current economic pain.

Inflation is the most regressive form of taxation, and its motive force is not change but the absence of change. It is made worse not by dreams about the future, but by a fixation on the past. Inflation is not exacerbated by those who would turn productive assets over to the people, but by those who want to keep them in the hands of the state. Inflation is not driven by those who realize the country must begin to spend within its means, but by those who would continue to pump credits into floundering state enterprises.

The pattern of reform in transitions that have occurred in this region, including Central and Eastern Europe, is one of surge and retrenchment. In the surge phase the reformers achieve great momentum and many progressive changes are put in place. When these changes inevitably exact some degree of pain, a reaction sets in and those advocating a slower pace gain influence. As a donor nation seeking to support reform, we must recognize that this cycle is inevitable.

In implementing a strategy for the transformation of the NIS, we cannot be insensitive to the social costs of change and its political implications. The best strategic approach is to provide technical advice to help the Russian government target those areas that are most in need of economic restructuring and whose restructuring will have the greatest economic impact. That is precisely what we are doing. Our bilateral programs are essentially on track, but we can also refine specific programs of technical assistance to target limited resources on those feeling the burden most acutely. Massive subsidies that extend across the full economy -- energy, for example -- will go much farther alleviating pain if they are focused on those most in need.

But creating programs to deal with the social impact of the transition requires deeper pockets than ours, cooperation with other partners in development, and ultimately the evolution of government programs in Russia itself. Thus, we will work with reformers to unleash the potential of the Russian economy. We also will work with the International Monetary Fund and the multilateral development banks to bring their far larger resources to bear as rapidly as the pace of Russian reform allows. But

continued dedication to reform is essential to triggering this additional support.

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In Russia, our programs have evolved from three objectives:

Fostering the emergence of a competitive, market-oriented economy in which the majority of resources are privately owned and managed.

Supporting democratic political systems and the democratic institutions needed for representative and accountable governance.

Strengthening Russia's capacity to manage the human dimension of political and economic transition.

**A viable market economy** in Russia requires ending extensive state controls, breaking up monopolies, increasing competition and making institutions responsive to market incentives. In the end, it will mean that the market replaces administrative decrees in driving the allocation and investment of resources.

To date, our program has centered on supporting a national shift in ownership of productive resources from state to private hands. U.S. technical advisors have worked side-by-side with Russians in every phase of the privatization program, in 77 of Russia's 89 regions. We have helped Russia issue vouchers, educate the public on how to use them and set up systems to allow people to buy shares in enterprises anywhere in the country. From a base of zero less than two years ago, 40 percent of the labor force now works for private firms, and scores of small shops and retail outlets are now in private hands.

But transferring ownership is a start, not an end-point. Successful completion of the transformation will require restructuring enterprises and developing institutions and systems supportive of an independent private sector, including financial institutions, capital markets and land markets. The market place must be opened up to all would-be entrepreneurs, rather than be dominated by a few.

Clearly, these goals will not be achieved based on foreign assistance alone. Rather, our aid must be aimed at developing the proper environment to attract domestic and foreign investment. At the same time, technical assistance can encourage US-Russian joint ventures in order to transfer technology, increase investment, and highlight changes that need to be made. To these ends, our efforts address four key program areas.

**The first is to support Russia's efforts to create the policy and legal framework for a market economy.** The International Monetary Fund and the World Bank are leading international efforts on macroeconomic policy. We are responding to Russia's request to help the Ministry of Finance translate this framework into a viable fiscal policy, and will continue to offer this assistance to the Ministry. We will continue to help develop and implement much needed commercial law. Through the University of Maryland, technical advisors have been working with Russia's three principle legal institutions: the High Arbitration Court, the Institute for Legislative and Comparative Law, and the International Center for Legislative expertise.

**Second, we will expand our support to establish sound financial institutions.** To date, we have trained over 250 Russian bankers, and helped many translate this classroom training into practice by pairing them with 120 U.S. banks. Building on this, we are helping develop Banker and Financial Training Institutes which will be open to government and private sector participants. To benefit as many individuals as possible, we are also helping Russia address systemic financial sector issues. We have

technical assistance contracts and grants in place with the Financial Services Volunteer Corps, KPMG-Peat Marwick, the American Institute of Bankers, the Brookings Institution, as well as agencies of the U.S. Government.

They will:

Help Russia's Central Bank create an effective structure for bank supervision, and develop payments and settlement systems that make it easier to do business;

Help Russia's Privatization Ministry create security and exchange markets so Russia's 110 million new stockholders may buy and sell shares;

Develop and test approaches to lending and equity investment that will help banks remain viable under current inflationary conditions.

**Third, we will continue technical assistance for the privatization of state-owned land and capital.** By the middle of this year, Russia expects to have privatized virtually its entire industrial base. American advisors working under 75 different contracts will have aided this process. Some are already building on break-through privatization decrees -- improving the legal and regulatory environment, accelerating land privatization, creating markets for real estate and the housing sector and helping privatize possibly the largest state-owned electric energy company in the world.

**Finally, we are intensifying assistance to help enterprises restructure.** This quarter, the Russian American Enterprise Fund will open its doors to small and medium businesses. President Clinton announced plans for a \$100 million bilateral fund, chaired by former Treasury Secretary Michael Blumenthal, focused on restructuring large enterprises. Our Treasury Department has helped develop bilateral and multilateral funds for enterprise restructuring -- producing commitments from the EBRD, the World Bank, the European Union, Germany, Italy, Japan, the U.K., France, and Canada. We are coordinating with EXIM-Bank, OPIC, and TDA to ensure that U.S. commercial programs leverage U.S. private capital and U.S. exports. To address the needs of the small business sector we are establishing four regional bases to deliver financial and management training and support services and back-up support to Peace Corps business advisors.

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**In making the transition from authoritarianism to democracy,** Russia needs new models of participation, new political attitudes and behaviors and new institutions which accountable to the electorate. This will require adopting a variety of approaches to empower citizens and allow them to become actively engaged in a new political and economic system: electoral activity, policy discussions, interest-group advocacy and legal action. It will also mean reworking and redefining Russia's governing institutions so they may become more effective and more responsive to citizens' voice and needs. It is this loop of participation and response that will convince citizens that politics have meaning.

We should stress that the United States cannot nor should not attempt to steer specific electoral outcomes. Some may say that our efforts proved a failure with the strong turnout for Vladimir V. Zhirinovskiy and his policies. The most the United States or any external entity can do is help Russia create the structures for participatory democracy and accountable government. Any society will experience its protest votes. The key will be whether the levers of power are effectively placed in the hands of the electorate, thus fostering a system of accountability and restraints on the use of power. Our focus cannot be on tomorrow's vote. It must be on the systems which will promote individual rights for the long-term.

In Russia, USAID is working from both the bottom up -- through the development of civic

organizations -- and from the top down -- by supporting Russian initiatives to reform government systems and institutions. We have concentrated in the following areas.

**First and foremost, we seek to strengthen the means for public participation in political processes at all levels.** Indigenous non-governmental organizations are key to participation, and to creating a stable base for a functioning civic society. Early on we were providing support to local organizations through organizations such as World Learning and the Eurasia Foundation. Later this fiscal year we will build on these efforts, as we launch a new initiative to strengthen Russian NGOs. The program will support efforts by Russian NGOs to organize around and act on themes central to Russian life and to encourage a policy, legal, and regulatory environment supportive of the non-governmental sector.

**We will also continue supporting Russia's new and fragile political parties and intermediary organizations** through organizations such as the National Democratic Institute, the International Republican Institute, and the Free Trade Union Institute. Through the International Foundation for Electoral Systems, we will strengthen the ability of national and regional electoral commissions to administer free and fair elections. Training and exchange programs, through USAID and USIA, will also contribute to building a democratic political culture. Between 20,000 to 25,000 students, entrepreneurs, teachers and government officials will travel to the U.S. in the next two years.

**USAID's programs will also support the creation of a legal and judicial framework required for rule of law, increased government accountability, and protection of individual rights.** Through the American Bar Association, USAID has provided legal advice on constitutional development. Building on this first phase of assistance, we have contracted with a consortium that will bring the expertise of 85 American legal institutions to bear on the task of creating a legal system that is supportive of market-based democracy. Through this consortium, USAID will provide technical assistance to help undertake judicial reform and develop an independent judiciary. This will build on a successful project already underway to help Russia reestablish a Trial-by-Jury system, in nine regions in Russia. The consortium will also offer training and technical assistance to the new parliament, including the use of negotiation for problem solving and conflict resolution, parliamentary process, market economics, and roles and responsibilities of government to various constituencies, including other branches of government.

**Our programs will also support an independent Russian media as a source of unbiased information and a means of increasing governmental accountability.** Through Internews, a non-profit U.S. media organization, USAID has sponsored training for journalists and non-governmental broadcasting stations. New programs are being designed to support private media programming, and to provide training and technical assistance on the roles and responsibilities of independent media, and on media management in a market economy. We also will expand training programs on the practice of journalism in a democracy to include training, seminars, internships, and media partnerships. In doing so, we will promote linkages between American journalism educational institutions and Russian professional journalists and managers.

In implementing a strategy for the transformation of the NIS, we cannot be insensitive to the **social costs of change and its political implications.** Our humanitarian programs attempt to deal with some of this pain. But in a country the size of Russia, a more systemic approach is required.

The United States cannot finance a social safety net for Russia. **The best strategic approach is to provide technical advice to help the Russian government target those areas that are most in need of economic restructuring and whose restructuring will have the greatest economic impact.** That is precisely what we are doing.

The first step is to provide technical assistance to the Ministry of Finance and local and regional governments to help them delineate the responsibilities, services, and functions -- including revenue, expenditure and management -- that should remain within the state domain. Part of this will entail determining which social services are financed and delivered by each level of government. The other part of the challenge is to help Russia identify and implement fiscal reforms that replace general subsidies that benefit all citizens, regardless of income or employment status with targeted subsidies that focus on the unemployed and vulnerable groups.

Technical assistance will be carefully coordinated with a pending World Bank program designed to strengthen Russia's capacity to deliver unemployment services. While the actual funds to pay for these services must come from within Russia, the advice we provide in conjunction with the World Bank and IMF will help government officials at all levels develop and adopt new revenue strategies that meet the needs of Russians more effectively and equitably.

**Concurrent with the process of fiscal reform, we will help Russian policy makers restructure the state role in two key social sectors -- health care and housing -- in light of the transition to a market economy.** We will help government divest itself of functions that could be performed more effectively by the private sector, and improve the quality of services in the state domain.

In the health sector, we will provide technical assistance to oblasts to identify health care services to be provided by the state; design health care financing options that introduce the practices of cost recovery; help privatize health services, such as specific hospitals, that could be operated by the private sector; and introduce pricing and policy reforms to encourage private investment needed to rehabilitate pharmaceutical production capacity.

U.S. specialists in housing reform are already on the ground in three Russian cities. They are helping municipal governments privatize existing housing stock and land; phase out rental subsidies and target allowances to vulnerable groups that cannot afford price increases; and shift responsibility for financing housing construction from the state to the commercial banking sector.

Our technical assistance is concentrated on municipal issues, with some federal support on overarching policy, legal and regulatory issues. To the extent possible, technical support and training will be concentrated in the same oblasts and municipalities receiving technical assistance on fiscal reforms.

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A program as complex as the one we have launched in Russia must have effective systems for monitoring, evaluation and accountability. We have taken the following measures.

**First, we have established a field office in Moscow with over 25 American foreign service and contract employees.** Our field mission is our first line of accountability. Field officers monitor the implementation of programs, ensure that services have been provided, confirm that commodities reach their destinations, identify bottlenecks to implementation, and ensure that problems are either resolved or raised to higher levels. Our field officers are also our reality checks, helping confirm whether programs are producing results, and whether strategies need to be modified.

**Second, we have a system of quarterly project reviews that systematically considers problems affecting any and all USAID projects.** These reviews bring together technical, financial, and management specialists from different parts of the Agency. They take into account field reports and identify problems that need to be monitored. Most important of all, they ensure that any critical issues are indeed brought to my attention.

**Third, because USAID works almost exclusively with American contractors, PVOs, universities and institutes, each of these organizations must pass annual audits in accordance with federal standards.** No dollars and virtually no commodities are provided directly to Russian entities.

**Fourth, we take special precautions when commodities are involved.** For our humanitarian relief programs, we worked with U.S. PVOs to monitor distribution and ensure that our aid actually reached the intended beneficiaries. Their record has been outstanding, with losses of just 2 percent under extraordinarily difficult conditions. Under a commodity import program, we will soon be providing American equipment to improve energy efficiency and environmental quality. We are taking special precautions well before these commodities arrive to establish accountability systems. We have invited our Inspector General to review and comment on these systems before they go into use.

**Finally, we have launched an innovative evaluation program that applies "rapid appraisal" methodologies that will help us assess the impact of our programs as they proceed.** For the NIS, we cannot afford traditional evaluation methodologies that rely on time-series analysis and massive data collection. Hard data, to be sure, will be critical to our assessments. But we will target our interviews and analyses to key sources of information who will help us dig deeper into programs. Moreover, each evaluation will go beyond assessing the narrow parameters of specific project activities. We also will strive to test our assumptions on why activities are meaningful and relevant. We will look for gaps in our programs that demand adjustments to our approach. We will also look for programs that are not effective, in order to bring them to closure and redirect funds to more productive activities.

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Mr. Chairman, the collective impact of these activities will strengthen the process of reform in the NIS and the commitment to that process throughout the region. Each of these activities will address critical needs and establish bridgeheads that further locally-driven reform efforts. Each of these activities will have an impact that is economic, and political, and social. Each of these programs will facilitate the three transitions that Russia is now experiencing. Each will mandate and encourage participation and empowerment of everyday citizens, and help strengthen their sense of connection to and proprietorship of the new society that is arising.

The democratic transformation of the NIS is not and will not be either linear or tidy or predictable. U.S. assistance has to endure despite disconcerting events and setbacks. Because irreversibility entails the creation of institutions, the evolution of expectations, and the shaping of civic attitudes, and because these elements must be tested in crisis, our endeavors in the NIS will test us to the fullest. This is inescapable. But the opportunity and the costs of failure are so great that the failure to persevere will not be excused by history. Our strategy will help the people of the NIS and the United States seize the opportunity before us, and we stand ready to pursue this historic endeavor.

Thank you, Mr. Chairman, for this opportunity to explain and discuss the status of our program for the record.

Point of Contact: