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AID TO RUSSIA: YES, BUT NEEDS REFORM

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INTRODUCTION

The Russian war in Chechnya once again has raised the question of whether the United States should be sending foreign aid to Russia. It is natural to question whether America should be economically aiding a country which has spent close to \$1 billion on a brutal war against its own people. However, as always with Russia, there is a larger question as well: What can the U.S. do to keep Russia from becoming a threat to America and the rest of the world? While aid to Moscow by itself cannot prevent Russia from spiraling out of control and threatening the U.S. and its neighbors, a complete cut-off at this time probably would only make matters worse.

That is not to say that the current aid program is without problems. Critics are right when they charge that aid to Russia is wrongly targeted, poorly distributed, and inefficiently managed. The U.S. Agency for International Development, which administers many Russian aid programs, lacks the expertise to manage them effectively. It also lacks an understanding of the problem in Russia. Because AID's bureaucracy is geared to "developing" countries, it treats Russia as if it were a Third World country, imposing unnecessary programs more suitable for Pakistan or Kenya than for Russia. Russia needs help setting up democratic institutions and a free market, not unworkable and unnecessary refugee and health programs administered by AID bureaucrats.

For Russian aid to be effective, it needs to be reformed. The AID bureaucracy administering Russian aid needs to be abolished and replaced by an independent board that can manage aid to Russia and the Newly Independent States more wisely and effectively. Money wasted on unworkable health and environmental projects should be rechanneled into programs promoting democratic and economic reform. And U.S. government subsidies for American oil and gas companies that provide equipment to the Russian state-owned oil industry should be redirected and used instead to educate Russians about democracy, the rule of law, and free markets.

A word of caution, however: The Russian government must understand that the political support for the supply of aid cannot be maintained in the U.S. if President Boris Yeltsin continues the war in Chechnya or interferes in the affairs of Russia's neighbors. Whether the Russians like it or not, U.S. aid is conditioned not only on a cooperative policy from Moscow, but on Russian respect for international

standards of behavior. To be sure, while abandoning Russia and such eminent democrats as Yegor Gaidar by cutting off aid would come at a price—it certainly would not nudge Russia closer to the West—supporting Russia unconditionally would be even more costly. The time for elimination of aid to Russia has not arrived, but whether aid continues depends primarily on the actions of the Russians themselves.

The challenge presented by Russia and the post-Cold War world is similar to that which faced the U.S. from 1945-1949. The need to facilitate the transition from communism and keep Russia positively involved with the West is on a par with the need to de-Nazify Germany and rebuild Japan. In both cases, the U.S. faced ingrained anti-democratic attitudes, structures of government, and institutions. In the occupation of Germany and Japan, however, the U.S. was able to force through a program of democratization. No such forced feeding of democracy is possible in Russia. It is naive to expect that Western aid will turn Russia around in a couple of years. The communists spent over seven decades eradicating the weak beginnings of free markets and democracy. And even before the communists, Russia was hardly an exemplary rule-of-law state.

To build a “new” Russia will take over a decade, and setbacks are inevitable. So long as the U.S. remains engaged, there is a fighting chance that Russia will join the community of civilized nations. If the U.S. and the West disengage from Russia, it is almost certain that nationalists will take over, either by coup or by democratic election. Equally possible is chaos and civil war. However, democrats like First Deputy Prime Minister Anatoly Chubais, Yegor Gaidar, Yelena Bonner, Sergei Kovalev, and others who have risked their lives fighting and dismantling communism tell Americans that such aid is still needed to demonstrate the Western commitment to the cause of democracy in Russia.

U.S. AID TO RUSSIA: THE TRACK RECORD

Saying that aid to Russia is still needed is not the same as arguing that the current program represents the right approach. A good portion of the U.S. Russian aid program is poorly managed, wrongly targeted, and inappropriate for Russia. AID finances Russia/NIS-related programs of the World Bank, European Bank for Reconstruction and Development, United Nations Development Program, World Health Organization, and other public bodies which in some cases command budgets in excess of \$1 billion.

Long delays in delivering aid, questionable selection of contractors, and poor personnel recruitment have taken a toll on the reputation of the Russian aid program. AID’s assistance to Russia and the NIS has been focused neither topically nor geographically. In the spring of 1994, then-House Majority Leader Richard Gephardt (D-MO) and Minority Leader Robert Michel (R-IL) severely criticized the Russian aid program.¹ They argued “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.” In addition, accounts of bickering between State Department officials and AID bureaucrats over authority, strategy, and status are circulating widely.² Russians of all political stripes are claiming that American aid is wrongly targeted and poorly distributed.³

One problem with the AID approach is a lack of experience and knowledge in dealing with Russia. Without sufficiently taking local conditions into account, AID bureaucrats applied their experiences in the Third World to Russia, allocating contracts to long-time agency contractors rather than to organiza-

¹ Memorandum, “United States Efforts to Assist Russian Reform,” April 11, 1994.

² Personal interviews with State Department and AID officials, Winter 1995.

³ Sergei Karaganov, ed., “Zapadnaya pomoshch. V chem ee oshibki?” (Western Aid. What Are Its Mistakes?), *Znamya*, April 1994, p. 166. Karaganov, a well-known Yeltsin foreign policy advisor, suggests that American aid is overbureaucratized and poorly adapted to Russian conditions.

tions and professionals with regional, industrial, and language experience in the country. For example, a great effort was made to deliver vaccines to and build vaccine production capabilities in Russia; this is what AID has done best and longest in Pakistan and Kenya. However, Russia has its own vaccine production and inoculation capabilities which could have been privatized and upgraded at less cost. Similarly, in a project run by World Learning, a “traditional” AID contractor, yarn was distributed to refugee camps in the Caucasus so that women could knit sweaters for refugees. When it was suggested that both yarn and sweaters could be sold and the refugee women recruited to micro-enterprises, the AID contractor remarked, “What an interesting idea—we never thought about it.”⁴

Despite the need to foster the rule of law and a market economy in the former Soviet Union, the list of AID Russian contractors conspicuously lacks area studies centers, business schools, and law schools that possess expertise in Russia; instead, such large multi-million-dollar nongovernmental organizations as CARE, Save the Children, the Urban Institute, and the Peace Corps have received the lion’s share of AID grants.

These organizations had no experience in Eastern Europe or the former Soviet Union prior to their involvement with AID, and their Third World focus often impedes their effectiveness in Russia and the NIS. By the same token, Russian organizations—even the most pro-reform ones—are excluded from the AID bidding process and do not receive any direct grants. Russians and other NIS citizens are hired only as drivers, secretaries, and translators, and only in some cases as “advisors.” The people who know Russia best—the reformist Russians—often are excluded from rebuilding their own country.

Another problem with AID is that its bias in favor of existing contractors effectively screens out companies that do not have an inside track with the agency. Thomas Dine, the agency’s Assistant Coordinator for the NIS, has stated publicly that if he could have one wish fulfilled, it would be that the contracting office at AID be abolished.⁵

A NEW LOOK AT AID

To achieve American foreign policy goals, U.S. aid to Russia must be delivered quickly and efficiently. This cannot be accomplished if AID is in charge. To make Russian aid more effective, the 104th Congress should consider actions that:

- ✓ **Abolish AID and create an independent board to manage aid to Russia and the NIS.** Such a board would be nominated jointly by Congress and the President. It would include representatives of government, prominent area specialists, and members of the private sector. Congress would be following a successful model of management for a high-priority foreign policy endeavor: the Board of International Broadcasting, which ran Radio Free Europe/Radio Liberty.
- ✓ **Continue the Nunn-Lugar Program.** While technically not part of the AID assistance program, the Cooperative Threat Reduction (Nunn-Lugar) program is achieving one of the most important goals in U.S.-Russian relations: nuclear and chemical disarmament. It has run into some difficulties on both sides of the Atlantic—for example, in preparing nuclear material storage facility sites, obtaining building permits, and conducting audits—and should be examined in depth by a special Pentagon task force. The program should expedite the task of destroying Russia’s nuclear warheads, missiles, and silos. If necessary, the Clinton Administration should press Moscow to accelerate the progress of this important endeavor. Nunn-Lugar implementation should be given top priority in all U.S.-Russian high-level talks.

4 Personal interview, Washington, D.C., Fall 1994.

5 Presentation at The Heritage Foundation, June 1994.

Agency for International Development Obligations and Expenditures: The Newly Independent States

Project No.	Title	FY 1992 Actual Obligations	FY 1993 Actual Obligations	FY 1994 Actual Obligations	Total Obligations to Date	Estimated Expenditures thru 9/30/94**	Estimated Pipeline 9/30/94
0001	NIS Special Initiatives*	39,936,213	69,588,988	135,105,882	244,631,083	144,048,095	100,582,988
0002	Energy Efficiency	33,084,454	56,458,272	82,365,765	171,908,491	65,106,235	106,802,256
0002	Environment	0	11,322,843	68,053,834	79,376,677	14,184,832	65,191,845
0004	Health Care Improvement*	13,139,539	16,987,189	69,110,519	99,237,247	27,151,755	72,085,492
0005	Private Sector Initiatives*	17,620,033	146,336,396	375,040,745	538,997,174	167,846,091	371,151,083
0006	Food Systems Restructuring	3,833,400	38,166,577	31,420,722	73,420,699	20,208,064	53,212,635
0007	Democratic Pluralism	7,791,922	31,384,027	86,861,573	126,037,592	37,868,555	88,169,037
0008	Housing Sector Reform	4,925,511	16,892,292	192,708,759	214,526,562	26,800,635	187,725,927
0009	Economic Restructuring*	4,000,000	27,462,421	55,482,928	86,945,349	22,230,589	64,714,760
0010	Eurasia Foundation	0	8,000,000	18,000,000	26,000,000	12,000,000	14,000,000
0011	Enterprise Fund	0	20,000,000	194,000,000	214,000,000	57,670,000	156,330,000
0012	Exchanges and Training*	0	28,892,043	95,298,714	124,190,757	61,149,417	63,041,340
0013	Commodities Import Program	0	0	90,000,000	90,000,000	0	90,000,000
156-0001	Humanitarian Medical	0	3,000,000	0	3,000,000	3,000,000	0
	Transfers to Other Agencies	0	23,197,000	306,335,227	329,532,227	23,197,000	306,355,227
Total NIS Funding */***		124,331,142	497,688,048	1,799,784,668	2,421,803,858	682,461,268	1,739,342,590

* Includes Transfers to Central Bureaus for obligation.

** Expenditures are calculated on a quarterly basis and are estimated as of September 30, 1994.

*** Does not include administrative costs.

Source: Agency for International Development.

✓ **Direct \$165 million to private-sector and democratic reform programs.** To do this, \$90 million from the Commodity Import Program (CIP) should be redirected to underfunded programs which help to build democracy and restructure the economy. The CIP is an export subsidy program for U.S. businesses selling oil, coal, and gas technology to the Russian energy industry. It is supposed to allow Russia to improve its balance of payments and to repay its debt to Western creditors by pumping and selling more oil in the world market. Instead, the U.S. should assist the Russian energy sector with privatization and openings to foreign investment. The market will take care of making the Russian energy sector more efficient. In addition to the \$90 million from the CIP, \$75 million from health and environmental programs should be redirected into democracy and private initiative programs. Health and environment programs administered by AID have relatively little positive effect on Russia and the NIS.

The \$165 million redirected from the combined CIP and health and environment funds should be directed to currently underfunded democratic reform, economic restructuring, private sector development, and small business development programs. Specifically, grants to democratic education and independent media projects should be expanded. New funds could be used to create new learning materials, such as schoolbooks, videos, and films dealing with democracy, free markets, and political, ethnic, and religious pluralism. AID also should expand funding of grass-roots democratic organizations in the NIS such as the Memorial Society, which led the battle for de-Stalinization and against human rights violations in Chechnya.

Legal reform programs, now weak and inadequate, should be strengthened. AID's interventions in criminal and civil law are spotty and so far have failed to bring measurable changes. Russia still lacks working civil courts. While assistance in the introduction of jury trials and development of the civil code is commendable, the U.S. failed to place legal advisors in Russian ministries, legislatures, or Supreme Courts or to cause an overhaul of legislation. Current activities barely address the tremendous challenge faced by the NIS in rewriting legislation, building an adequate court structure, and creating legal associations.

In addition, a new program to educate Russians about the new technology and information age should be established and funded. Such a program would support the creation of information and

telecommunications networks to provide Russians with unencumbered access to the global information networks. Modern technology allows for the mass circulation of information, thus denying the state centralized control of information and making transitional societies less likely to return to totalitarianism.

- ✓ **Accelerate disbursement of funds for educational exchanges.** Of the \$121 million appropriated for these programs, \$60 million has not been disbursed. Long-term education will create in Russia and the NIS a large cadre of specialists able to contribute significantly to democratization and market reform. Even today, the role of Western-educated Russians in this transformation is highly visible and valuable.

Quick disbursement of these funds would accelerate exchange programs for Russian students who need training in marketing, management, business law, finance, and accounting in the U.S. Currently, there are over 30,000 full-time Chinese students, but fewer than 1,000 NIS students in the United States. The Chinese experience shows that Western education encourages foreign investment and contributes to bilateral trade. In addition to education in the U.S., undergraduate and graduate programs should be established in Russia and the NIS to deliver American education to future leaders in Russian business and government.

- ✓ **Suspend the Officer Resettlement Program (\$138 million) if the Chechen crisis is not settled by March 1, 1995.** Because of the Chechen crisis, many Russian reformers, including Yelena Bonner, have called for the suspension of most U.S. aid to Russia. One of the most efficient ways to accomplish this, if a settlement in Chechnya is not achieved, would be to freeze U.S. financing for housing for Russian officers, many of whom were involved in the slaughter of civilians in Chechnya.

CONCLUSION

The 104th Congress should continue assistance to Russia and the NIS. While far from perfect, this undertaking for now addresses vital U.S. national security goals. However, Congress also should pursue innovative ways to improve the program design, efficiency, and delivery of aid to Russia. The U.S. should make aid to the NIS a high priority, but to be effective, this aid must take advantage of the best expertise, personnel, and technical resources available in both the U.S. and Russia.