

July 14, 1994

RESTRUCTURING AID TO RUSSIA: REVISING H.R. 4426

INTRODUCTION

The Senate soon will vote on H.R. 4426, the U.S. Foreign Operations appropriations bill for fiscal year 1995. The House already has voted on it; after the Senate vote, differences will be resolved by a joint conference of the House and Senate. An important element of this legislation will be its provisions for aid to Russia and the other New Independent States (NIS) of the former Soviet Union. Despite billions of dollars in aid, the economies of these countries still are in deep trouble. While there are many reasons for this, one of them surely is the ineffective way in which aid has been dispensed by the United States and other donors. To ease the transition to a free market in these countries, U.S. programs should be restructured to make them more effective and timely.

The American people are entitled to be skeptical about the effectiveness of U.S. aid to Russia and the NIS. Since the fall of the Berlin Wall in 1989, the U.S. has promised \$16 billion in aid to the former Soviet Union and Russia.¹ The U.S. from 1990 to 1993 pledged an additional \$12 billion to these countries through multilateral lenders like the World Bank and the International Monetary Fund. The total amount of aid Russia has received from Western donors since 1990 is \$90 billion.

Nonetheless, the economic situation in most of these countries, particularly Russia and Ukraine, continues to deteriorate. In 1993 alone, industrial output in Russia declined by 29 percent, while the annual inflation rate topped 500 percent.² By comparison, the U.S. economy shrank by 30 percent over three years during the Great Depression of the 1930s.

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- 1 Assistance to include grants for food, medical, and technical assistance as well as credits and insurance from the Export-Import Bank, Overseas Private Investment Corporation (OPIC), and the U.S. Department of Agriculture.
 - 2 "Emerging Market Indicators," *The Economist*, July 2, 1994, p. 98.

Because of these economic problems, some in the U.S. Congress are questioning aid to Russia. In a joint memorandum to senior Clinton Administration officials last April, House Majority Leader Richard Gephardt (D-MO) and Minority Leader Bob Michel (R-IL) declared "[I]t is clear that there remains a yawning gap between America's good intentions, and the actual performance of our assistance programs....A strong sense of urgency...is conspicuously absent in our delivery of assistance to Russia."³

In their memorandum, the House leaders cited many problems. They chided aid policy makers for the absence of strategic objectives, for their funneling of aid to government rather than private businesses, and for their lack of expertise.

H.R. 4426 gives Congress an opportunity to correct these problems. In doing so, lawmakers not only will help Russia and other countries in the region to make a smoother transition to democratic capitalism, but also will allow them to integrate their economies into the global trading system. Such a transformation would help to bury the specter of communism once and for all. It also would help stop the rise of ultra-nationalism and secure access to Russian and NIS markets by the U.S. and other Western countries.

When developing the final version of the 1995 foreign aid bill, Congress should consider adopting amendments that would restructure and streamline aid to the NIS. Specifically, in considering H.R. 4426, Congress should:

- ✓ **Require the U.S. Agency for International Development to concentrate its programs on areas where they will have the most impact.** Targeting aid on Moscow, St. Petersburg, Nizhny Novgorod, Vladivostok, and other locations where aid can make the greatest difference will catalyze reform in the rest of the country.
- ✓ **Demand that AID shorten its project planning process from nine months to three months.** This could get the aid much faster to those who need it.
- ✓ **Ensure that the professionals at AID are adequately trained in economics and relevant area specialties.**
- ✓ **Ask AID to create independent boards of U.S. and NIS experts and market specialists to evaluate AID projects.**
- ✓ **Request an evaluation and audit of AID Russian and NIS programs by the General Accounting Office and other independent auditors.**
- ✓ **Link aid to the protection of foreign investments, cutbacks on state subsidies for enterprises, the simplification and reduction of taxes, and the maintenance of a sound monetary policy by NIS governments.**

3 "United States Efforts to Assist Russian Reform," Memorandum to Secretary of State Warren Christopher, Secretary of Defense William Perry, and Assistant to the President for National Security Anthony Lake, April 11, 1994.

- ✓ **Require the Clinton Administration to assist Russia and the NIS states in their bids for membership in the General Agreement on Tariffs and Trade (GATT).**
- ✓ **Increase private investment insurance for the NIS from \$2.5 billion to \$3.5 billion through the Overseas Private Investment Corporation (OPIC), providing specific funding for this purpose in H.R. 4426.**
- ✓ **Assist the development of U.S. private sector investment consortia in the NIS. This would give NIS countries badly needed foreign capital.**
- ✓ **Require the Clinton Administration to negotiate with other international lenders to create a three-year social safety net for laid-off workers in Russia and Ukraine.**
- ✓ **Help the NIS governments fight crime.** The Federal Bureau of Investigation could help NIS police not only to develop databases on organized crime, but also to reform their law enforcement operations.
- ✓ **Assist in the creation of legal codes and procedures to advance economic reforms.**
- ✓ **Allocate \$68 million to U.S. nongovernmental organizations (NGOs) and universities to expand long-term education and training exchange programs with NIS countries.**

THE HIGH STAKES OF FOREIGN ASSISTANCE

The transition of the countries in Eastern Europe and the former Soviet Union to democratic capitalism has not been smooth or easy. Nor is it irreversible. In the December 1993 parliamentary elections, for example, Russians gave strong support to ultra-nationalist Vladimir Zhirinovskiy as well as to communists and other anti-reform parties. With crime and corruption rampant, and with the socialist economic safety net collapsing, many Russians have offered their political support to extremists.

In Ukraine, socialists and communists became the strongest faction in parliament following the March 1994 elections. In the June 26 presidential elections, the Ukrainian electorate gave Leonid Kravchuk and Leonid Kuchma, who represent the old Communist Party elite and its military-industrial complex, 67 percent of the vote. Kuchma garnered 52 percent of the vote in the July 10 runoff. Former communists are also in control in Hungary, Lithuania, and Poland, and some Central Asian states.

Western aid to Russia, Ukraine, and other NIS states can help ease some of the social dislocation caused by the transition from totalitarian socialism to democratic capitalism. Western assistance and private investment can foster the legal and institutional infrastructures needed in a market economy. To this end, aid programs should facilitate shifting investment from state enterprises to privately owned businesses, particularly in such industries as transportation, telecommunications, health care, and food processing. Western programs also can assist in the

creation of a temporary social safety net to help the unemployed and others who have been harmed by the collapse of the old economic system. Moreover, Russia and the NIS should be integrated into the international trading system, which is the engine of economic development.

THE RECORD OF U.S. AID

The Bush Administration (1990-1992)

On December 12, 1990, answering an urgent Soviet request for food and medical assistance, President George Bush announced the first major U.S. aid package to the Soviet Union. It included around \$1 billion in loan guarantees to U.S. corporations selling grain in the Soviet Union. The U.S. also provided up to \$300 million in Export-Import Bank credits for the purchase of U.S. goods, as well as an offer of technical assistance to improve food distribution and implement other economic reforms. During 1991, pharmaceuticals and medical supplies valued at \$26 million were shipped to the Soviet republics and Baltic States.

On June 12, 1991, answering another of Gorbachev's cries for help, President Bush approved an additional \$1.5 billion in U.S. agricultural guarantees. This program was put on hold during and after the August 1991 coup attempt but was resumed after the coup failed. On November 20, 1991, a further \$1.25 billion in loan guarantees were made available.⁴ A humanitarian aid initiative of the same date included \$165 million for technical assistance.

**TABLE 1:
U.S. ASSISTANCE TO THE USSR AND RUSSIA, 1991-1992**

PURPOSE	\$ MILLIONS
Agricultural credits	4,850
Export-Import Bank credits	300
Humanitarian aid initiative	165
Medical assistance	52
Desert Storm food stockpiles	25
TOTAL	5,392

On April 1, 1992, President Bush announced a "comprehensive package of assistance", including U.S. participation in a \$24 billion package of support for Russia from G-7 countries. The U.S. participation would amount to \$4.5 billion in old and new funds, including a pledge of \$1.5 billion towards a \$6 billion ruble stabilization fund; \$1 billion of combined International Monetary Fund (IMF), World Bank, and European Bank for Reconstruction and Development (EBRD) loans to-

⁴ The terms of these guarantees were quite favorable. They included 100 percent guarantees of the principal and 5.6 percent of the interest on the private bank loans.

talling \$4.5 billion; and \$2 billion toward an \$11 billion G-7 assistance package. Counted in the G-7 aid program were loan guarantees, Export-Import Bank loan guarantees, and humanitarian assistance.

These pledges by President Bush were contained in the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992, commonly known as the FREEDOM Support Act, submitted to Congress on April 3, 1992. The Senate approved the FREEDOM Support Act on July 2, 1992, and the House on August 6. Both houses demonstrated broad bipartisan backing for the legislation. It was signed into law on October 24, 1992.

**TABLE 2:
THE FREEDOM SUPPORT ACT, FY 1993**

PURPOSE	\$ MILLIONS
Humanitarian aid and technical assistance	410.0
Educational exchange programs	70.8
State Department and USIA expenses	25.0
TOTAL	505.8

The bill expanded the U.S. allocation to the International Monetary Fund. The legislation appropriating these funds was included in the Foreign Operations Bill for fiscal 1993, which allocated \$417 million for the former Soviet Union and \$12 billion for the IMF earmarked for Russia and other NIS countries. In addition, the Jackson-Vanik amendment (Subsection 402 (c)(2)(A) of the 1974 Trade Act), which connected the provision of U.S. trade credits to freedom of emigration for Soviet Jews, was suspended.

Another source of aid was the so-called Nunn-Lugar program, initiated by Senators Sam Nunn (D-GA) and Richard Lugar (R-IN). Called the Arms Export Control Act, it was signed into law on December 12, 1991. It allowed for the expenditure of up to \$500 million in Defense Department funds to assist the Soviet Union with destruction of its nuclear, chemical, and biological weapons. It also provided \$100 million for the transport of humanitarian relief. Appropriations for fiscal 1992 and fiscal 1993 contained \$800 million for nonproliferation support, which has been allocated thus far as follows: \$130 million for dismantling nuclear delivery vehicles, \$75 million for warhead storage, and \$10 million for nuclear materials accountability and control.

The Defense Appropriations Act of 1993 appropriated \$400 million under the Nunn-Lugar program to assist the republics in the storage, transportation, dismantling, and destruction of nuclear weapons and \$15 million for humanitarian aid transportation costs.

The Clinton Administration (1993 - Present)

After the Vancouver summit with President Boris Yeltsin in April 1993, Bill Clinton announced a \$1.6 billion package of U.S. assistance to Russia. There was no new funding pledged by Clinton. Monies already approved for fiscal 1993 were taken from existing accounts and reapplied to agricultural loans and food and medical grants. Some American companies received government loan guarantees to encourage their investment in the NIS. For example, Caterpillar, Inc., received a loan of \$82 million in export credits from the Export-Import Bank to export earth-moving equipment to Russia. DuPont's Conoco Oil Company obtained a \$50 million loan and \$100 million in political risk insurance from OPIC for an oil and gas project.

At the Vancouver summit, Clinton also promised to dismantle the Cold War legislation restricting U.S. high-tech trade to Russia. In July 1993, the Clinton Administration submitted to Congress the FRIENDSHIP with Russia, Ukraine, and Other New Independent States Act, which Clinton signed into law on December 17, 1993. This act, among other things, deregulates trade in dual-use technologies formerly unavailable to communist bloc countries. Moreover, the Coordinating Committee (CoCom), the Western body set up to coordinate trade restrictions on military technology to the former Soviet Union and Warsaw Pact, was dismantled on March 31, 1994.⁵

TABLE 3
RUSSIAN AND NIS ASSISTANCE PACKAGE: FY 1993-FY 1994

	Requested	Enacted (P.L. 103-87) \$ millions
Private Sector Development	647	894
Privatization & Restructuring	125	125
Trade and Investment	490	485
Democratic Initiatives	295	295
Humanitarian Assistance	239	239
Energy and Environment	228	285
Officer Resettlement	190	190
Non-Russia FSU Special Funding	300	— ⁶
TOTAL	2,514	2,513

(Source: Congressional Research Service)

⁵ Curt Tarnoff, "U.S. and International Assistance to the Former Soviet Union," Congressional Research Service *Issue Brief* IB91050, June 1, 1994, pp. 4-5. For scathing criticism of Clinton's nonproliferation policies and the end of COCOM, see Michael Ledeen and Stephen Bryen, "Decontrol Freaks," *American Spectator*, June 1994, pp. 20-23.

⁶ Distributed among other sectors in the enacted bill.

At a G-7 meeting in April 1993, the U.S. pledged \$1.8 billion in assistance as part of a larger G-7 package. The House passed the measure as H.R. 2295 on June 17, 1993, by a vote of 309-111. Most of the money came from the defense budget. The Senate Foreign Operations Appropriations Subcommittee approved the funding on September 12, 1993. The bill earmarked \$300 million for aid to Ukraine and shifted \$300 million in technical and humanitarian aid to the Import-Export Bank for loan guarantees.⁷ Clinton signed the bill into law on September 30, 1993.

H.R. 4426 AND AID TO THE NEW INDEPENDENT STATES

H.R. 4426, the appropriations bill now under consideration by the Senate, is based on the Clinton Administration's foreign assistance budget request for 1995, which was submitted to the House of Representatives in February 1994. The Administration originally asked for \$900 million in aid to Russia and the NIS, in addition to allocation of \$400 million in Nunn-Lugar funds. The House passed the Foreign Appropriations package, H.R. 4426, on May 25, 1994; the Senate Foreign Appropriations Committee voted on mark-ups of the bill on June 16, 1994.⁸

In February 1994, after submitting its 1995 Russian and NIS aid request, the administration came under fire for focusing its foreign policy excessively on Russia. At hearings of the Senate Foreign Operations Subcommittee, Senator Mitch McConnell (R-KY) said, "I am having a hard time finding examples of when this administration has opposed Russian foreign policy on anything....It's as if this administration really supports any Russian effort to assert itself beyond the borders in what used to be the Soviet Union."⁹ The espionage case involving Aldrich Ames, a former high-level official of the Central Intelligence Agency accused of spying for Moscow for nearly a decade, also contributed to criticisms of Clinton's Russian policy. Senators Robert Dole (R-KS), Dennis DeConcini (D-AZ), Mitch McConnell, and Dirk Kempthorne (R-ID) voiced protests and doubts as to whether the aid package to Russia could be approved.

In response to these criticisms, the White House pledged to increase support for such non-Russian republics as Ukraine and Kazakhstan. On March 4, for example, Clinton promised to expand assistance for Ukraine to \$700 million (up \$300 million from fiscal 1994 levels).

The Senate Foreign Appropriations Subcommittee on June 16, 1994, reduced the Administration's 1995 Foreign Appropriations request (H.R. 4426) from \$900 million to \$839 million, not including funds for the Nunn-Lugar program. Most of the \$839 million is earmarked for such purposes as family planning and land privatization in the NIS or for specific republics (see Table 4).

7 Tarnoff, p. 6.

8 Appropriation bills retain their House numeration (H.R.) when transferred to the Senate.

9 Seymour M. Hersh, "The Wild East," *The Atlantic Monthly*, June 1994, p. 84.

**TABLE 4:
FREEDOM SUPPORT ACT: EARMARKS FOR FY 1995¹⁰**

Purpose/Country	\$ Millions
Family planning, Russia	6
Family planning, Ukraine, Moldova, and Belarus	3
Family planning, Central Asia	6
Assistance to Ukraine (including \$25 million for land privatization) ¹¹	150
Assistance to Armenia ¹²	75
Assistance to Georgia ¹³	50
U.S. agricultural commodities grants (aid to mothers and children)	50 ¹⁴
TOTAL	315

In addition to earmarking specific allocations, H.R. 4426 imposes a number of conditions on aid to Russia. These include:¹⁵

- ✓ **Progress** towards comprehensive market-oriented economic reform in Russia.
- ✓ **A ban** on U.S. assistance if it facilitates the expropriation of property or investments in Russia.
- ✓ **A ban** on aid to NIS governments that violate the territorial integrity or national sovereignty of other countries.
- ✓ **The denial of funds** for military purposes except for demilitarization, defense conversion, troop withdrawal, and officer resettlement.
- ✓ **Withholding of all funds** until the armed forces of Russia and the Commonwealth of Independent States (CIS) have been removed from all Baltic countries, or until a mutual agreement for the troop withdrawal has been reached.

10 H.R. 4426, marked up June 16, 1994 by the Senate Foreign Appropriations Subcommittee.

11 Amended by Senator Mitch McConnell.

12 Amended by Senator McConnell.

13 Amended by Senator McConnell.

14 Sec. 572, Agricultural Aid to the New Independent States of the Former Soviet Union: "...primary emphasis shall be given to meeting the food and nutrition needs of children and pregnant and post-partum women...."

15 The language of the exclusions is similar to the language adopted for FY 1994.

Congress recommended that the funds be provided “to the maximum extent feasible” through private voluntary organizations (PVOs) and nongovernmental organizations (NGOs). According to H.R. 4426, the Agency for International Development is required to report to the Committees on Appropriations in both houses every 180 days, listing grants and contracts issued with Freedom Support Act funds.¹⁶

Further recommendations regarding assistance to the NIS were contained in the House Appropriations Committee report which accompanied the passage of H.R. 4426 and was approved on May 23, 1994.¹⁷ Recognizing the rising wave of crime and corruption in the NIS, the Committee urged that \$20 million be spent on law enforcement training.¹⁸ It further asked that \$14 million be used to strengthen Peace Corps programs in the NIS. The Committee also approved \$50 million for agricultural aid to the NIS, \$10 million for American academic and government NIS area specialists, \$5 million for postdoctoral scholarships in the social sciences and the humanities, and \$20 million for family planning in the NIS. The committee further noted, without specifying dollar amounts, the need to support victims of the Chernobyl nuclear disaster, fund a program called Project ORBIS to train doctors to perform eye surgery, and help with better care for the health of children (see Table 5).

**TABLE 5:
HOUSE APPROPRIATIONS COMMITTEE RECOMMENDATIONS¹⁹**

PURPOSE/COUNTRY	\$MILLIONS
Law enforcement training, NIS	20
Peace Corps programs, NIS	14
Agricultural aid for mothers and children, NIS	50 ²⁰
Russian, Eurasian, and East European Research and Training Programs, US/NIS	10
Postdoctoral scholars in social sciences and humanities, US/NIS (USIA-administered Regional Scholars Exchange)	5
Family planning, NIS	20 ²¹
Support victims of Chernobyl	

16 Amended by Senator McConnell.

17 *Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1995*, House Report 103-524 to accompany H.R. 4426, May 23, 1994. Recommendations reported in this fashion are formally nonbinding, but carry great weight.

18 *Ibid.* 1995, p. 83.

19 *Ibid.*, pp. 83-86.

20 Appropriated by the Senate.

21 Appropriated at \$15 million by the Senate.

Project ORBIS (eye surgery)	*
Processed baby food	*
TOTAL	119

* No specific amounts recommended.

WEAKNESSES OF U.S ASSISTANCE

These earmarks and conditions reflect a growing congressional concern that aid to Russia and the NIS has not been effective. The money is often slow in reaching Russia and other NIS countries and often has not been targeted on the areas of greatest need. For example, U.S. AID still takes eight or nine months to design programs for Russia and the NIS.²² But changes in Russia occur at a much faster pace than that, and U.S. assistance programs are constantly falling behind. Moreover, AID's programs suffer from a lack of input from Russian reformers, area specialists, and market experts.²³ In a recent U.S. AID-funded project, specialists whose practical experience was in the promotion of contraceptives in African countries were hired as strategists to champion the advantages of the free market in the Russian media.²⁴

In April of this year, congressional leaders delivered a blistering attack on the Clinton Administration's Russian aid policies. House Majority Leader Richard Gephardt and Minority Leader Robert Michel led a congressional fact-finding delegation to Russia during the Easter recess. After they returned, they wrote a memo to senior Clinton advisors, saying:²⁵

No other foreign policy project is as important as helping Russia, Ukraine, and the New Independent States....Yet our assistance program inches along at a slow, business-as-usual pace. This is at best embarrassing, and at worst destructive. Our program must reflect the urgency of the task at hand. Time is not on our side.

In a separate report written in May 1994, the House Appropriations Committee expressed its own concern with the slow pace of NIS aid. It blamed AID:

The Committee...believes that another partial explanation for the implementation slowdown is the extremely complex and convoluted procurement procedures at AID. Simply put, many potential and capable contractors have an extremely hard time wading through AID procurement documents. Many also have complained to the Committee and inquired why procurement

22 Dick Kirschten, "On the Rebound," *National Journal*, May 28, 1994, p. 1240. This is a significant improvement in that it normally takes up to 24 months to design such programs.

23 One exception is U.S. AID's support of the privatization process and cooperation with Maxim Boyko and Dmitrii Vasilyev of the Russian State Property Committee (GKI).

24 Personal interviews, May 1994.

25 "United States Efforts to Assist Russian Reform," *op. cit.*

processes were not as difficult at other federal agencies....The Committee urges speedy improvements in this area.²⁶

There is clearly a bipartisan consensus in the Congress that the Clinton Administration is mishandling aid to Russia and other NIS countries. Lawmakers recognize the high stakes of the game. At risk is the future of Russia—and with it the future of peace, stability, and the prosperity of America's friends and allies in Europe and Asia.

But it is not clear that the Clinton Administration is getting the message. In a remarkable admission, Acting Assistant AID Administrator Robert Boyer claimed that it was not important to supply assistance to Russia quickly. "One shouldn't be shocked and stunned," said Boyer in a January 1994 interview. "It never was the intent of Congress or the administration that we would shovel it out the door rapidly."²⁷

Despite the pretense of caution, the Administration has not been able to stop mismanagement. In 1993, for example, \$6 million was allocated to build some 450 apartments for Russian military officers returning from abroad. According to Russian sources, half the apartments never ended up in the hands of the returning military personnel. They instead were handed over for free to municipal officials to secure their cooperation with the AID program. This represents a clear violation of the intent of Congress.²⁸

Another shortcoming of U.S. aid is its lack of regional focus. Aid is used best when given to cities and regions that need it most. Russia and the NIS span ten time zones and one-sixth of the Earth's surface, and the U.S. lacks the resources to saturate this huge area with aid projects. Without a sharper regional focus, the relatively small amounts of assistance cannot have impact. The Clinton Administration has promised to give 75 percent of aid to areas outside Moscow and to ensure that nongovernmental bodies receive 75 percent of the aid. But many of the projects are still managed from Washington, with their American and Russian staffs based in Moscow. Specialists and officials located in these cities cannot properly manage projects thousands of miles away. Despite the explicit promises of the President, U.S. assistance is still centered on the Russian capital.

AN AID STRATEGY FOR PROSPERITY

Aid programs to Russia and the NIS must be improved. This cannot be achieved merely by tinkering with existing programs. To be more effective, U.S. aid programs must be more timely and must focus more precisely on building market and democratic institutions. In addition, more effort needs to be put into

26 House Report 103-524, p. 83.

27 Alan Fram, "\$2.5 Billion in U.S. Aid to Russia Barely Trickling Out", Associated Press, January 18, 1994. Mr. Boyer was justifying the fact that three months into FY 1994, AID had committed itself to only \$42 million and spent only \$17 million—less than two percent of the \$2.5 billion appropriated by Congress.

28 Personal interviews, November 1993.

transferring valuable skills in law, management, finance, and accounting. Assistance projects should attract area and market specialists, both in and out of government, and should be focused on specific regions where they can have the most impact.

Foreign assistance from the U.S. and other Western powers by itself will not lead to economic growth in Russia and the NIS. Governments in all of these countries have it in their power to choose the path of democratic capitalism and allow their citizens to prosper. Recently announced Russian partnerships with NATO and the European Union demonstrate that a window of opportunity is open. Now is a good time to restructure the Western approach to helping Russia and the NIS make their way into the global marketplace. To make U.S. aid more efficient, Congress should consider:

- ✓ **Require the U.S. Agency for International Development to concentrate its programs on areas where they will have the most impact.** U.S. assistance is spread too thin. It is not being seen or felt by the Russian public. Concentrating assistance on key areas that need it the most—and in which it would make the most difference—would make U.S. aid programs far more effective. Such regions should include Moscow, St. Petersburg, Nizhny Novgorod, Vladivostok, and the Ural mountains region. These areas have led the economic reform movement and should be encouraged. In Ukraine, assistance should be targeted on the Donetsk coal region, which is experiencing severe economic difficulties because of the collapse of the coal industry. Another Ukrainian region deserving special consideration is Odessa, a traditionally cosmopolitan trading center and a major Black Sea port. Because of its exposure to the outside world, Odessa is particularly receptive to market activities and innovation.
- ✓ **Demand that AID shorten its project planning process from twelve months to three months.** The amount of time it takes to design and implement a program is too long. For example, Russia needs help now to fight crime and corruption, not sometime in the distant future when important elections might be lost over this issue. Moreover, the Yeltsin administration needs technical assistance now to streamline the tax system. Otherwise, the Russian economy will continue to stagger under the burden of heavy and contradictory tax policies. With rare exceptions, projects should be designed in three months and implemented within six months; today, however, the AID program development process, from conception to implementation, takes as long as nine to twelve months for NIS, and up to two years for other countries.
- ✓ **Ensure that the professionals at AID are trained in economics and relevant area specialties.** Most of AID's expertise and experience are in designing aid programs for developing countries in Africa, Asia, and Latin America. The institutional experience of the nongovernmental and private volunteer organizations involved in foreign aid programs is largely in such areas as agriculture, population control, and infrastructure projects. While some of this experience is applicable in the former Soviet Union, much of it is not. AID has little expertise with industrialized societies and even less, until two years ago, with transforming socialist economies into free-market economies.

If assistance to the NIS is to remain within the purview of AID, the NIS/Eastern Europe Task Force—a department within AID dealing with the region—and other relevant parts of the agency have to be strengthened with lawyers, economists, management experts, and other specialists who have extensive knowledge of the region. This will help make programs more responsive to the needs and sensitivities of people in the target areas.

- ✓ **Ask AID to create independent boards of U.S. and NIS experts and market specialists to evaluate AID projects.** In addition to the criticism expressed by Representatives Gephardt and Michel, many accusations of inefficiency and waste have been levelled by the U.S. and Russian media and by Congress against American assistance programs to the NIS.²⁹ For example, Russians have blamed the U.S. advertising firm Sawyer Miller for designing an inefficient privatization promotion campaign with a price tag of \$40 million.³⁰ The campaign featured children boasting about their parents having acquired shares in privatized enterprises. Moreover, an April 1994 report prepared for the Russian government by a group of leading political experts accused the West of overbureaucratizing its aid projects and failing to adapt programs to Russian conditions.³¹

These problems could be avoided if the aid design and implementation process were more open to private NGOs with experience in project management in the former Soviet Union and Eastern Europe. This could be done by creating boards of outside advisers to monitor aid programs. Such private organizations as The Heritage Foundation, the Kriebel Institute, the National Forum Foundation, and the Freedom Forum also could be used to advise on how best to design and execute programs. Such a partnership between government and private organizations could increase efficiency and engender greater public support for assistance to the NIS.

- ✓ **Request an evaluation and audit of AID Russian and NIS programs by the General Accounting office and other independent auditors.** Allegations of waste and a lack of impact are troubling. They are being looked into by the General Accounting Office. The results of these audits should be considered by Congress. In addition, Congress should require that program audits become part of the AID Administrator's semi-annual report to Congress.
- ✓ **Link aid to the protection of foreign investments, cutbacks on state subsidies for enterprises, the simplification and reduction of taxes, and the maintenance of a sound monetary policy by the NIS governments.** Private investment, not government aid, is the key to economic development.

29 John Fialka, "Helping Ourselves: U.S. Aid to Russia is Quite a Windfall—for U.S. Consultants," *The Wall Street Journal*, February 24, 1994, p. A1; Gephardt and Michel, "United States Efforts to Assist Russian Reform."

30 Fialka, *op. cit.*

31 Sergei Karaganov, ed. "Zapadnaya Pomoshch Rossii: V Chem ee Oshibki," *Znamya*, No. 4 (April 1994), p. 166.

The examples of China, Taiwan, and other Pacific Rim countries demonstrate that political stability and friendly policies toward foreign investment can attract tens of billions of dollars in venture capital. Russia and the other NIS desperately need foreign capital. Nevertheless, the Russian State Duma and the legislatures in Ukraine, Uzbekistan, and other NIS countries continue to pass laws hostile to foreign investment. For example, the Russian government in January 1993 imposed a 26 percent surcharge on oil exports. As a result, one American company, DuPont Conoco, saw its \$350 million investment in a Northern Russian oil field become instantly unprofitable. For Russia and the NIS to get the investments they need, they must stop these practices and adopt laws that attract Western capital. These laws should protect property rights, allow for the repatriation of profits, and not place an unfair tax burden on foreign investors.

Rigid budget discipline also is needed if reform is to work in NIS countries. Above all, government subsidies to inefficient state enterprises should be phased out. The high inflation rate in many of these countries is caused largely by the loose monetary policies needed to subsidize inefficient industries. As long as these governments continue to print money to pay for these subsidies, Western assistance will be of limited value. In the case of Russia, subsidies to military industries and to agricultural enterprises³² should be gradually eliminated.

Taxes on foreign and domestic businesses must be reduced. Private entrepreneurs suffer greatly from unpredictable, corrupt, and oppressive tax systems. The marginal tax rates in Ukraine, for example, are 90 percent, while in Russia the profits of some businesses are taxed at a rate of over 100 percent. Personal incomes over \$1,000 a month are taxed in Russia at a rate of over 80 percent. Such punitive and confiscatory taxation leaves the individual with only 20 percent of his salary, thus effectively discouraging him from working.

- ✓ **Require the Clinton Administration to assist Russia and the NIS states in their bids for membership in the General Agreement on Tariffs and Trade (GATT).** Entering the GATT would make the NIS countries less protectionist and also would open their markets to Western goods and services. GATT membership would require harmonizing tariffs and other import taxes with those of the world community, forcing the NIS countries to abandon their protectionist policies. In Russia, for example, imported cars are taxed at 130 percent. Russian and NIS industries will benefit by having access to cheaper and better quality foreign components and raw materials, while consumers will enjoy lower prices for goods and services.

32 For an excellent account of the Russian military-industrial complex's burdensome role as a brake on economic reform, see "Economic Reform and The Military in Russia," Tenth U.S.-Russia Roundtable Discussion, March 15, 1994, International Security Council, Washington, D.C.

NIS membership in the GATT, however, should not be automatic. In order to qualify, NIS countries not only should eliminate subsidies to ailing industries, but also should enact and enforce laws protecting patents, copyrights, trademarks, and other intellectual property rights. Western musical recordings, movies, computer software, and drugs are being pirated on a wide scale. These practices would have to be stopped before NIS countries could become members of the GATT.³³

- ✓ **Increase private investment insurance for the NIS from \$2.5 billion to \$3.5 billion through the Overseas Private Investment Corporation (OPIC), providing specific funding for this purpose in H.R. 4426.** Many American companies are wary of doing business in the NIS. As a result, they often surrender business opportunities in the region to Western European, primarily German, companies. In May 1994, two West European companies announced major projects in Russia estimated to be worth over \$300 million; in the whole of 1993, the total U.S. investment in Russia was estimated at \$450 million.

At a fraction of the cost of today's assistance programs, the U.S. government could make investing in the NIS more attractive. The Overseas Private Investment Corporation provides insurance, trade credits, and investment capital to U.S. companies, which fear the high risks of doing business in unstable countries. OPIC is budgeted for fiscal 1995 to provide insurance for up to \$2.5 billion worth of private U.S. investments in Russia and the NIS. By increasing this allocation to \$3.5 billion, Congress could allow private companies to invest more in Russia and other NIS countries. In the long run, these companies could invest far more in the Russian economy than the U.S. government could with its aid programs. Moreover, in the hands of private companies, funds would be used to create jobs in the private sector of the Russian and NIS economies instead of being wasted by corrupt government bureaucrats.

- ✓ **Assist the development of U.S. private sector investment consortia in the NIS.** While U.S. humanitarian and technical assistance is important, economic growth in Russia and the NIS can be stimulated best by private investment. To attract investors to NIS countries, Congress could encourage the creation of private U.S. business consortia that could invest in transportation systems, agribusiness, housing projects, electrical power stations, and telecommunications. Improving the infrastructure of NIS countries would make it easier for foreigners to do business in the NIS, while decreasing their chances of failure.

H.R. 4426 could provide the seed money for American business consortia management offices, feasibility studies, and pilot projects. While private investors alone should decide whether to risk investment in the NIS, the government could help them to defray the administrative costs. Without such govern-

33 I am grateful to my colleague, Joe Cobb, for enlightening discussion of GATT.

ment encouragement, U.S. business will go elsewhere, from Latin America to Thailand to Indonesia;³⁴ the U.S. has a far greater strategic interest in seeing investment go to the NIS.

- ✓ **Require the Clinton Administration to negotiate with other international lenders and create a three-year social safety net for laid-off workers in Russia and Ukraine.** Analysts at the Heritage Foundation have called for a new aid bargain between the G-7 countries and the Russian government. The West would provide a temporary social safety net to ease the hardships associated with the transition to a market economy.³⁵ In exchange, the Russian government would agree to restructure its economy along market lines. It would, for example, drastically reduce state subsidies and taxes, deregulate the economy, stop discriminating against foreign investors, and protect private property with laws and commercial codes. A similar package could be offered to Ukraine, Kazakhstan, and other selected NIS states.

This aid should be administered by private joint ventures of Western and NIS participants. This approach would ensure accountability and prevent waste, fraud, and abuse. Such an assistance package would not allocate money directly to the Russian government and thus would not benefit Russian bureaucrats. Western assistance would be phased out after three years as the shock of transformation from a state-run to a market economy tapers off. In H.R. 4426, Congress could legislate the creation of a pilot project for one of the areas badly affected by the cuts in the military-industrial complex, such as the Russian city of Yekaterinburg or the Donets coal basin region in Ukraine.

- ✓ **Help the NIS governments fight crime.** Organized crime in the NIS is undermining the trust of ordinary citizens in democracy and market reforms. Crime and corruption play a huge role in the growing support for communists and ultra-nationalists. Criminals also may be involved in stealing materials that could be used to build nuclear weapons; in June 1994, Russian Interior Minister Victor Yerin admitted that over twenty instances of theft of low-grade radioactive materials have taken place in the last year alone.

In view of such threats, the Department of Justice and other U.S. agencies should expand their programs to assist crime-fighting efforts in the NIS. Above all, the U.S. needs to help these countries apprehend criminals who may be seeking to steal and sell materials related to nuclear, chemical, and biological weapons. The recent opening of an FBI field office in Moscow is a welcome step in this direction. However, more should be done. For example, Congress should fund the creation a comprehensive database identifying NIS

34 Personal interviews with leading U.S. management consultants, June 1994.

35 Kim R. Holmes, "Hoping for the Best, Preparing for the Worst: Rethinking U.S. Policy Toward Russia," Heritage Foundation *Background* No. 971, December 28, 1993; Ariel Cohen, "Substantial aid for Russia, in exchange for accelerated reform," *The Washington Times*, January 24, 1994, p. A19; Lawrence T. Di Rita and Bryan T. Johnson, "An Agenda for Leadership: The G-7 Summit in Naples," Heritage Foundation *Talking Points*, July 5, 1994.

criminal organizations and their political connections, and tracing their links with international mob groups should be the first step.

- ✓ **Assist in the creation of legal codes and procedures to advance economic reforms.** One of the highest priorities of the reform is to develop commercial codes and construct laws to better protect private property and business transactions. The American Bar Association, through its Central and Eastern European Law Initiative (CEELI), has offered advice to NIS countries on the jury system. It also has helped in the drafting of the Russian and Ukrainian constitutions. However, these efforts are not enough. Congress should consider funding an exchange program between NIS and American lawyers and legal scholars both within and outside their governments. In addition, U.S. legal advisers could be placed with relevant government agencies and courts in the NIS. The U.S., in coordination with the European Union, should field legal advisory teams in all NIS countries. These teams could help develop legislation and judicial reforms, design education programs for judges and prosecutors, strengthen local private law practices, and create civil court decision-enforcement systems.
- ✓ **Allocate an additional \$68 million to U.S. NGOs and universities to expand long-term education and training exchange programs with NIS countries.** The U.S. can help to train a new generation of market economists and legal experts in Russia and the NIS. In 1993, only 200 specialists from the NIS completed short-term programs of four to six weeks. In the same year, 105 undergraduate students and 101 graduate students from the NIS studied in the U.S. The total number of Russian graduate students studying in the U.S. in 1994 has mushroomed to approximately 950, with 400 paid for by the U.S. Information Agency. There also are approximately 480 undergraduate students.³⁶ Many of these students are not studying for a degree, but are in America for only one or two semesters. This is not enough time to absorb their subjects. By comparison, over 30,000 Chinese students studied in the U.S. in the 1980s-1990s.

More NIS students need to be brought to the U.S. In particular, the number of Russian, Ukrainian, and other NIS students in American law schools should be increased. Congress should allocate \$68 million for law, business, and economics scholarships for Russian and Eurasian students. Only businessmen, managers, economists, and lawyers trained in the principles of Western-style market economics and law will be capable of turning around the post-communist legacy of sloth, inefficiency, greed, and corruption.

The funds for these expanded programs can be taken from already approved lower-priority programs. For example, of H.R. 4426 funds already approved by the House, the following should be redirected toward student exchanges: \$9 million for family planning in Russia and Ukraine; \$30 million of ear-

36 U.S. Agency for International Development, 1993 Annual Report, *U.S. Assistance and Related Programs for the New Independent States of the Former Soviet Union*, p. 23.

marked assistance to Ukraine, Georgia, and Armenia; and \$25 million from commodity grants and \$4 million from the Peace Corps expansion program in the entire NIS. Thus, the total amount redirected would be \$68 million. The Ukrainian government is resisting economic reform, while aid to Georgia and Armenia is disproportionately high. Commodity grants are hidden subsidies to the U.S. agricultural sector and do not benefit the reform process.

CONCLUSION

U.S. assistance to the NIS is a vital component of American foreign policy. American security and the final outcome of the Cold War, with its cost in blood and national treasure, are at stake. By assisting the former Soviet states through their painful transformation, the U.S. can help to ensure not only peace and security, but also future markets for U.S. products and jobs for American workers.

The NIS assistance program must be adequately funded and competently administered. Unfortunately, this has not been the case so far. U.S. aid programs to Russia and other NIS countries need to be revamped. Top priorities for U.S. aid should be to build market institutions, spur growth of the private economy, and ease the transition to a market economy.

If the reforms in Russia and the other NIS succeed, the U.S. and its allies will benefit for decades to come. If they fail, the potential human and material costs of a renewed confrontation could be staggering. It is time for Congress to provide the leadership for this most important U.S. foreign assistance program.

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