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WHY CONGRESS SHOULD HOLD FIRM ON REDUCING FOREIGN AID

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Congress will soon consider legislation to fund foreign assistance in fiscal year (FY) 2000. The House and Senate's approved measures to appropriate around $12.7 billion brought criticism from the Administration and the threat of a presidential veto. Yet many Members of Congress are deeply troubled that billions of dollars in foreign assistance to Bosnia and the Russian Federation have been stolen or siphoned off by corrupt political officials and are not reaching the targeted recipients—the citizens of these beleaguered countries. Before voting on the legislation that will come out of the conference committee, Members of Congress should consider putting in place strong oversight procedures and other checks and balances to ensure that no tax dollar in foreign aid is wasted.

Bosnia. Recently, of course, these abuses have been seen in Bosnia. Endemic corruption siphons foreign assistance away from its intended purposes and severely restricts Bosnia's postwar economic recovery by discouraging private investment. According to news reports, the Office of the High Representative, the Bosnian agency charged with carrying out the civilian responsibilities established in the Dayton peace accord, is investigating 220 cases of fraud and corruption. The Office reportedly found that as much as $1 billion of the $5 billion in international foreign assistance given to Bosnia since 1995 may have been stolen or funneled to politically connected individuals. Specifically,

- More than $20 million deposited by 10 foreign embassies and international aid agencies in a Bosnian bank has disappeared;
- Over $200 million is missing from the Muslim city of Tuzla's budget, in addition to the $300 million reported missing from the previous two years; and
- The town of Sanski Most used municipal funds to build a horseracing track, while its Mayor, Mehmed Alagic, is accused of stealing $450,000 in aid from Saudi Arabia.

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Russia. A 1999 audit conducted by Pricewaterhouse Coopers revealed that in 1996 alone Russia's Central Bank transferred $1.2 billion of International Monetary Fund (IMF) funds to a shell corporation known as the Finance Investment Management Company (Fimaco) to bolster Russia's balance sheets during President Boris Yeltsin's reelection campaign. The IMF characterized the Fimaco scheme as "a total breach of the trust on which the relationship between the IMF and its members must rest." Experts estimate that the scheme may involve a significant portion of the $20-plus billion the IMF loaned to Russia during the 1990s. Reportedly, at least five other offshore companies have been involved in concealing and manipulating Central Bank funds.

Despite such overwhelming evidence of corruption, the IMF approved $4.5 billion in stand-by credit for Russia on July 28, 1999. Weeks later, the French newspaper *Le Monde* reported on extensive money laundering between Russian organized crime groups and the Bank of New York involving hundreds of millions of dollars—with estimates running as high as $10 billion—and almost certainly involving IMF funds and other foreign assistance.

The IMF denies that the money-laundering involved its funds, but former IMF Executive Director for Russia between 1992 and 1995, Konstantin Kagalovsky, is a key suspect in the U.S. law enforcement investigation of the Bank of New York. Kagalovsky happens to be married to the Bank of New York executive who was suspended during the investigation because of her suspected involvement. Also, U.S. law enforcement officials have disclosed that senior members in Yeltsin's current and former administrations who had access to the IMF credits played key roles in the money-laundering scheme. And a Justice Department official has acknowledged that the FBI, which received numerous reports of Russian criminal groups siphoning off foreign assistance, had launched its investigations before the most recent allegations surfaced.

On August 27, 1999, House Banking and Financial Services Committee Chairman Jim Leach (R–IA) made a principled call for a moratorium on IMF lending to Russia "until firm methodologies for safeguarding funds are established." However, the proposed moratorium is not broad enough. Corruption and a lack of transparency characterize every level of Russia's government and economy. It is naïve to think that Russia's officials, who could deceive the IMF so successfully in their financial activities, are not clever enough to deceive those who monitor U.S. foreign assistance as well.

What Congress Should Do. The President, criticizing the House and Senate's appropriations levels of about $12.7 billion for foreign aid as "unacceptably low" (the President had requested $14.6 billion), has threatened a veto. Significantly, the amount Congress is considering is only about $200 million less than the FY 1999 foreign aid funding level—not including the $18.7 billion Congress approved in one-time appropriations for the IMF and arrears for other international financial institutions, or the $2.1 billion Congress approved in emergency supplemental appropriations for assistance to Kosovo and disaster relief.

In light of the serious cases of fraud and corruption involving billions of dollars in foreign assistance to Bosnia and Russia, Congress is right to refrain from increasing the foreign assistance budget. A more appropriate action for Congress would be to freeze U.S. assistance to those countries until the IMF, the World Bank, and U.S. aid agencies (including the Agency for International Development, the Overseas Private Investment Corporation, and the Export-Import Bank) conduct full audits of the grants, loans, and guarantees they have already provided. Assistance to any country suspected of fraud or corruption should be frozen automatically. U.S. agencies engaging in overseas commercial and foreign aid activities should be required by Congress to strengthen their oversight procedures to ensure U.S. tax dollars are not being stolen or used inappropriately. Most important, Congress should oppose increases in foreign aid until it is satisfied that a reliable system of checks and balances is in place.

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