

CRS Report for Congress

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The Federal Republic of Yugoslavia: U.S. Economic Assistance

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Summary

U.S. economic assistance to the Federal Republic of Yugoslavia (FRY) seeks to foster democratic institutions and economic reform. Congress approved \$100 million for Serbia for FY2001 and the Administration has requested \$145 million for the FRY for FY2002. Congressional debate may center on constraints on that aid, the role of other donors, and Serbia's relationship with Montenegro and Kosovo in that context.

Introduction

As a result of the September 2000 election of Vojislav Kostunica to the Presidency of the Federal Republic of Yugoslavia (FRY) and the subsequent end of the Milosevic regime, the people of Yugoslavia have opened the door to dramatic political and economic change like that already in progress in the rest of central Europe and the former Soviet Union.¹ The FRY, however, not only faces the daunting challenge of a transition to a free market economy and democratic system after decades of authoritarian rule, but the added burden of a devastated infrastructure from years of war with other former republics, the NATO bombing of 1999, and international sanctions. Responding to this situation, the United States and Europe have issued offers of assistance. (See CRS Report RL30371, *Serbia and Montenegro: Political Situation and U.S. Policy* by Steven Woehrel.)

Background: Previous U.S. Economic Assistance to the FRY

Due to the sanctions put in place by the international community, including the United States, as a result of the Bosnia conflict, there was only limited U.S. economic assistance to the FRY in the 1990s. All but humanitarian and democracy assistance were prohibited under U.S. law. A humanitarian aid program, mostly benefitting the vulnerable and elderly in Kosovo,

¹ The Federal Republic of Yugoslavia is composed of two republics – Serbia and Montenegro. Kosovo is a province of Serbia.

began in 1993, and, in 1996, USAID launched a food aid program targeted mainly toward refugees from Bosnia and Croatia and the poor, and implemented through U.S. private charitable organizations and the World Food Program.

Democratization efforts, however, continued to be stymied by the lack of a U.S. monitoring presence on the ground. In the mid-1990s, some assistance was nonetheless provided to Albanian language newspapers and a civic education program was initiated in Kosovo. But, following the lifting of Bosnia-related sanctions at the end of 1996, a USAID office was established in Belgrade, and it initiated a small program to help build democracy, encourage economic growth, and improve the quality of life (health and education). Projects were mostly conducted through U.S. and local non-governmental organizations (NGOs), focusing on the grassroots and local government. Democracy programs assisted the development of independent media, strengthened indigenous NGOs, and advised political parties. Economic growth-related projects were aimed at Montenegro, which, with the rise to power of an anti-Milosevic government in 1997, had shown some progress in adopting economic reforms. Among other activities, USAID helped the government of Montenegro privatize its economy and provided business services to entrepreneurs, including microcredit assistance.

The 1999 war in Kosovo significantly altered the U.S. assistance program in the Federal Republic of Yugoslavia. In the aftermath of the war, the province of Kosovo – now occupied by an international military force and administered by the United Nations – began to receive large-scale infusions of U.S. assistance. Aid went to such items as the UN administrative budget, infrastructure repair, and law enforcement, in addition to traditional development activities. Kosovo is currently treated as a separate entity by the U.S. assistance program. (For discussion of U.S. and international aid programs, see CRS Report RL30453, *Kosovo: Reconstruction and Development Assistance*.)

Montenegro, as a *bone fide* opponent of Milosevic, also became the focus of greater attention, larger amounts of assistance, and separate treatment by the U.S. aid program. Following the Kosovo war, the United States provided \$15 million in balance-of-payments support and technical assistance, aimed at helping Montenegro survive the economic disruption and influx of Kosovar refugees caused by the war, as well as Serbian efforts to destabilize it.

Aid to Serbia, restricted by Congress to humanitarian and democracy assistance, was increased immediately after the war. In June 1999, President Clinton formally committed at least \$10 million to democratization – \$11.8 million was eventually used. In the months just before the FRY elections, most of another \$25 million commitment was used. These funds helped support the opposition parties, by providing equipment such as computers, training organizers, and funding voter surveys. Assistance was also provided to independent media, labor unions, and opposition local governments, with a view toward strengthening opponents to Milosevic's rule.

Post-Milosevic U.S. Assistance

Since the end of the Milosevic regime, both the Administration and Congress have taken steps to assure Serbia of U.S. support as it moves toward democracy and economic reform.

In the first weeks after the change in government, the Administration ordered many financial and trade sanctions lifted, including the oil embargo and flight ban. The Administration also notified Congress of its plan to provide Serbia immediately with \$10 million in emergency energy support for electricity to meet its energy deficit and \$45 million in humanitarian food aid from the PL480 account.

U.S. Economic Aid to the FRY: FY1998-2002
(in \$ millions)

	FY1998	FY1999	FY2000	FY2001 (est)	FY2002 (req)
Serbia	7.3	6.5	25.0	99.8	\$145 million for FRY
Montenegro	4.9	41.0	35.1	72.3	

Source: USAID

Note: Economic aid includes Development Assistance, SEED, and Economic Support Fund accounts. Food, disaster, and peacekeeping aid are excluded from the table.

Congressional action on the annual foreign operations legislation in October 2000 offered an opportunity for Congress to make its views known on the dramatic changes in Serbia. The FY2001 Foreign Operations Appropriations, signed into law on November 6 (H.R. 4811, P.L. 106-429), removed previous appropriations language prohibiting all but democracy assistance for Serbia. It approved the use of up to \$100 million for Serbia aid (an across-the-board rescission reduced that amount to \$99.780 million) and, in the conferee report, recommended expenditure of not less than \$89 million in Montenegro. Congress also encouraged Administration efforts to support FRY membership in international organizations and international financial institutions (sec. 594).

FY2001 SEED appropriations for Serbia are funding the following activities:

- ! \$24.9 million for electricity supply and \$9.8 million to improve the heating system and meet basic needs of the poorest people immediately after the 2000 election;
- ! \$22.1 million aimed at municipal communities to encourage citizen participation, restore essential services, and generate jobs;
- ! \$14.3 million for technical experts to assist economic policy reform of the banking system and public finance and fiscal reform; efforts to strengthen bank supervision and international accounting standards; emergency assistance to the National Bank of Yugoslavia to prevent a collapse of the banking system; and microfinance activities, and
- ! \$18.7 million to support democratic systems, including NGOs, an independent media, the political process, and the rule of law. Provides technical assistance to local governments.

For Montenegro, the United States was expected to provide \$12.9 million in food aid and more than \$72 million in SEED funds in FY2001. Of the latter, \$30.0 million are being used

for emergency pension and energy costs, \$26.7 million for private sector development and macro-economic reform technical assistance, \$7 million for technical assistance to municipal governments, and \$5 million for democracy and civil society support.

In its FY2002 budget request, the Bush Administration requested \$145 million for the FRY (Serbia and Montenegro). On July 24, the House approved H.R. 2506, the FY2002 foreign operations appropriations. While the legislation does not earmark funds for the FRY, Appropriations Committee report language (H.Rept. 107-142) “directs” that \$60 million be provided to Montenegro. On July 26, the Senate Appropriations Committee approved its version of the bill. While it has not released a report or introduced legislation, a press release notes that \$115 million is provided for Serbia in the bill.

At the June 2001 international donor conference, the United States pledged \$181.6 million for calendar year 2001, \$75 million of which are FY2002 funds not yet appropriated.

Issues for Congress

Constraints on U.S. Assistance. Two legislative provisions contained in the FY2001 appropriations threatened to limit aid. Under section 594, any unobligated amounts of the \$100 million provided as FY2001 bilateral aid to Serbia, except humanitarian and democracy aid, could not be obligated after March 31, 2001, unless the President certified that the FRY is cooperating with the International Criminal Tribunal for the FRY (ICTY), taking steps to abide by the Bosnia peace accords, or implementing policies respecting minority rights and the rule of law. On April 2, the Administration provided the certification required by section 594, with the qualification that the United States would be watching closely to see if the FRY continued to meet the conditions.

Section 594 also applied conditions to the U.S. position on entry of the FRY into international organizations, including the World Bank and the European Bank (EBRD) which is expected to supply the bulk of large-scale development assistance. While Montenegro has been exempted from most bilateral aid restrictions, it, too, stands to benefit from international loans to the FRY. The bill instructed U.S. representatives to these institutions to support membership, once the President certified that the FRY has taken steps to resolve issues related to debts and other liabilities. Responsibility for debts and assets of the pre-1991 former Yugoslavia remained in dispute among the former constituent republics until May 25 when the FRY and the four other successor states reached an agreement on the division of assets, a step toward resolution of liability issues with donor nations. U.S. support for individual loans and other assistance from international institutions after March 31, 2001, also rested on the same presidential determination governing the \$100 million in bilateral aid, and may now occur

Under section 564, no assistance, with the exception of humanitarian, democracy, cross border physical infrastructure and some other categories, could be provided to countries that give sanctuary to indicted war criminals, such as Milosevic in the FRY. This section could be waived for specific programs if a written determination was provided to Congress. Because SEED appropriations are provided “notwithstanding” any other provision of law, both conditions could be ignored as they apply to SEED funds. However, the Administration did not intend to utilize that provision.

Despite the April certification, Members of Congress, including the authors of section 594, Senators Leahy and McConnell, indicated that the FRY's record of cooperation with the Tribunal must be taken into account by the Administration if aid notifications and future aid requests were to go forward. During his visit to the White House on May 9, President Kostunica was, reportedly, reminded of U.S. interest in seeing Milosevic handed over to the Tribunal. The Bush Administration threatened to skip the international donors conference if no further steps were taken. As Milosevic was being extradited on June 28, the Administration announced that it would attend the June 29 conference, but it has indicated that disbursement of pledges would continue to be dependent on FRY cooperation with the Tribunal.

Role of Other Donors. Apart from the United States, the chief potential aid donors to Serbia are the European Union (EU), its members, and the multilateral financial institutions. The latter, especially the World Bank and EBRD, could be expected to supply the bulk of large-scale development assistance. A key factor hindering assistance from these quarters had been the state of the FRY's debts and other liabilities.

The IMF and World Bank cannot provide assistance to countries that are not members, and the FRY could not become a member until it settled its arrears with these institutions (the FRY had no arrears to the EBRD and joined on December 15, 2000). On December 20, following a \$129 million payment to the IMF, the FRY was granted IMF membership and provided with a \$151 million loan. The loan allowed it to reimburse Switzerland and Norway which had advanced it the funds that enabled it to pay off its IMF arrears. On June 11, the IMF approved a stand-by loan for the FRY of about \$249 million through March 2002.

Although the FRY currently owes the World Bank \$1.7 billion in arrears, its membership in the Bank was announced on May 10, when the FRY met Bank requirements, including agreement to resolve the arrears issue. Prior to membership, the Bank had been instrumental in organizing a donor coordination meeting and helping to assess FRY needs. In March 2001, the Bank set up a \$30 million Trust Fund for the FRY to provide some short-term grant assistance prior to membership.

European donors launched assistance initiatives soon after the election results in Yugoslavia were known. The EU approved nearly \$190 million in aid – for urgent needs such as heating oil, and supply of medicines and basic foodstuffs – for the winter of 2000-2001. It also promised up to \$21 million for restoration of navigation on the Danube, which will benefit the entire region. Together EU members, the European Commission, and the European Investment Bank pledged nearly \$637 million at the June donor conference. As they did for Kosovo and the southeast Europe region, the European Union and the World Bank organized both the December 2000 donor coordination meeting, which clarified the FRY's priority needs, and the June donor pledging conference.

In most parts of the world, the extent of other bilateral donor assistance has little impact in determining the size of the U.S. aid program. However, with a congressional limitation on U.S. aid to Kosovo at 15% of total donor contributions, the role of other donors could become a factor in the U.S. program in the rest of the FRY, especially because the United States has expressed the view that Europe should take the lead in Balkan development. A potential drawback to limiting U.S. assistance is that it may also lessen U.S. influence on events in the

region. At the June donor conference, a total of \$1.3 billion was pledged, of which the U.S. pledge accounts for 13.5%. EU members and institutions represent 47.4% of the total.

U.S. Aid and Relations Between Kosovo, Montenegro, and Serbia.

Cooperation with the International Criminal Tribunal is not the only major issue that remains as a possible obstruction affecting U.S. assistance to Serbia. Serbia's treatment of its sister republic, Montenegro, and the province of Kosovo are likely to influence the quality and quantity of future U.S. aid to Serbia, and moves by Montenegro toward independence from the FRY may affect assistance to it.

Although the United States does not formally support the independence movements of either Kosovo or Montenegro, U.S. aid has been employed in ways that worked to strengthen the independence of each vis-a-vis the FRY. U.S. assistance to Montenegro grew in tandem with Montenegrin policies at variance with Milosevic. U.S. aid projects fostered economic and political reform, facilitating Montenegrin separateness from its sister entity. In Kosovo, U.S. and allied aid has, in effect, created the framework of an independent state, despite the formal UN – and U.S. – position in Resolution 1244 that the FRY maintains sovereignty over the province.

With the change of regime in Belgrade, new possibilities have arisen for a peaceful settlement of both relationships. Montenegrin officials have postponed plans for an independence referendum until, perhaps, early 2002. Although FRY leaders currently say they would not act to stop Montenegrin independence, the United States and EU countries oppose independence and have indicated that aid might be cut off as a consequence. During the past year, however, members of Congress have indicated strong support for Montenegro. The Appropriations committee report on H.R. 2506 supports a specific funding level for Montenegro and pointedly directs that it be identified as a separate line item in the Administration aid report, demonstrating Committee "disappointment" with the Administration for combining the Serbia and Montenegro budget requests into one figure.

In Kosovo, U.S. assistance would likely support any peaceful and mutually cooperative outcome. But such an outcome may not be possible, and how U.S. assistance would be used in that eventuality is unclear at this time.